Stock Code: 3658

Hermes Microvision Inc.

Annual Report 2013

Annual report is available at http://newmops.tse.com.tw
HMI annual report is available at http://www.hermes-microvision.com
Published on Apr. 18, 2014

1. Name, Title, Contact Tel and E-mail for Spokesperson
   Name: SHEN, HSIAO-LIEN
   Title: Vice President
   Contact Tel: (03)666-9229
   E-mail: spokesperson@hermes-microvision.com

2. Name, Title, Contact Tel and E-mail for Deputy Spokesperson
   Name: LIANG, WEN-CHENG
   Title: Assistant President
   Contact Tel : (03)666-9229
   E-mail: spokesperson@hermes-microvision.com

3. Address and Tel Number of Headquarters, Branches and Plant
   Headquarters: 7F, No.18, Puding Road, Hsinchu City   Tel: (03)666-9229
   Hsinchu Branch Address : 4F, No. 18, Creation Road 1, Hsinchu County, Hsinchu Science Park
   Tel：(03)579-7711
   Tainan Branch Address : 4F, No. 5, Dali 1st Road, Science Park, Xinshi Dist., Tainan City
   Tel：(06)505-5588
   Plant Address: 4F, No.5, Dali 1st Road, Science Park, Xinshi Dist., Tainan City
   Tel：(06)505-5588

4. Name, Address, Website and Tel Number for Stock Transfer Organization:
   Name: Agent Division, CTBC Bank
   Address: 5F, No. 83, Sec. 1, Chongqing S. Rd., Zhongzheng District, Taipei City
   Website: http：//www.chinatrust.com.tw
   Tel: (02) 2181-1911

5. Name, Office Name, Address, Website and Tel Number of CPA for recent financial reports
   Name of CPA: CHENG, YA-HUEI, CPA, LEE, TIEN-YI, CPA
   Name of Office: PwC Taiwan
   Address: 27F, No. 333, Sec. 1, Keelung Road, Taipei City
   Website: http://www.pwc.com/tw
   Tel: (02)2729-6666

6. Name of Overseas Securities Exchange Office & the way to inquire into information of securities:
   Luxembourg Stock Exchange: http://www.bourse.lu

7. Company Website: http://www.hermes-microvision.com/

Contents

I. Letter to Shareholders

Dear Shareholders,

2013 was a year full of challenge for the semiconductor equipment industry. By encountering the worldwide lackluster economic performance and semiconductor process transition, the global semiconductor manufacturing equipment market was sluggish. Nevertheless, as the mobile devices, such as smart phones and tablet PCs, etc. have risen in popularity, semiconductor advanced technology has therefore further evolved into finer geometry nodes. As a result, the demand for high-resolution E-beam inspection tools from semiconductor manufacturers has increased by degrees, which has led to HMI' growth of operating revenue and profit in the adverse trend and creation of another peak. The fruitful results have come from every stockholder who gives their full support to the Company and the entire body of employees who make every effort to create the success, and we hereby send our sincere appreciation to all of you.

Along with the geometry migration to advanced process technology nodes, the increasing architectural, manufacturing and material complexities will result in more inspection layers and more killer defects in the semiconductor manufacturing process. Under such circumstances, precision for wafer inspection has become more important. While conventional optimal wafer inspection technology has run into a bottleneck due to its limited resolution, we expect e-beam inspection or EBI tools to gain market share from the main stream optical inspection system at the leading edge technology nodes, given their superior technical performance in resolution and sensitivity. As such, the Company's annual operating revenue and profit have stably grown. The Company's 2013 operating revenue again hit a record high of NT$5.34 billion, representing an annual growth rate of 28% compared with NT$4.18 billion generated in 2012. With the breakthrough, the Company's 2013 after-tax earnings became NT$2.35 billion whereas its EPS topped NT$35.09.

The Company has specialized in development and production of E-beam inspection equipment. With its precise inspection technology, it has successfully promoted its products to the international market. Currently, the Company has already had a sturdy competition niche in the E-beam inspection market. Other than further profoundly developing its E-beam inspection technology, the Company has also taken customer requirements into account and aggressively diversified its applications of E-beam technology, in the hope of enriching its product combination. The Company smoothly launched its new multi-functional flagship model of eScan500 at the end of 2013. With the launch of the new model, the Company is ahead of its peers to provide its clients with the optimal way for E-beam inspection, and further create the maximum effect for its clients.

In addition, the Company launched global depositary shares offering in November 2013. In addition to providing required capital for development of new products and technology, the capital raising plan has also successfully promoted the Company's global visibilitu and drawn more investments from sophisticated global institutional investors.

Looking ahead to 2014, following the launch of new generation of E-beam inspection products and the continuing growth of the semiconductor business, customer demand for high-end process control equipment technology will gradually increase, and our competitors will keep investing in E-beam technology related fields. Hence, the Company will continue to enhance its product quality and upgrade its customer service, so as to take on the market's keen challenge and create a new peak of business performance. On the other hand, the construction of the Company's new factory at the Tainan Science Park is expected to be completed in 2014. By then, our production capacity is expected to be notably elevated and meet the demand of the advanced semiconductor process for the E-beam inspection equipment. Other than devoting its efforts to persistently innovate its advanced semiconductor process so as to provide leading-edge inspection technology to help semiconductor manufacturers enhance their process yield rates, the Company has put more focus on its resolution and commitment to carrying out its sustainable corporate operations and becoming a qualified global corporate citizen. It will participate in corporate governance appraisal, and reinforce its corporate social responsibility to solidify its strength for further development in respective fields and head for the goal of sustainable corporate development and becoming a prominent corporate citizen.

Finally, we would like again to thank every of you for your continuing support and dedication to the Company. We more hope that your support and dedication will continue in the future.

We wish you health and happiness.

Chairman Shu, Chin-Yung

II. Company Introduction

1. Date of Incorporation: May 19, 2003

2. Company profile

Year	Major milestones
2003	- Set up Hermes Microvision Precision Technology Co., Ltd., with a capital of NT$1,000,000 at Hsinchu City, and provided wafer factories with more advanced inspection equipment and technology in the trend where semiconductor components continue to shrink. - Renamed the original company name to be Hermes Microvision Inc.
2004	- Acquired 100% of the outstanding shares of Hermes Microvision Inc., USA in Silicon Valley and obtained the core technology required for E-Beam inspection equipment. - Sold our first EBI equipment product, penetrating the EBI market which had long been monopolized by U.S. and Japanese companies. - Was approved to set up a branch in the Hsinchu Science Park. - Set up a production foothold at the Tainan Science Park to expand production capacity. - Increased the capital by NT$ 499,000,000 through seasoned equity offering, making the total paid-in capital to be NT$500,000,000.
2005	- Officially launched into high-tech giant suppliers in Korea and Japan.
2006	- Set up a branch in Japan to expand the Company's business in the Japan market. - Successfully developed the products of eScan 310 and eScan 380.
2007	- Increased the capital by NT$280,000,000 through the seasoned equity offering, making the total paid-in capital to be NT$780,000,000.
2008	- Set up subsidiaries in Korea and Japan respectively to expand the Company's business in Korea and Japan markets. - Reduced the capital by NT$650,000,000, followed by increasing the capital by NT$280,000,000 through seasoned equity offering, making the total paid-in capital to be NT$410,000,000. - The stock went public. - Successfully developed the products of eP2, eScan Lite and eScan 315.
2009	- Trans-invested in China's third-tier subsidiary, making it an important module production site. - Closed the Japan branch - Successfully developed the product of eScan 400.
2010	- Increased capital by NT$190,000,000 through seasoned equity offering, making the total paid-in capital to be NT$600,000,000. - Successfully developed the products of eScan 320, eXplore, eManager Workstation and Supernova
2011	- Relocated the headquarters to Hsinchu City and set up a branch at the Hsinchu Science Park - Registered on Apr. 29 as an emerging-listed company. - Successfully developed the product of eP3.
2012	- Increased capital by NT$60,000,000 through seasoned equity offering, making the total paid-in capital to be NT$660,000,000

- Officially listed its stock on the GTSM on May 21 for trading.
- Earned the 21st National SMEs award.

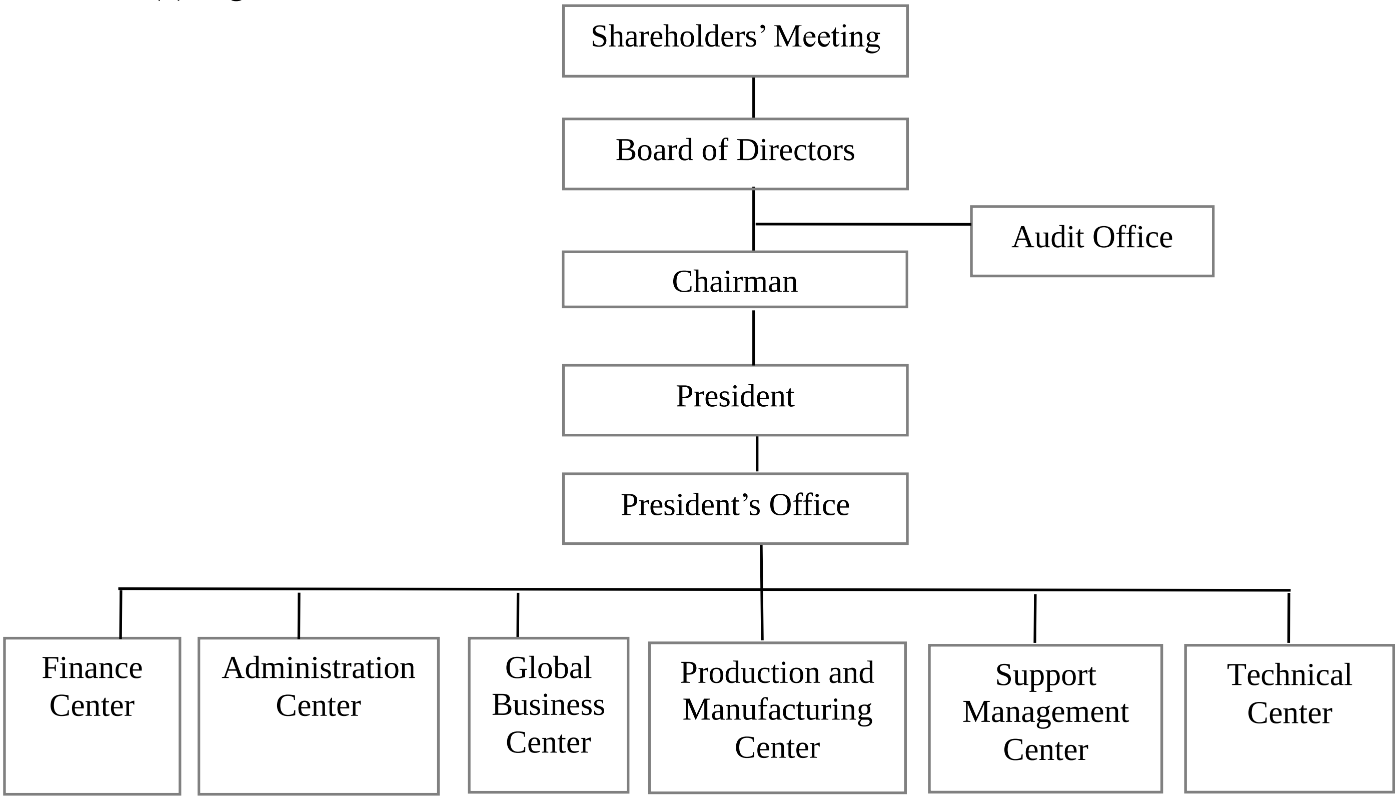
2013

- Participated in issuance of the overseas depositary receipt of NT$50,000,000 by issuing the common stock through seasoned equity offering, making the total paid-in capital to be NT$710,000,000
- Successfully developed the product of eScan 500
- Received Potential Taiwan Mittelstand Award

III. Corporate Governance Report

1. Organization System

(1) Organization Chart



(2) Businesses engaged by respective major divisions

Division	Engaged businesses
President's Office	● Give strategic planning, set up directions and comprehensively manage the Company's businesses, so as to ensure good operation of the Company and provide quality products and services.
Audit office	● In charge of planning and execution of internal audit businesses and tracking improvement effects.
Finance center	● Prepare a variety of financial statements, provide management information, plan working capital and give long term financial planning.
Administration center	● In charge of execution and planning of human resource related businesses covering personnel recruitment, employment, promotion, educational training and retirement, etc. ● Purchase equipment, spare parts, raw materials, and office supplies, etc., and handle export, import and bonding businesses. ● In charge of the Company's computer management, and information system development and maintenance, etc.
Global business center	● In charge of product after-sales service and required technical support, so as to ensure optimization of product effectiveness. ● Provide customers with technology and product related information and basic technical training. ● Provide customers with technology and product related information. ● Reflect customers' problems and needs and send them to the manufacturing and R&D divisions as the reference for improvement. ● In charge of product and technology promotion and marketing. ● In charge of the businesses covering local and foreign order handling, quotation, and after-sales service, etc.
Production and manufacturing center	● Produce and manufacture semiconductor E-beam equipment. ● Improve product modules and spare parts as well as components. ● Transfer and improve production technology.
Support management center	● Establish the quality system. ● Set up quality policies and execute quality auditing. ● Manage technology and intellectual documents.
Technical center	● In charge of product development and improvement. ● In charge of accumulation and maintenance of intellectual properties and application for patents. ● In charge of overseas client technical support and consultation, reflection of customers' problems and dispatch of them to manufacturing and R&D divisions as the reference for improvement. ● Put forth project verification for the design problem of customer's terminals or other major problems, and execute the improvement scheme. ● Provide product basic and advanced training courses for internal and external customers. ● Provide customers with FCN and CIP services.

2. Information of Directors, Supervisors, President, Vice President, Assistant President, Division Heads, and Branch Heads

1 Directors and Supervisors Information

(1) Directors and Supervisors Information

Apr. 8, 2014; Unit: thousand share; %

Position	Name	Date of Appointment	Term	Date of Initial Appointment	Holding share as of Appointment date		Current holding share		Holding share of spouse and minor children		Shares held by means of another party's name		Highest educational attainment/ Work experience	Positions held in other companies	Spouse or 2nd level kin holding other heads, director or supervisor position		
					No. of shares	Rate of holding share	No. of shares	Rate of holding share	No. of shares	Rate of holding share	No. of shares	Rate of holding share			Position	Name	Relationship
Chairman	Shu, Chin-Yung	June 30, 2011	3 years	Apr. 30, 2003	644	1.07	387	0.55	0	0	0	0	Master's Degree of Institute of Electro-Optical Engineering (Science), National Chiao Tung University President of UMC Senior Vice President of TSMC	Director and President of Hermes-Epitek Corp. Director of Hermes Investment, Inc. Chairman of Hermes Testing Systems, Inc. Chairman of Hermes-Epitek (Shanghai) Inc. Director of Hermes-Epitek (Shanghai) Inc. Director of Advanced Ion Beam Technology INC. Director of EPISIL Director of HanShin Corp. Director of EPILEDS Co. Ltd. Director of Advanced System Technology Co., Ltd. Director of Hermes Microvision, Inc.(USA) Director of Hermes Microvision Korea Inc. Director of Hermes Microvision Japan Inc.	None	None	None
Director	Jack Y. Jau	June 30, 2011	3 years	June 21, 2005	2,400	4.00	1,620	2.28	0	0	0	0	Doctoral degree in Electronic and Computer Engineering from University of Wisconsin, USA Executive Vice President Hermes-Epitek Corp. Senior Manager of Research and Development Division at KLA-Tencor Corporation USA Senior Researcher in Kodak Research Laboratories USA Special Assistant of Chairman of Hermes Microvision Inc.	President of Hermes Microvision Inc. Executive Vice President and Director of Hermes Microvision, Inc.(USA) Director of Hermes Microvision Korea Inc. Director of HMI Holdings Inc.	None	None	None
Director	Hermes-Epitek Corp.	June 30, 2011	3 years	June 30, 2011	10,411	17.35	7,105	10.01	0	0	0	0		Director of HanShin Corp. Director of EPISIL Chairman of Hermes Investment, Inc. Director of Hermes-Epitek (Shanghai) Inc.	None	None	None
Director	Representative: Hwang, Ming-Chi	June 30, 2011	3 years	June 30, 2011	2,973	4.96	1,973	2.78	1,486	2.09	0	0	Department of Electro-physics, National Chiao Tung University Chairman of Hermes Microvision Inc. President of Tokyo Electron Taiwan Ltd.	Chairman of Hermes-Epitek Corp. Chairman of EPISIL Chairman of Advanced Ion Beam Technology INC. Director of Hermes Investment, Inc. Chairman of Tokyo Electron Taiwan Ltd. Chairman of Pan Wen Yuan Foundation Director of Hermes Microvision Japan Inc. Director of Hermes Microvision Korea Inc. Chairman of Hermes Microvision, Inc.(USA)	None	None	None
Director	Yang, Chyan	June 30, 2011	3 years	June 16, 2009	0	0	0	0	0	0	0	0	Doctoral Degree in Computer Science from Washington University, U.S.A. Professor of Institute of Business and Management of National Chiao Tung University Vice President (Deputy President), College of Management, National Chiao Tung University Associate Professor of Institute of Management Science, National Chiao Tung University Associate Professor in Computer Science at U.S. Naval Research Laboratory and Director of VLSI Laboratory	Professor of Institute of Business and Management of National Chiao Tung University Director of Penpower Technology Ltd. Supervisor of Chia Chang Co., Ltd. Independent Director of BestCom Infotech Corporation Independent Director of Aspeed Technology, Inc.	None	None	None

Position	Name	Date of Appointment	Term	Date of Initial Appointment	Holding share as of Appointment date		Current holding share		Holding share of spouse and minor children		Shares held by means of another party's name		Highest educational attainment/ Work experience	Positions held in other companies	Spouse or 2nd level kin holding other heads, director or supervisor position		
					No. of shares	Rate of holding share	No. of shares	Rate of holding share	No. of shares	Rate of holding share	No. of shares	Rate of holding share			Position	Name	Relationship
Independent director	Tu, Huai-Chi	June 30, 2011	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Department of Economics, College of Law, National Taiwan University	Chairman of Glimmer Inc. Director and CEO of Promate Electronic Co., Ltd. Director of Chun Fung investment Co., Ltd. Chairman of Promote Solutions Corp. Chairman of Fung Shao Yi Investment Co., Ltd. Director of EVGA Corp.	None	None	None
Independent director	Hu, Han-Liang	June 30, 2011	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Department of International Trade, Tamkang University	Partner of C.J.S. CPAs & Co., Ltd. Supervisor of Genius, KYE Systems Corp. Director of Scientech Director of Godex International Co. Supervisor of Orient Pharma Co., Ltd. Director of Shamrock Micro Devices Corp. Supervisor of Life Technologies Co.	None	None	None
Independent director	Liang, Kai-Tai	June 30, 2011	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Department of Electrophysics, National Chiao Tung University Director and President of Infinite Shanghai Communication Terminals Ltd. Director and President of Siemens Shanghai Mobile Communications Co., Ltd. General Manager of Global Mobile Communication Division at Metawave Communications Corp. World Trade (GSM).	President of Masstop Technology Inc.	None	None	None

(2) Principal Shareholders of Corporate Stockholder:

Dec. 31, 2013

Corporate Stockholder	Principal Stockholder of Corporate Stockholder
Hermes-Epitek Corp.	B.V.I. Ji Xing Co., Ltd.(69.12%), Hwang, Ming-Chi (11.55%), Lu, Hui-Chiang (8.49%), Lin, Shu-Ling (3.90%), Shu, Chin-Yung (2.52%), Huang, Mei-Yun (2.02%), Wei Shan Investment Co., Ltd.(1.24%), Lin, Tung-Ching (0.39%), Lin, Shih-Ching (0.39%), Chen, Li-Kuei (0.36%)

(3) Principal Shareholders of Corporate Stockholder, which are Corporate Stockholder Representatives:

Dec. 31, 2013

Corporate Stockholder	Principal Shareholders of Corporate Stockholder
B.V.I. Ji Xing Co., Ltd.	Huang, Mei-Yun (100.00%)
Wei Shan Investment Co., Ltd.	B.V.I. Ji Xing Co., Ltd. (80.00%), Hwang, Ming-Chi (8.30%), Lu, Hui-Chiang (3.60%), Lin, Shu-Lin (3.60%), Huang, Mei-Yun (2.50%), Wu, Yu-Mei (0.80%), Lin, Shih-Ching (0.80%), Chen, Yuan-Chi(0.40%)

(4) Professional Background and Independence of Directors & Supervisors

Qualifications / Name	Min. of 5-year work experience or having the following Professional Qualification			Independence Qualification (note)										Number of public companies where the person also acts as an independent director
	At least a lecturer from a private or public college or university in the discipline of business, law, finance, accounting or other subjects in demand by the Company	Passed the public examination and licensed in a special profession and technology, like that of a judge, public prosecutor, attorney, CPA or others as in demand by the Company	Required experience in business, law, finance, accounting and others as in demand by the Company	1	2	3	4	5	6	7	8	9	10	
Shu, Chin-Yung			√			√	√			√	√	√	√	none
Jack Y. Jau			√				√	√		√	√	√	√	none
Hermes-Epitek Corp. Representative: Hwang, Ming-Chi			√							√	√	√		none
Yang, Chyan	√		√	√	√	√	√	√	√	√	√	√	√	2
Hu, Han-Liang		√	√	√	√	√	√	√	√	√	√	√	√	none
Tu, Huai-Chi			√	√	√	√	√	√	√	√	√	√	√	none
Liang, Kai-Tai			√	√	√	√	√	√	√	√	√	√	√	none

Note: For those directors and supervisors meeting the following terms two years prior to be elected and during their term in office, a "✓" is put in the space under the applicable term.

i. Not the Company's employee, or employee of the Company's affiliated companies.

ii. Those who are not a director or supervisor of the Company or its affiliated companies (however, it is not limited to the independent director of the Company or its parent company or the subsidiary in which the Company directly or indirectly holds more than 50% of its voting shares).

iii. The natural-person stockholder who does not hold more than 1% of the total outstanding stocks in their name or the name of their spouse, their minor children or others, or the shares held in their name or the name of their spouse, their minor children or others do not make them one of the Company's top ten shareholders.

iv. Not the spouse, or the 2nd level kin or the 3rd level lineal relative of the parties mentioned in the previous 3 paragraphs.

v. Neither an employee, a director, nor a supervisor of corporate shareholders directly holding shares more than 5% of the total outstanding stocks; neither nor of the Company's top five shareholders.

vi. Neither a director, supervisor, manager, nor stockholder holding over 5% shares of a company or institution that is financing or doing business with the Corporation.

vii. The professional, proprietor of the sole proprietorship, partnership, company or institute, partner, director, supervisor, manager and their spouse who does not provide services or consultation for the Company or its affiliated enterprises in the sectors of business, legal affairs, finance and accounting, etc. However, it is not limited to the compensation committee members prescribed by Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Compensation Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter.

viii. Those who do not have the spouse relationship or are not within the 2nd level of kinship with any other directors.

ix. Those who are not subject to any of the conditions listed in Article 30 of the Company Act.

x. Those who are not in the circumstance regulated in Article 27 of the Company Act where the government agency, juristic person or their representative is elected.

2. Information of President, Vice President, Assistant President, Division Heads, and Branch Heads

Apr. 8, 2014；Unit: Thousand shares；%

Position	Name	Date of Appoint-ment	Holding share		Holding share of spouse and minor children		Shares held by means of another party's name		Highest educational Attainment/Work Experience	Positions held in other companies	Spouse or 2nd level kin holding other heads position		
			Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share			Position	Name	Relation-ship
President and Administrative Center/RD Director	Jack Y. Jau	Oct. 15, 2010	1,620	2.28	0	0	0	0	Doctoral degree in Electronic and Computer Engineering from University of Wisconsin, USA Executive vice president of Hermes-Epitek Corp. Senior Manager of Research and Development Division at KLA-Tencor Corporation, USA Senior researcher in Kodak Research Laboratories, USA Special Assistant of President of Hermes Microvision Inc.	Executive vice president and director of Hermes Microvision, Inc.(USA) Director of Hermes Microvision Korea Inc. Director of HMI Holdings Inc.	None	None	None
Vice president of Finance & Administration	Lee,Hsueh-Han (Note1)	Mar. 19, 2007	0	0	0	0	0	0	Master's Degree of Accounting, Institute of Business Administration, The George Washington University CEO and CFO of Advanced Optoelectronic Technology Inc. CEO and CFO in Europe Area of ZyXEL Communications Corp. CFO in Taiwan Area of ALCATEL	None	None	None	None
Vice president of Research and Development	Lin, Wen-Sheng	Apr. 29, 2013	0	0	0	0	0	0	Department of Electro-Mechanical Engineering, Oriental Institute of Technology Assistant Manager of Hermes-Epitek Corp. Senior Manager of Customer Service at Hermes Microvision, Inc.	None	None	None	None
Vice president of global business center	Su, Yung-Hang	Mar. 1, 2013	20	0.03	0	0	0	0	Bachelor's degree in Electronic & Computer Engineering from National Chiao Tung University Assistant Manager of Hermes-Epitek Corp. Engineer at Acer Inc. Sales Manager of Hermes Microvision Inc.	None	None	None	None

Vice president of finance Center	Shen, Hsiao-Lien	Mar. 1, 2013	0	0	0	0	0	0	Master's degree in management of technology from Chung Hua University Audit manager of Brilliance Semiconductor Inc. Audit manager of PwC Taiwan Senior finance manager of Hermes Microvision Inc.	Director of HMI Holdings Inc. Director of Hermes Microvision Co., Ltd. (Beijing)	None	None	None
Vice president of New Business and Development	Hu, Jui-Ching (Note2)	Apr. 29, 2013	0	0	0	0	0	0	EMBA degree from National Chiao Tung University Master's Degree in Operations Research from Stanford University, USA Vice President of Metrodyne Microsystem Corp. Executive Director of Investment Division at Intel Corp.	Independent Director of Lotes Co., Ltd. Supervisor of Gudeng Precision Industrial Co., Ltd.	None	None	None

Note 1：Resigned on Mar. 1, 2013.

Note 2：Resigned on Jan. 20, 2014.

3. Compensation of Directors, Supervisors, President and Vice Presidents in recent years

(1) Compensation of Directors

Dec. 31, 2013；Unit：thousand；1,000 shares

Position	Name	Compensation of Directors								% of the total amount A, B, C and D to the net profit after tax	
		Compensation (A)		Retired pension (B)		Compensation from allocated earnings (C)		Professional fees (D)			
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report
Chairman	Shu, Chin-Yung	0	0	0	0	4,800	4,800	112	112	0.2%	0.2%
Director	Hwang, Ying-Chi										
Director	Jack Y. Jau										
Director	Yang, Chyan										
Director	Hu, Han-Liang										
Director	Tu, Huai-Chi										
Director	Liang, Kai-Tai										

Position	Name	Compensation in the capacity as an employee												(%)% of the total amount A, B, C, D, E, F and G to the net profit after tax		Have received compensation of trans-investment enterprise outside the subsidiary
		Salary, bonus and special expenditures (E)		Retired pension (F)		Employees' Bonus from Allocated Earnings (G)				Total of employee warrant certificates obtained (H)		Total of restricted employee new shares number obtained (I)				
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company		All companies in the financial report		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	
						Cash dividend	Stock dividend	Cash dividend	Stock dividend							
Chairman	Shu, Chin-Yung	9,113	9,113	0	0	3,118	0	3,118	0	0	0	0	0	0.7%	0.7%	None
Director	Hwang, Ming-Chi															
Director	Jack Y. Jau															
Director	Yang, Chyan															
Director	Hu, Han-Liang															
Director	Tu, Huai-Chi															
Director	Liang, Kai-Tai															

Table of Range of the Compensations

<table>
<tr><th rowspan="3">Range of the Compensations paid to each Director of the Corporation</th><th colspan="4">Name of Directors</th></tr>
<tr><th colspan="2">Sum of the 4 Compensations (A+B+C+D)</th><th colspan="2">Sum of the 7 Compensations (A+B+C+D+E+F+G)</th></tr>
<tr><th>The Company</th><th>All companies in the financial report</th><th>The Company</th><th>All companies in the financial report</th></tr>
<tr><td>Less than NT$2,000,000</td><td>Shu, Chin-Yung,
Hwang, Ming-Chi,
Jack Y. Jau,
Yang, Chyan,
Hu, Han-Liang,
Tu, Huai-Chi,
Liang, Kai-Tai</td><td>Shu, Chin-Yung,
Hwang, Ming-Chi,
Jack Y. Jau,
Yang, Chyan,
Hu, Han-Liang,
Tu, Huai-Chi,
Liang, Kai-Tai</td><td>Shu, Chin-Yung,
Hwang, Ming-Chi,
Yang, Chyan,
Hu, Han-Liang,
Tu, Huai-Chi,
Liang, Kai-Tai</td><td>Shu, Chin-Yung,
Hwang, Ming-Chi,
Yang, Chyan,
Hu, Han-Liang,
Tu, Huai-Chi,
Liang, Kai-Tai</td></tr>
<tr><td>NT$2,000,000 (including)～5,000,000 (excluding)</td><td>none</td><td>none</td><td>none</td><td>none</td></tr>
<tr><td>NT$5,000,000 (including)～10,000,000 (excluding)</td><td>none</td><td>none</td><td>none</td><td>none</td></tr>
<tr><td>NT$10,000,000 (including)～NT$15,000,000 (excluding)</td><td>none</td><td>none</td><td>Jack Y. Jau</td><td>Jack Y. Jau</td></tr>
<tr><td>NT$15,000,000 (including)～NT$30,000,000 (excluding)</td><td>none</td><td>none</td><td>none</td><td>none</td></tr>
<tr><td>NT$30,000,000 (including)～NT$50,000,000 (excluding)</td><td>none</td><td>none</td><td>none</td><td>none</td></tr>
<tr><td>NT$50,000,000 (including)～NT$100,000,000 (excluding)</td><td>none</td><td>none</td><td>none</td><td>none</td></tr>
<tr><td>Over NT$100,000,000</td><td>none</td><td>none</td><td>none</td><td>none</td></tr>
<tr><td>Total</td><td>7</td><td>7</td><td>7</td><td>7</td></tr>
</table>

(2) Compensation of President and Vice Presidents

Dec. 31, 2013；Unit：NT$ 1,000；1,000 shares

<table>
<tr><th rowspan="3">Position</th><th rowspan="3">Name</th><th colspan="2">Salary (A)</th><th colspan="2">Retired pension (B)</th><th colspan="2">Bonus and special expenditures (C)</th><th colspan="4">Employees’ Bonus from Allocated Earnings (D)</th><th colspan="2">(%)% of the total amount A, B, C and D to the net income after tax</th><th colspan="2">Employee warrant certificates obtained</th><th colspan="2">Restricted employee new shares number obtained</th><th rowspan="3">Have received compensation of trans-investment enterprise outside the subsidiary</th></tr>
<tr><th rowspan="2">The Company</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">The Company</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">The Company</th><th rowspan="2">All companies in the financial report</th><th colspan="2">The Company</th><th colspan="2">All companies in the financial report</th><th rowspan="2">The Company</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">The Company</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">The Company</th><th rowspan="2">All companies in the financial report</th></tr>
<tr><th>Cash dividend</th><th>Stock dividend</th><th>Cash dividend</th><th>Stock dividend</th></tr>
<tr><td>President</td><td>Jack Y. Jau</td><td rowspan="6">13,097</td><td rowspan="6">13,097</td><td rowspan="6">0</td><td rowspan="6">0</td><td rowspan="6">5,688</td><td rowspan="6">5,688</td><td rowspan="6">5,193</td><td rowspan="6">0</td><td rowspan="6">5,193</td><td rowspan="6">0</td><td rowspan="6">1%</td><td rowspan="6">1%</td><td rowspan="6">0</td><td rowspan="6">0</td><td rowspan="6">0</td><td rowspan="6">0</td><td rowspan="6">none</td></tr>
<tr><td>Vice President</td><td>Lee, Hsueh-Han (Note 1)</td></tr>
<tr><td>Vice President</td><td>Lin, Wen-Sheng</td></tr>
<tr><td>Vice President</td><td>Su, Yung-Hang</td></tr>
<tr><td>Vice President</td><td>Shen, Hsiao-Lien</td></tr>
<tr><td>Vice President</td><td>Hu, Jui-Ching (Note 2)</td></tr>
</table>

Note 1：Resigned on Mar. 1, 2013.

Note2：Resigned on Jan. 20, 2014.

Table of Range of the Compensations

Range of the Compensations paid to each President and Vice President of the Corporation	Name of President and Vice Presidents	
	The Company	All companies in the financial report E
Less than NT$2,000,000	Lee, Hsueh-Han, Hu, Jui-Ching	Lee, Hsueh-Han, Hu, Jui-Ching
NT$2,000,000 (including)～NT$5,000,000 (excluding)	Lin, Wen-Sheng, Su, Yung-Hang, Shen, Hsiao-Lien	Lin, Wen-Sheng, Su, Yung-Hang, Shen, Hsiao-Lien
NT$5,000,000 (including)～NT$10,000,000 (excluding)	none	none
NT$10,000,000 (including)～NT$15,000,000 (excluding)	Jack Y. Jau	Jack Y. Jau
NT$15,000,000 (including)～NT$30,000,000 (excluding)	none	none
NT$30,000,000 (including)～NT$50,000,000 (excluding)	none	none
NT$50,000,000 (including)～NT$100,000,000 (excluding)	none	none
Over NT$100,000,000	none	none
Total	6	6

(3) Employees' bonus paid to managers, the names and allocation

Dec. 31, 2013；Unit：NT$ 1,000；1,000 shares

	Position	Name	Stock dividend	Cash dividend	Total	(%)% of the total amount to the net income after tax
President and Vice Presidents	President	Jack Y. Jau	0	5,193	5,193	0.221
	Vice President	Lee, Hsueh-Han (Note1)				
	Vice President	Lin, Wen-Sheng				
	President	Su, Yung-Hang				
	Vice President	Shen, Hsiao-Lien				
	Vice President	Hu, Jui-Ching (Note 2)				

Note 1：Resigned on Mar. 1, 2013.

Note 2：Resigned on Jan. 20, 2014.

4. Elaboration on the analysis of the ratio of the total amount of the compensation paid to the Company's directors, supervisors, president and vice president over the past two years as shown in the Company's and its consolidated statements to the net income after tax and explanation of the Company's compensation payment policy, standard and combination, its procedure to set up compensation standards and the correlation between its business performance and future risks.

i. The ratio of the total amount of the compensation paid to the Company's directors, president and vice president over the past two years to the net income after tax.

Unit: NT$1,000；%

Item/Year		2012	2013
The Company	Total compensation	17,606	28,890
	Ratio to the net income after tax	1.16	1.23
All companies in the consolidated statements	Total compensation	17,606	28,890
	Ratio to the net income after tax	1.16	1.23

ii. Compensation payment policy, standard and combination, the procedure to set up compensation standards and the correlation between the business performance and future risks

A. Director: Their compensation shall be paid according to the earnings distribution ratio prescribed by the Articles of Incorporation.

B. President and vice president: their compensation including salaries, bonuses and employee bonuses shall be paid according to their post, assuming liabilities and

contribution to the Company and by referring to the level of the pay adopted by the peer companies.

C. Correlation with business performance and future risks: The Company's policy for the compensation paid to its directors, president and vice president and procedure to set up compensation standards have positive correlation with its business performance, and it discloses the payment amount in accordance with statutory laws and regulations, so its future risks shall be limited.

3. Business Operation

1. Operation of the Board of directors

The company has held six regular directors' meeting during 2013, in which the attendance status of directors is as follows:

Position	Name	Number of times of actual attendance	Number of times of attendance by authorized	Ratio of actual attendance (%)	Remarks
Chairman	Shu, Chin-Yung	6	0	100.00	June 30, 2011 re-election
Director	Jack Y. Jau	6	0	100.00	June 30, 2011 re-election
Director	Hermes-Epitek Corp. Representative: Hwang, Ming-Chi	6	0	100.00	June 30, 2011 new-election
Director	Yang, Chyan	6	0	100.00	June 30, 2011 re-election
Independent Director	Hu, Han-Liang	6	0	100.00	June 30, 2011 new-election
Independent Director	Tu, Huai-Chi	5	1	83.33	June 30, 2011 new-election
Independent Director	Liang, Kai-Tai	5	1	83.33	June 30, 2011 new-election

Other matters required to be recorded:

1. For the matters listed in article 14-3 of the securities and exchange act along with the resolution items of the board of directors for which independent directors had opposed or qualified opinions either on the record or in a written statement, the board meeting date, term, bill content, the opinions from all the independent directors and the Company's handling of independent directors' opinions shall be described: nil
2. For execution of the recusal from directors for conflict-of-interest bills, the director's name, bill content, the reason for entering recusal and resolution participation status shall be described: nil
3. The goal for reinforcing the function of the board of directors in the current year and the latest year (e.g. establishment of the audit committee and enhancement of information transparency, etc.) And assessment of the execution:
   (1) Establishment of the audit committee and compensation committee
      i. The company set up its audit committee on Jun. 30, 2011 to exercise its powers prescribed by the securities and exchange act, company act and other statutory laws and regulations.
      ii. The company set up its compensation committee on Aug. 23, 2011 to assist the board of directors in periodically evaluating and setting up director and manager's compensation standards, and periodically evaluate director and manager's performance, and the compensation policy, system, standard and structure.
   (2) Enhancement of information transparency
      The company's financial information and material resolutions have been put on the market

observation post system as regulated, while the Company's business information has also been disclosed on the Company's website, so the public investors can all obtain the information in a timely manner.

2. The status of director and manager's advanced studies and training

In order to fulfill the corporate governance system, the Company has taken initiative to pass its governance related information on advanced study opportunities to its directors. The Company's fourth term of directors all complied with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies" in their 2013 advanced studies.

Position	Name	The organizer	Course of study	Hours of study	Whether it complies with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies"
President	Shu, Chin-Yung	Taiwan Corporate Governance Association	How to perform duties for the Directors and Supervisors of TWSE Listed and GTSM Listed Companies	3	Yes
Representative of juristic person director	Hwang, Ming-Chi	Taiwan Corporate Governance Association	How to perform duties for the Directors and Supervisors of TWSE Listed and GTSM Listed Companies	3	Yes
Director	Jack Y. Jau	Taiwan Corporate Governance Association	How to perform duties for the Directors and Supervisors of TWSE Listed and GTSM Listed Companies	3	Yes
Director	Yang, Chyan	Taiwan Corporate Governance Association	How to perform duties for the Directors and Supervisors of TWSE Listed and GTSM Listed Companies	3	Yes
Independent Director	Hu, Han-Liang	Taiwan Corporate Governance Association	How to perform duties for the Directors and Supervisors of TWSE	3	Yes

			Listed and GTSM Listed Companies		
Independent Director	Tu, Huai-Chi	Taiwan Corporate Governance Association	How to perform duties for the Directors and Supervisors of TWSE Listed and GTSM Listed Companies	3	Yes
Independent Director	Liang, Kai-Tai	Taiwan Corporate Governance Association	How to perform duties for the Directors and Supervisors of TWSE Listed and GTSM Listed Companies	3	Yes

Besides, the status of company managers' advanced studies related to company governance, see the following table.

Position	Name	Date of Course	The organizer	Title of Course	Hours of study (hour)
Vice president	Hu, Jui-Ching	Sep. 10, 2013~Sep. 10, 2013	China Industrial & Commercial Research Institute	Selection and Practice Training Seminar for Enterprise Spokesperson	7
		Mar. 7, 2014~Mar. 7, 2014	Hermes Microvision Inc.	HET-02-Pricing Strategy	3
Vice president	Shen, Hsiao-Lien	Nov. 12, 2013~Nov. 14, 2013	Accounting Research and Development Foundation	Continuing class for advanced studies for accounting directors	14
		Mar. 7, 2014~Mar. 7, 2014	Hermes Microvision Inc.	HET-02-Pricing Strategy	3
		Apr. 16, 2014~Apr. 16, 2014	Hermes Microvision Inc.	HET-01-Introduction to semiconductor manufacturing	3
Vice president	Lin, Wen-Sheng	May 30, 2013~May 30, 2013	Hermes Microvision Inc.	HET-02-EAP Meeting for Director's Exercise	1
		Mar. 7, 2014~Mar. 7, 2014	Hermes Microvision Inc.	HET-02-Pricing Strategy	3
Vice president	Su, Yung-Hang	Mar. 7, 2014~Mar. 7, 2014	Hermes Microvision Inc.	HET-02-Pricing Strategy	3

3. Operation of Audit Commission

The company has held 7 audit commission meetings during 2013, in which the attendance status of Independent Director is as follows:

Position	Name	Number of times of attendance	Number of times of authorized attendance	Ratio of attendance (%)	Remarks
Independent Director	Hu, Han-Liang	7	0	100.00	
Independent Director	Tu, Huai-Chi	6	1	85.71	
Independent Director	Liang, Kai-Tai	6	1	85.71	

Other matters required to be recorded:

1. For the matters listed in Article 14-5 of the Securities and Exchange Act and the resolutions which were not adopted by the audit committee but approved by more than two-thirds of the entire body of directors, the board meeting date, term, bill content, audit committee's resolution results, and the Company's handling of the audit committee's opinions: Nil
2. For execution of independent director's recusal for conflict-of-interest bills, the independent director's name, bill content, the reason for entering recusal and resolution participation status shall be described: Nil
3. Status of the communication of independent directors with the internal audit supervisor and CPAs (e.g. the matters, methods and results of the communication for the Company's financial and business status):
   (1) The Company's internal audit supervisor has periodically reported their audit status in audit committee meetings. In case of any special situation, they shall promptly report to the audit committee. As of the date of printing of the annual report, no aforesaid special situation had occurred. The Company's audit committee has good communication with its internal audit supervisor.
   (2) The Company's CPAs have periodically attended the Company's audit committee meetings as a guest. In case of any special situation, they shall promptly report to the audit committee. As of the date of printing of the annual report, no aforesaid special situation had occurred. The Company's audit committee has good communication with its CPAs.

4. Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
1. The company's equity structure and shareholders' equity (1) The ways that the Company handles shareholders' recommendations or disputes	The Company has its spokesperson, and deputy spokesperson, and has an investor e-mail address to handle shareholders' recommendations or opinions.	No significant variance
(2) The status of the Company's control of the name list of the major shareholders who actually control the Company, and the final controllers of the major shareholders.	The Company has stock affairs dedicated personnel who manage related information, appoints a stock affairs agency to assist in handling stock affairs related issues, and keeps abreast with the change of the name lists of the major shareholders who actually control the Company and the final controllers of the major shareholders.	No significant variance
(3) The risk control mechanism and fire wall established by the Company with its affiliated enterprises	The Company has set up an internal control system, and has well-rounded financial, business and accounting management systems.	No significant variance
2. Constitution and duties of the board of directors : (1) The status of the Company's appointment of independent directors	The Company already re-elected seven directors including three independent directors on June 30, 2011.	No significant variance
(2)The status of periodical evaluation of independence of the Company's CPAs	The Company has periodically reviewed and evaluated independence of its CPAs. When appointing Cheng, Ya-Hui and Lee, Tien-Yi at PwC Taiwan as its CPAs, the Company already evaluated their independence and confirmed that they were not the related persons of the Company.	No significant variance
3. The status of establishment of a communication channel with interested parties.	The Company has set up a spokesperson system to deal with relevant issues.	No significant variance

<table>
<tr><th>Item</th><th>Operation status</th><th>Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons</th></tr>
<tr><td>4. Information publication
(1) The status of the Company’s establishment of its website, disclosure of its financial, business and corporate governance information.</td><td>The Company has already set up an investor relation area on its website to disclose its financial, business and corporate governance related information.</td><td>No significant variance
No significant variance</td></tr>
<tr><td>(2) Other information disclosure methods adopted by the Company (e.g. set up an English website, designate dedicated personnel to collect and disclose information, fulfill the spokesperson system and post the proceeding of the institutional investor meeting on the Company’s website, etc.)</td><td>The Company has its English website, has one spokesperson and one deputy spokesperson, designates dedicated personnel to collect and disclose the Company’s information, and post the briefing and taping of its institutional investor meeting on the stockholder column.</td><td>No significant variance</td></tr>
<tr><td>5. Operation status of a variety of functional committees and nomination of the committee members</td><td>The Company already set up its Compensation Committee at its board meeting held on Aug. 23, 2011, in which it appointed three independent directors of Hu Han-Liang, Tu, Huai-Chi and Liang Kai-Tai as the committee members.</td><td>No significant variance</td></tr>
<tr><td colspan="3">6. If the Company has set up its corporate governance best-practice principles in accordance with the “Corporate Governance Best-Practice Principles for TWSE/GTSM listed Companies”, please describe the difference of the operation from the instituted corporate governance best-practice principles:
The Company has already set up its corporate governance best-practice principles, and complied with the spirit of the principles in its practical corporate governance operation.</td></tr>
<tr><td colspan="3">7. Other important information which may help understand the operation of corporate governance (e.g. employee’s rights and interests, employee care, investor relations, supplier relations, the rights of interested parties, status of director and supervisor’s advanced studies, execution of the risk management policy and risk measurement standard, execution of the customer policy, and liability insurance purchased by the Company for its directors and supervisors, etc.):
(1) Employee’s rights and interests: The Company has established its employee welfare committee, carried out its pension system so as to protect the rights and interests of its employees, and held a labor coordination committee meeting every quarter to coordinate the labor relations.
(2) Employee care: The Company has planned the employee group insurance, provided its employees with regular physical examinations, and offered a variety of employee educational training. It has placed a high premium on employee’s physical and mental health as well as learning development.
(3) Investor relations and the rights of interested parties: As regulated by statutory laws and regulations,</td></tr>
</table>

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
the Company has honestly and publicly released its corporate information, so as to protect investor and interested party's rights and interests and do its fair share of corporate responsibility for shareholders. (4) Supplier relations: The Company has kept a good relationship with its suppliers. (5) Status of director and supervisor's advanced studies: The Company's directors all have professional background and practical operating and management experience in the industry, and they have taken three hours of corporate governance related courses every year. (6) Execution of the risk management policy, risk measurement standard: The Company's internal control system and required management regulations have all been adopted by the board of directors or shareholders' meeting. (7) Execution of the customer policy: The Company strictly abides by the agreements it has signed with customers and related regulations, ensures customer's rights and interests, and provides quality services. (8)The liability insurance purchased by the Company for its directors and supervisors: As prescribed by its Articles of Incorporation, the Company shall purchase liability insurance for its directors which shall be literally executed. Also, the Company has reviewed the content of the insurance policy every year, so as to reduce the risks assumed by directors and the Company and build a well-rounded corporate governance mechanism.		
8. If the Company has a self-evaluation report for its corporate governance or the appraisal report issued by an assigned professional agency, the self-evaluation (or outsourcing appraisal) results, major defects (or recommendations) and improvement status shall be described: The Company has referred to the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies" when revising its internal control and audit systems. Since the 4th quarter of 2013, the Company has started to work on the measurement of its corporate governance system, for which the Company is expected to acquire the measurement results in the 3rd quarter of 2014. By then, the results will be reported in the 2015 regular shareholders' meeting.		

5. Composition, duties and operation status information for Compensation Committee

(1) Information on members for Compensation Committee

Status	Qualifications / Name	Minimum 5-year work experience or having the following Professional Qualification			Independence Qualification (Note 1)								Number of companies where the person also acts as a member of Compensation Committee	Remarks (Note 2)
		At least a lecturer from a private or public college or university in the discipline of business, law, finance, accounting or other subjects in demand by the Company	Passed the public examination and licensed in a special profession and technology, like that of a judge, public prosecutor, attorney, CPA or others as in demand by the Company	Required experience in business, law, finance, accounting and others as in demand by the Company	1	2	3	4	5	6	7	8		
Independent Director	Hu, Han-Liang		√	√	√	√	√	√	√	√	√	√	0	not applicable
Independent Director	Liang, Kai-Tai			√	√	√	√	√	√	√	√	√	0	not applicable
Independent Director	Tu, Huai-Chi			√	√	√	√	√	√	√	√	√	0	not applicable

Note 1 : For those members meeting the following terms two years prior to be elected and during their term in office, a "✓" is put in the space under the applicable term.

i. Not the Company's employee, or employee of the Company's affiliated companies.

ii. Those who are not a director or supervisor of the Company or its affiliated companies (however, it is not limited to the independent director of the Company or its parent company or the subsidiary in which the Company directly or indirectly holds more than 50% of its voting shares).

iii. The natural-person stockholder who does not hold more than 1% of the total outstanding stocks in their name or the name of their spouse, their minor children or others, or the shares held in their name or the name of their spouse, their minor children or others do not make them one of the Company's top ten shareholders.

iv. Not the spouse, or the 2nd level kin or the 3rd level lineal relative of the parties mentioned in the previous 3 paragraphs.

v. Neither an employee, a director, nor an auditor of corporate shareholders directly holding shares more than 5% of the total outstanding stocks; neither nor of the five largest corporate shareholders of the Corporation.

vi. Neither a director, supervisor, manager, nor stockholder holding over 5% shares of a company or institution that is financing or doing business with the Corporation.

vii. The professional, proprietor of the sole proprietorship, partnership, company or institute, partner, director, supervisor, manager and their spouse who does not provide services or consultation for the Company or its affiliated enterprises in the sectors of business, legal affairs, finance and accounting, etc.

viii. Those who are not subject to any of the conditions listed in Article 30 of the Company Act.

Note 2: If the member is a director, please explain if they comply with Paragraph 5 of Article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Compensation Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter".

(2) Operation status of the Compensation Committee

i The Company's Compensation Committee has 3 members.

ii The tenure of this term of Committee members: From Aug. 23, 2011 to June 29, 2014. The Compensation Committee held 2 meetings (A) in 2013, in which Committee members' titles and attendance status are as follows:

Position	Name	Number of times of actual attendance (B)	Number of times of authorized attendance	Ratio of actual attendance (%) (B/A)	Remarks
Convenor	Hu, Han-Liang	2	0	100%	
Member	Tu, Huai-Chi	1	1	50%	
Member	Liang, Kai-Tai	2	0	100%	

Matters required to be recorded:

1. In the case that the board of directors does not adopt or modify the recommendations from the Compensation Committee, the board meeting date, term, bill content, board meeting resolution results and the Company' s handling of compensation committee's opinions shall be described (if the compensation adopted by the board of directors is better than what was recommended by the compensation committee, the difference and reason shall be stated): Nil
2. For the resolutions adopted by the compensation committee, if any of the committee members had opposed or qualified opinions either on the record or in a written statement, the compensation committee meeting date, term, bill content, opinions from all the members and the Company's handling of the members' opinions shall be described: Nil

6. Social responsibility fulfillment status (the systems and measures taken by the Company for its environmental protection, community communication, society contribution, social services, social welfare programs, protection of consumer rights and interests, human rights and safety as well as health and implementation of other activities related to social responsibility, and the fulfillment status):

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
1. Fulfillment of corporate governance promotion (1) The corporate social responsibility policy set up by the Company and review of implementation effects:	The Company has already set up its corporate social responsibility best practice principles. The Company's administrative management division is in charge of promoting corporate social responsibility.	No significant variance

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
(2) The operation status of the dedicated or part-time unit set up by the Company for promoting corporate social responsibility.	The Company's administrative management division is in charge of promoting corporate social responsibility.	No significant variance
(3) The status of the Company's periodical holding of corporate ethical educational training and promotion to its directors, supervisors and personnel, and establishment of specific and effective award and punishment system by combining with the personnel performance evaluation system.	The Company has periodically held corporate social responsibility educational training and promotion.	No significant variance
2. Development of a sustainable environment (1) The status of the Company's devotion to enhancement of utilization efficiency of various resources, and the Company's use of the renewable materials having low impact on the environment.	The Company has devoted its efforts to enhancing utilization efficiency of various resources, so as to reduce the quantity of raw materials and waste and lower the impact on the environment.	No significant variance
(2) The status of the proper environmental management systems set up by the Company according to its industrial characteristics.	The Company has provided recycle bins for classification of resources. In addition, the Company has also entrusted qualified firms for waste recycling.	No significant variance
(3) The status of setting up an environmental management dedicated unit or personnel to protect the environment.	The personnel of the Company's administrative management division are responsible for environmental management affairs. They designate dedicated employees to clean the environment and keep tidiness of the environment every day.	No significant variance
(4) The status of the Company's setting up its strategies for energy efficiency, carbon	The Company controls its air-conditioning temperatures in summer, in an attempt to effectively use energy and head for the	No significant variance

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
reduction and greenhouse gas reduction after paying attention to the influence of climate change on operating activities.	goal of energy efficiency and carbon reduction.	
3. Social welfare maintenance (1) The status of the Company's compliance with the related labor regulations and respect for the internationally recognized basic labor human right principles, protection of employees' legal rights and interests, non-discrimination employment policy, etc., establishment of the proper management method and procedure, and the fulfillment.	The Company abides by the related labor regulations, respects internationally recognized basic labor human right principles, and protects employees' legal rights and interests. For promotion of the Company's policies and understanding of employees' opinions, the Company has taken an open attitude for mutual communication.	No significant variance
(2) Status of the Company's providing its employees with a safe and healthy working environment and periodical education about safety and health	The Company has a health center, which arranges regular physical examinations for its employees every year. Employees shall attend environment safety and health related courses according to their tasks. In addition, the Company also has an emergency action team, which has routinely practiced every year.	No significant variance
(3) The status of the Company's establishment of the periodical employee communication mechanism, and notification in a reasonable way of its business change which may cause material influence on employees	The Company has set up an employee communication mechanism. It has periodically held labor meetings, in which meeting minutes has been made for every meeting, while it will notify its employees via e-mail of any business change which may cause material influence.	No significant variance
(4) The status of the Company's instituting and making public of its policies for consumer rights and interests, and providing transparent and effective consumer appeal procedure for its products and services.	The Company has set a dedicated division specifically for customer services, which can promptly handle customer's problems and has dedicated personnel to take care of customer complaints.	No significant variance

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
(5) The status of the cooperation between the Company and its suppliers for joint elevation of their corporate social responsibility.	The Company's procurement policy focuses on purchase of an appropriate quantity of raw materials at a proper price in due time, so production operation can be smoothly carried out. When purchasing, the Company shall follow the regulations to give priority to the qualified suppliers, and the procedure of price enquiry, comparison and negotiation shall be implemented in order to ensure rationality of the purchase price. Furthermore, a fluent communication channel between the Company and its suppliers shall be maintained, so, both sides can protect their deserved and reasonable rights and interests under reciprocation.	No significant variance
(6)The status of the Company's participation in community development and charity activities through business activities, donations in kind, corporate volunteer services, or other free professional services.	The Company has aggressively participated in charity activities. It has set up "donation boxes" and periodically held charity activities to help underprivileged children. In addition, the Company also donated "E-beam scanning microscope equipment eScan310" to National Chiao Tung University for them to develop advanced semiconductor process, materials and related engineering technologies, in the hope of reinforcing the development of Taiwan's high-tech industry. The Company also aggressively participated in the "high-tech industry international financial management credit program" sponsored by the Financial Supervisory Commission of Executive Yuan, which provided participating graduate students with visit activities, e.g. offering field visits and professional intern courses at Chiao Tung University, Changhua University of Education, Kaohsiung First University of Science and	No significant variance

<table>
<tr><th>Item</th><th>Operation status</th><th>Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons</th></tr>
<tr><td></td><td>Technology and Soochow University. It is hoped that, by combining practice and theory, the Company will cultivate prominent professional talents required by the industry.</td><td></td></tr>
<tr><td>4. Reinforcement of information disclosure
(1) The way that the Company discloses the data related to its relevant and reliable corporate social responsibility.</td><td>The Company has disclosed its execution status of its relevant and reliable social responsibility in its annual report and prospectus.</td><td>No significant variance</td></tr>
<tr><td>(2) The status of the Company’s preparation of its corporate social responsibility report and disclosure of its corporate social responsibility promotion.</td><td>The Company has yet to prepare its corporate social responsibility report, but it will prepare it in the future as required in practice, so as to strengthen disclosure of its promotion of corporate social responsibility.</td><td>No significant variance</td></tr>
<tr><td colspan="3">5. If the Company has set up its corporate social responsibility best practice principles in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company”, please describe the difference between the operation and the instituted principles:
The Company has already set up its corporate social responsibility best practice principles and has continued to aggressively carry out its corporate social responsibility.
6. Other important information which may help understand the operation of corporate social responsibility (e.g. the systems and measures taken by the Company for its environmental protection, community participation, society contribution, social services, social welfare programs, protection of consumer rights and interests, human rights and safety as well as health and implementation of other activities related to social responsibility, and the fulfillment status):
In response to environmental protection, the Company has requested its employees to try to use e-mail documents instead of paper documents, reuse unneeded documents by making the best use of blank sides. In addition, it has long fulfilled its social responsibility and worked on social welfare programs, while making contribution to the public in due time.</td></tr>
<tr><td colspan="3">7. If the Company’s products or corporate social responsibility report have measured up to the standards set by related inspection agencies, please describe the detail: not applicable</td></tr>
</table>

7. Status of the Company's fulfillment of integrity operating:

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
1. Set up integrity operating policies and schemes (1) The integrity operating policies explicitly indicated in the Company's regulations and documents for outsiders, and the status of aggressive fulfillment of the commitment made by the board of directors and the management.	The Company has a director's conflict of interest recusal system in its "rules of procedure for board of directors meetings", for which if a director or the Company that the director represents has any conflict of interest with the bill listed by the board of directors which may lead to damage to the Company's interests, or if a director thinks that he or she should enter recusal and the board of directors also resolves that the director should enter recusal, the director may give his or her opinions and answer questions, but cannot join discussion and resolution, while he or she shall enter recusal during the discussion and resolution. Furthermore, the director also cannot represent any other director to exercise the voting right.	No significant variance
(2) The status of the Company's institution of the scheme for prevention of dishonest behavior, and the execution status of the scheme's operation procedure, behavior guidelines and educational training, etc.	In order to prevent dishonest behavior, the Company's internal material information dedicated unit will pay attention to requirements of related laws and regulations, and provide its directors, managers and employees with the updated information.	No significant variance
(3) For the scheme set up by the Company for prevention of dishonest behavior, what are the measures taken by the Company for prevention of giving and receiving bribes and offering illegal political donations in the operating activities having a higher risk in conducting dishonest	The Company has periodically provided its directors, managers, employees and substantive controllers with educational training and promoted the activity, whereas it has also invited those counterparties having the business relationship with the Company to participate in such activity so as to make them fully understand the Company's	No significant variance

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
behavior within the operating scope.	resolution to operate business with integrity, its policies and prevention schemes, and the consequence of violation of the integrity behavior.	
2. Fulfillment of integrity operating (1) The status of the Company's avoiding having any business relationship with those that have the records of dishonest behavior, and specifically putting an integrity behavior clause in its business contracts.	In their employment period and after their departing from the Company, the Company's employees shall sign the "employment contract" and "ex-service personnel non-disclosure confirmation statement" respectively, abide by the "regulations governing customer business information protection and management" and commit their liabilities and obligations for protection of trade secrets and business information, so as to carry out integrity operating.	No significant variance
(2) The status of the operation of the dedicated (or part-time) unit for corporate integrity promotion, and supervision from the board of directors.	The Company's personnel in its administrative management division are responsible for promoting corporate integrity operating related issues.	No significant variance
(3) The operation status of the conflict of interest prevention policy set up by the Company and provision of proper channels for opinion expression.	In order to enhance operation efficiency and effects and reinforce interactions among the Company's employees, investors and other interested parties, in addition to adding a stockholder box to its corporate website, the Company has also set up a "communication" area on its internal website to offer a proper channel for opinion expression.	No significant variance
(4) The status of the operation of the effective accounting system and internal control system set up by the Company in order to carry out its integrity operating, and the auditing conducted by the Company's internal audit	In order to ensure its operating effects and efficiency, reliability of its financial reports and compliance with related laws and regulations, the Company has set up its accounting system and internal control system, so as to carry out its integrity operating spirit.	No significant variance

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
personnel.		
3. The operation status of the reporting channel, and the award and punishment as well as appeal system included in the integrity operating violation regulations set up by the Company.	The Company has set up its "employee work rules", with which, the employees are requested to follow the integrity principles in their business execution, whereas the award and punishment system has also been included in the rules to discipline employee's violation of integrity operating.	No significant variance
4. Enhancement of information disclosure (1) The status of the Company's setting up its website to disclose its integrity operating related information	The Company has already set up an "investor relations" area on its corporate website, and put a "corporate governance" section under the area to disclose integrity operating related information.	No significant variance
(2) Other ways adopted by the Company to disclose its information (e.g. set up an English website, designate dedicated personnel to collect the Company's information and disclose it by posting it on the Company's website, etc.)	The Company has already set up an "investor relations" area on its corporate website for disclosure of its information and convenience of making enquiries.	No significant variance
5. If the Company has set up its integrity operating principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", please describe the difference between the operation and the instituted principles: The Company has already set up its integrity operating principles and has continued to aggressively abide by the principles.		
6. Other important information which may help understand the Company's integrity operating status (e.g. the Company's promotion of its integrity operating resolution and policies to those that have the business relationship with the Company, inviting them to participate in the Company's educational training and reviewing as well as modifying its integrity operating principles): The Company has set up the "management operation procedures for handling material information and preventing insider trading" as the reference for handling its material information processing and disclosure mechanisms so as to avoid improper information leakage, ensure consistency and accuracy of the information externally released, and reinforce prevention of insider trading. The Company's internal information dedicated unit will keep inspecting the operation procedure to make sure its compliance with laws and regulations and the demand for practical management. When instituting the procedure or		

Item	Operation status	Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and reasons
conducting ensuing revisions, the Company will notify all of its employees by e-mail, and place the details on the Company’s internal website for managers and employees to review at any time. In addition, when giving new entrants orientation training, the Company will provide the courses regarding handling of material information and prevention of insider trading for promoting the issue. Furthermore, the Company will also non-periodically offer the related information to the Company internal personnel.		

8. In the case that the Company has already set up its corporate governance principles and other related regulations, the enquiry method shall be disclosed.

The Company has already set up its internal control system, internal auditing system and a variety of management regulations, for which the audit personnel and external professionals (such as the CPA) will non-periodically give a random check on the execution status. In addition, a corporate website has also been set up for the public to better understand the Company. At the same time, the Company’s material financial and business information has all been disclosed on the public information website by law in a timely manner for the general investors to review. Furthermore, the Company also discloses the status of its execution of social responsibility in its annual report and prospectus.

9. Other important information which may enhance the understanding about the Company’s governance operation status: Nil

10. For implementation status of the internal control system, the following matters shall be disclosed:
   (1) Internal control system: Please refer to P. 94 of this year’s annual report.
   (2) Those that entrust the CPA to audit the internal control system shall disclose the CPA’s auditing report: Nil

11. The punishment imposed on the Company and its internal personnel by law and the Company’s punishment on its internal personnel who violated the internal control system regulations in the latest year and as of the date of printing of the annual report, and major defects as well as improvement status: Nil

12. Major resolutions and execution status adopted by shareholders’ meetings and board meetings in the latest year and as of the date of printing of the annual report:

(1) Major resolutions adopted by shareholders' meetings:

Meeting date	Major resolutions
June 4, 2013	1. Adoption of the 2012 business report and financial statements. Execution status: the resolution was adopted 2. Adoption of the 2012 earnings distribution Execution status: the resolution was adopted and the execution was completed as resolved by the shareholders' meeting. 3. Revision of the "Management regulations of lending capital to others". Execution status: the resolution was adopted and the execution was completed as resolved by the shareholders' meeting. 4. Revision of the "Endorsement and guarantee management regulations" Execution status: the resolution was adopted and the execution was completed as resolved by the shareholders' meeting. 5. Planned to process local seasoned equity offering in installments or at a time and/or participate in issuance of the overseas depositary receipt by issuing new shares through seasoned equity offering. Execution status: the resolution was adopted and the placement was completed as resolved by the shareholders' meeting.

(2) Major resolutions adopted by board meetings:

Meeting date	Major resolutions
Feb. 26, 2013	1. The Company's 2012 business report and financial report (including the consolidated financial report). 2. The Company's 2012 earnings distribution. 3. Internal control system statement. 4. Appointment of the Company's financial head and spokesperson. 5. Holding of the Company's 2013 regular shareholders' meeting and handling of the issues related to the proposals from the shareholders holding more than 1% of the Company's shares. 6. Application to the Hsinchu Science Park Branch of Shin Kong Bank for short-term credit facilities. 7. Application to the Dongmen Branch of First Bank for short-term composite credit facilities
Apr. 10, 2013	1. Planned to process local seasoned equity offering in installments or at a time and/or participate in issuance of the overseas depositary receipt by issuing new shares through seasoned equity offering. 2. Added the cause for holding the 2013 regular shareholders' meeting
June 10, 2013	1. New construction of the factory at the Tainan Science Park. 2. Set the ex-div. base day for release of shareholders' cash bonus from the 2012 earnings. 3. Application to the Dongqiao Branch of Tai Hsin Bank for short-term composite credit facilities. 4. Application to the Hsinchu Science Park Zhucun Branch of Mega Bank for short-term composite credit facilities. 5. Application to the Hsinchu Branch of Chinatrust Bank for short-term composite credit facilities.

July 31, 2013	1. Planned to participate in issuance of the overseas depositary receipt by issuing 4 to 5 million shares of the common stock through seasoned equity offering. 2. The Company's original shareholders planned to participate in issuance of the overseas depositary receipt with the issued shares held by them. 3. Machine and equipment purchase 4. Spokesperson appointment. 5. Application to the Hsinchu Branch of Chang Hwa Bank for short-term composite credit facilities. 6. Recommendation for the 2012 director compensation. 7. Recommendation for 2013 managers' salary raise and bonus release.
Nov. 1, 2013	1. CPA replacement. 2. The Company's trans-investment. 3. Institution of the Company's 2014 audit plan. 4. Employee motivation plan. 5. Plan to retain key talent 6. Application to six branches of Bank of Taiwan for short-term composite credit facilities. 7. The Company planned to start its business relationship with Citibank Taiwan Ltd. (hereafter referred to as Citibank) and apply to it for composite credit facilities, and forex and derivative product trading credit lines.
Jan. 10, 2014	1. 2014 budget and business plan. 2. Recommendations for release of employees and managers' 2013 year-end bonuses. 3. Appointment of the spokesperson and deputy spokesperson. 4. Application to the Hsinchu Science Park Branch of Shin Kong Bank for extension of short-term credit facilities. 5. Application to the Hsinchu Science Park Branch of Taiwan Cooperative Bank for extension of short-term credit facilities
Feb. 25, 2014	1. The Company's 2013 business report and financial statements. 2. The Company's 2013 earnings distribution. 3. Amounts of the allocation for director compensation and employee bonus. 4. Revision of the Company's "Procedures Governing Asset Acquisition and Disposal". 5. Revision of the Company's "Articles of Incorporation". 6. Revision of the Company's "Compensation committee charter". 7. To elect nine Directors (including four independent directors). 8. Nomination and review of independent director candidates. 9. To Release the prohibition on Directors from participation in competitive busines. 10. Holding of the Company's 2014 regular shareholders' meeting and handling of the issues related to the proposals from the shareholders holding more than 1% of the Company's shares. 11. Internal control system statement

13. The major content of the different opinions having been recorded or declared in writing from any director or supervisor on major resolutions adopted by board meetings in the latest year and as of the date of printing of the annual report: Nil

14. Summary of resignation and dismissal status of financial report related personnel (including the chairman, president, accounting heads, financial heads, internal audit heads and R&D heads, etc.) in the latest year

and as of the date of printing of the annual report.

Position	Name	Date of Appointment	Date of Discharge	Reason of Resignation or Discharge
Financial Head	Lee, Hsueh-Han	Mar. 19, 2007	Mar. 1, 2013	In conjunction with the requirements for business management, as resolved by the board of directors on Feb. 26, 2013, Mr. Lee, Hsueh-Han has been transferred to be the special assistant to the Chairman specifically in charge of setting up business strategies and working on operation management.

15. The status about financial transparency related personnel’s acquisition of the certificates specified by the competent authorities:

    Out of the personnel in the Company’s financial division, one of them is a certificated public accountant (CPA) of the Republic of China, and one is a US CPA.

4. Information Regarding Fee for CPAs

The Name of the Office of CPA	The Name of the CPA		Audit Period	Remarks
PwC Taiwan	Cheng, Ya-Huei	Wang, Wei-Chen	Jan. 1, 2013～Sep. 30, 2013	
PwC Taiwan	Cheng, Ya-Huei	Lee, Tien-Yi	Oct. 1, 2013～Dec. 31, 2013	PwC firm internal adjustment
PwC Taiwan	Lee, Tien-Yi	Cheng, Ya-Huei	Jan. 1, 2014～Mar. 31, 2014	PwC firm internal adjustment

Table of Range of Information Regarding Fee for CPAs

Unit: NT$1,000

Range of fee \ Fee Item		Audit Fee	Non-Audit Fee	Total
1	Less than NT$2,000 thousand		V	
2	NT$2,000 thousand (including)～ NT$4,000 thousand			
3	NT$4,000 thousand (including)～ NT$6,000 thousand			
4	NT$6,000 thousand (including)～ NT$8,000 thousand			
5	NT$8,000 thousand (including)～ NT$10,000 thousand			
6	Over NT$10,000 thousand (including)	V		V

(1) Those that have paid more than 25% of their total audit fee to the CPA or the firm of the CPA or those whose affiliated enterprises' non-audit fee is more than 25% of their total audit fee shall disclose the amounts of their audit fee and non-audit fee and the content of their non-audit services: Nil

(2) Those that have replaced their accounting firm and had less amount of their audit fee in the year after the replacement compared to the year prior to the replacement shall disclose the amounts of their audit fee incurred in the year prior to replacement and the year after replacement, and the reason for the decrease: Nil

(3) Those whose audit fee reduced by more than 15% from the previous year shall disclose the amount and ratio of the decrease and the reason for it: Nil

5. Information on CPA replacement

1. Regarding the former CPA

<table>
<tr><td>Replacement date</td><td colspan="4">Nov. 1, 2013</td></tr>
<tr><td>Replacement reason and explanation</td><td colspan="4">The Company’s original CPAs were Cheng, Ya-Hui and Wang Wei-Chen at PwC Taiwan. Due to internal personnel adjustment of PwC Taiwan, the Company’s CPAs have become Cheng, Ya-Hui and Lee, Tien-Yi since the 3rd quarter of 2013.</td></tr>
<tr><td rowspan="3">Explain whether the appointer or the CPA terminated or refused renewal of the appointment.</td><td colspan="2">Parties concerned / Condition</td><td>CPA</td><td>Appointer</td></tr>
<tr><td colspan="2">Terminate the appointment</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="2">Refuse renewal of the appointment</td><td>N/A</td><td>N/A</td></tr>
<tr><td>The opinions of the auditor’s report beyond the unqualified opinion issued over the past two years and the reasons</td><td colspan="4">A modified unqualified opinion was issued in 2012 – to emphasize a matter.</td></tr>
<tr><td rowspan="7">Are there any opinions different from those of the issuer?</td><td rowspan="5">Yes</td><td></td><td colspan="2">Accounting principles or practices</td></tr>
<tr><td></td><td colspan="2">Disclosure of financial reports</td></tr>
<tr><td></td><td colspan="2">Audit range or steps</td></tr>
<tr><td></td><td colspan="2">Other</td></tr>
<tr><td></td><td colspan="2"></td></tr>
<tr><td>None</td><td colspan="3">V</td></tr>
<tr><td colspan="4">Description</td></tr>
<tr><td>Other disclosure matters
(The details prescribed by Point 4 of Item 1of Subparagraph 5 of Article 10 of the Standards shall be disclosed)</td><td colspan="4">None</td></tr>
</table>

2. Regarding the successor CPA

Name of CPA Office	PwC Taiwan
Name of CPA	Cheng, Ya-Huei, Lee, Tien-Yi
Date of Appointment	Nov. 1, 2013
Enquiry made prior to the appointment for the specific trading’s accounting handling method or accounting principle and the opinions on possible issuance of the financial report, and the results	No such condition
Different opinions in writing from the successor CPA against the former CPA	No such condition

3. Letter from the former CPA to respond to the matter prescribed by Item 1 and 2-3 of Subparagraph 5 of Article 10 of the Standards: N/A.

6. For the Company's chairman, president and managers in charge of financial and accounting affairs, and those who worked in the firm or affiliated enterprise of the CPA in the latest year, their names, titles and duration working in the firm or affiliated enterprise of the CPA shall be disclosed: Nil.

7. The status of equity transfer and change in equity pledge by directors, supervisors, managers and the shareholders holding more than 10% of the Company's shares as of the latest year and the date of printing of the annual report:

(1) The status of equity transfer of directors, supervisors, managers and the major shareholders

Unit: shares

Position	Name	2013		As of Apr. 8, 2014	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Chairman	Shu, Chin-Yung	(161,000)	—	(15,000)	—
Director & President	Jack Y. Jau	—	—	—	—
Juristic Person Director	Hermes-Epitek Corp.	(2,075,000)	—	—	—
Representative of Juristic Person Director	Hwang, Ming-Chi	(1,000,000)	—	—	—
Director	Yang, Chyan	—	—	—	—
Independent Director	Tu, Huai-Chi	—	—	—	—
Independent Director	Hu, Han-Liang	—	—	—	—
Independent Director	Liang, Kai-Tai	—	—	—	—
Vice President of Finance & Administration	Lee, Hsueh-Han (Note 1)	—	—	—	—
Vice President of Global Business Center	Su, Yung-Hang (Note 2)	(11,000)	—	(2,000)	—
Vice president of finance Center	Shen, Hsiao-Lien (Note 2)	—	—	—	—
Vice president of Research and Development	Lin, Wen-Sheng (Note 3)	—	—	—	—

<table>
<tr><th rowspan="2">Position</th><th rowspan="2">Name</th><th colspan="2">2013</th><th colspan="2">As of Apr. 8, 2014</th></tr>
<tr><th>Change in Shareholding</th><th>Increase (decrease) on Pledged Shares</th><th>Change in Shareholding</th><th>Increase (decrease) on Pledged Shares</th></tr>
<tr><td>Vice president of New Business and Development</td><td>Hu, Jui-Ching (Notes 3 & 4)</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
</table>

Note 1: Resigned on Mar. 1, 2013.
Note 2: Promoted on Mar. 1, 2013.
Note 3: Promoted on Apr. 29, 2013.
Note 4: Resigned on Jan. 20, 2014.

(2) The information on the fact that the counterparty of equity transfer from the director, supervisor, manager or stockholder holding more than 10% of the Company’s shares is the related party: Nil.

(3) The information on the fact that the counterparty of equity pledge by the director, supervisor, manager and stockholder holding more than 10% of the Company’s shares is the related party: Nil

8. Information on the fact that the top 10 shareholders are the related parties of each other, in a spousal relationship or within 2nd level of kinship as referred to in the International Accounting Standard No. 24.

Apr. 8, 2014

<table>
<tr><th rowspan="2">Name</th><th colspan="2">Holding share</th><th colspan="2">Holding share of spouse and minor children</th><th colspan="2">Shares held by means of another party’s name</th><th colspan="2">Names and relationship of any of the top ten shareholders being a related party as defined in statement of International Accounting Standard No. 24 or spouse or relatives within 2nd degree of relationship</th><th rowspan="2">Remarks</th></tr>
<tr><th>Number of Shares</th><th>Rate of holding share</th><th>Number of Shares</th><th>Rate of holding share</th><th>Number of Shares</th><th>Rate of holding share</th><th>Name</th><th>Relationship</th></tr>
<tr><td>Hermes-Epitek Corp.
Responsible person: Hwang, Ming-Chi</td><td>7,105,000</td><td>10.01</td><td>—</td><td>—</td><td>—</td><td>—</td><td>Hwang, Ming-Chi</td><td>Responsible person of Hermes-Epitek Corp.</td><td></td></tr>
<tr><td rowspan="2">Shan Chun Investment Co., Ltd.
Responsible person: Juan, Ping-Chung</td><td rowspan="2">4,410,000</td><td rowspan="2">6.21</td><td rowspan="2">—</td><td rowspan="2">—</td><td rowspan="2">—</td><td rowspan="2">—</td><td>Hung Te Investment Co., Ltd.</td><td rowspan="2">Spouse of responsible person of Shan Chun Investment Co., Ltd.</td><td rowspan="2"></td></tr>
<tr><td>Sheng Hsi Investment Co., Ltd.</td></tr>
<tr><td>DR Account of Hermes Microvision Inc. in BNY Mellon, U.S.A.</td><td>3,812,087</td><td>5.37</td><td></td><td></td><td></td><td></td><td>—</td><td>—</td><td></td></tr>
<tr><td>Han Hsin Investment Co., Ltd.
Responsible person: Wu, Ying-Lin</td><td>2,965,000</td><td>4.18</td><td></td><td></td><td></td><td></td><td>—</td><td>—</td><td></td></tr>
<tr><td rowspan="2">Sheng Hsi Investment Co., Ltd.
Responsible person: Chen, Li-Kuei</td><td rowspan="2">2,937,000</td><td rowspan="2">4.14</td><td rowspan="2"></td><td rowspan="2"></td><td rowspan="2"></td><td rowspan="2"></td><td>Hung Te Investment Co., Ltd.</td><td>The same responsible person</td><td rowspan="2"></td></tr>
<tr><td>Shan Chun Investment Co., Ltd.</td><td>Spouse of the responsible person, Shen Hsi Investment Co., Ltd.</td></tr>
</table>

Name	Holding share		Holding share of spouse and minor children		Shares held by means of another party's name		Names and relationship of any of the top ten shareholders being a related party as defined in statement of International Accounting Standard No. 24 or spouse or relatives within 2nd degree of relationship		Remarks
	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Name	Relationship	
Hung Te Investment Co., Ltd. Responsible person: Chen, Li-Kuei	2,894,000	4.08					Sheng Hsi Investment Co., Ltd.	The same responsible person	
							Shan Chun Investment Co., Ltd.	Spouse of the responsible person, Hung Te Investment Co., Ltd.	
Hwang, Ming-Chi	1,973,000	2.78	1,486,000	2.09			Hermes-Epitek Corp.	Responsible person	
Han Hsin Investment Co., Ltd. Responsible person: Pieh, Feng-Hua	1,902,000	2.68							
B.V.I. Chin Tsai Co., Ltd. Director：Gary Wong	1,729,000	2.44							
Jack Y. Jau	1,620,000	2.28		—	—	—	—	—	

9. The shares of a same trans-investment business held by the Company, its directors, supervisors, managers and the business directly or indirectly controlled by Company, and details of consolidated shareholding ratios:

Dec. 31, 2013; Unit: share; %

Trans-investment business	The company's investment		Investments of directors, supervisors, managers and the business directly or indirectly controlled by Company		Syndicated Investments	
	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share
Hermes Microvision, Inc.(USA)	61,785,000	93.95%	27,500	0.04%	61,812,500	93.99%
HMI Holdings Inc.	5,955,088	100.00%	—	—	5,955,088	100.00%
Hermes Microvision Korea Inc.	500	100.00%	—	—	500	100.00%
Hermes Microvision Japan Inc.	2,980	100.00%	—	—	2,980	100.00%
Ansing International LLC.	(Note)	100.00%	(Note)	—	(Note)	100.00%
Hermes Microvision Co., Ltd. (Beijing)	(Note)	100.00%	(Note)	—	(Note)	100.00%

Note: Refers to a limited company, no number of Shares held.

IV. Capital raising status

1. Capital and Stocks

(1) Sources of Capital Stock

i. Capital Stock Formation

Unit: 1,000 shares: NT$1,000

Period	Price at issuance	Authorized capital		Paid in capital		Remarks		
		Number of Shares	Amount (NT$)	Number of Shares	Amount (NT$)	Sources of Capital Stock	Non-cash assets in lieu of stock payments	Other
May 2003	10	100	1,000	100	1,000	Set up capital NT$1,000,000	—	Note 1
May 2004	10	50,000	500,000	50,000	500,000	Increased the capital by NT$ 499,000,000 through seasoned equity offering	—	Note 2
Oct. 2007	10	120,000	1,200,000	78,000	780,000	Increased the capital by NT$280,000,000 through the seasoned equity offering	—	Note 3
July 2008	10	120,000	1,200,000	41,000	410,000	Reduced the capital by NT$650,000,000 for making up losses and increasing the capital by NT$280,000,000 through seasoned equity offering	—	Note 4
Nov. 2010	40	120,000	1,200,000	60,000	600,000	Increased capital by NT$190,000,000 through seasoned equity offering	—	Note 5
May 2012	208	120,000	1,200,000	66,000	660,000	Increased capital by NT$60,000,000 through seasoned equity offering	—	Note 6
Nov. 2013	860	120,000	1,200,000	71,000	710,000	Increased capital by NT$50,000,000 through seasoned equity offering	—	Note 7

Note 1: Approved by doc. number Ching-shou-chung-tzu-ti-09232087440 on May 19, 2003.
Note 2: Approved by doc. number Yuan-shang-tzu-ti-0930013338 on May 21, 2004.
Note 3: Approved by doc. number Yuan-shang-tzu-ti-0960028831on Oct. 24, 2007.
Note 4: Approved by doc. number Yuan-shang-tzu-ti-0970020221 on July 21, 2008.
Note 5: Approved by doc. number Yuan-shang-tzu-ti-0990034911 on Nov. 18, 2010.
Note 6: Approved by doc. number Ching-shou-shang-tzu-ti-10101096060 on May 28, 2012.
Note 7: Approved by doc. number Ching-shou-shang-tzu-ti-10201240440 on Nov. 26, 2013.

ii. Type of Stock

Apr. 8, 2014; Unit: shares

Type of Stock	Authorized capital			Remarks
	Outstanding stock	Unissued stock	Total	
Common Stock	71,000,000	49,000,000	120,000,000	OTC stocks

(2) Stockholder Structure

Apr. 8, 2014; shares; %

Stockholder structure / volume	Government institution	Banks	Other juristic person	Individuals	Foreign institutions and foreigners	Total
Number of persons	0	4	99	747	496	1,346
Number of holding share	0	125,000	26,237,588	6,766,411	37,871,001	71,000,000
Ratio of holding share	0.00	0.18	36.95	9.53	53.34	100.00

(3) Equity Distribution

Apr. 8, 2014

Holding share classification	Number of shareholders	Holding share	Ratio of holding share (%)
1 ~ 999	195	14,252	0.02
1,000 ~ 5,000	669	1,156,837	1.63
5,001 ~10,000	113	887,546	1.25
10,001 ~15,000	56	720,674	1.02
15,001 ~20,000	37	662,888	0.93
20,001 ~30,000	45	1,149,721	1.62
30,001 ~40,000	44	1,602,496	2.26
40,001 ~50,000	25	1,117,798	1.57
50,001 ~100,000	62	4,363,096	6.15
100,001 ~200,000	46	6,475,018	9.12
200,001 ~400,000	31	8,800,696	12.40
400,001 ~600,000	4	1,906,467	2.69
600,001 ~800,000	2	1,335,330	1.88
800,001 ~1,000,000	—	—	—
Over 1,000,001	17	40,807,181	57.46
Total	1,346	71,000,000	100.00

(4) Major Shareholders

All shareholders with a stake of 5 percent or greater, or the names of the top ten shareholders, specifying the number of holding shares and ratio held by each stockholder on the list:

Apr. 8, 2014

shares / Major shareholders	Holding share	Ratio of holding share (%)
Hermes-Epitek Corp.	7,105,000	10.01
Shan Chun Investment Co., Ltd.	4,410,000	6.21
DR Account Of Hermes Microvision Inc. In BNY Mellon	3,812,087	5.37
Han Hsin Investment Co., Ltd.	2,965,000	4.18
Sheng Hsi Investment Co., Ltd.	2,937,000	4.14
Hung Te Investment Co., Ltd.	2,894,000	4.08
Hwang, Ming-Chi	1,973,000	2.78
Han Hsin Investment Co., Ltd.	1,902,000	2.68
B.V.I. Chin Tsai Co., Ltd.	1,729,000	2.44
Jack Y. Jau	1,620,000	2.28

(5) Stock Market Prices, Net Values, Earnings, Dividends, and Related Information

Unit: NT$; 1,000 shares:

Item/Year			2012	2013	Mar. 31, 2014
Market value per share	High		652	1,040	1,265
	Low		265	505	860
	Average		423.36	798.48	1,056.41
Net value per share	Before appropriation		59.70	136.54	—
	After appropriation (Note 1)		47.70	120.54	—
EPS	Weighted average shares		64,989	66,780	71,000
	EPS (Note2)	Before adjustment	23.34	35.09	—
		After adjustment	23.34	35.09	—
Dividend per share	Cash dividend		12.00	16.00	—
	Stock dividend issuance	Shares allocated from earnings	—	—	—
		Stocks for capital reserve	—	—	—
	Unpaid stock dividend accumulated (Note 3)		—	—	—
ROI analysis	P/E ratio (Note 4)		18.14	22.76	—
	Dividend ratio (Note 5)		35.28	49.905	—
	Yield of cash dividend (Note 6)		0.03	0.02	—

Note 1: The status of 2013 earnings distribution which will be determined by the resolution to be made in the shareholders’ meeting.

Note 2: For those that are required to be retroacted and adjusted as a result of the stock dividend issuance, the EPS before and after adjustment shall be listed.

Note 3: For equity securities, if the release terms require that the unreleased stock dividend of the year in question shall be accumulated and not be released until the year having surplus, the unpaid stock dividend accumulated as of the year in question shall be disclosed

respectively.

Note 4: P/E ratio = each share's average closing price of the year in question / EPS

Note 5: Dividend ratio = each share's average closing price of the year in question / each share's cash dividend

Note 6: Yield of cash dividend = each share's cash dividend / each share's average closing price of the year in question.

(6) The Company's dividend policy and its execution status:

i. The dividend policy prescribed by the Company's Articles of Incorporation:

According to the Company's Articles of Incorporation, if the Company has surplus left from its annual settlement of accounts, it shall first allocate the amount for accrued taxes, cover past losses and set aside 10% of the remaining surplus as the legal surplus reserve, followed by allocating no more than 1% of the balance as director compensation and no less than 1% of the amount as employee bonus. The distribution of employee stock dividend shall cover the employees of the Company's subordinate companies meeting specific terms set up by the board of directors. For the distribution of the remaining dividend, the board of directors shall follow the dividend policy prescribed by Paragraph 2 of Article 20 of the Article of Incorporation to propose the earnings distribution which shall be resolved by the shareholders' meeting.

The industry we are in is still in its growth period. In conjunction with the industry's entire environment and characteristics, along with the Company's sustainable operating and pursuit for shareholders' long-term interests, the Company will take into account the actual operating status of the dividend release year and its next year's capital budget planning before working on distribution of shareholders' dividend, and will combine stock dividend and cash dividend for its dividend distribution, in which cash dividend shall not be less than 10% of the total stockholder's bonus amount.

ii. The dividend distribution planned to be discussed in this time of shareholders' meeting:

As proposed by the board of directors for the 2013 earnings distribution on Feb. 25, 2014, the details are as below:

	2013	
	Amount	
10% Legal reserve	$	234,360,035
Cash dividends		1,136,000,000
Compensation of directors and supervisors		4,800,000
Employee cash bonus and profit sharing		91,131,950
Total	$	1,466,291,985

The aforesaid 2013 earnings distribution proposal will be processed as regulated after being adopted by the 2014 regular shareholders' meeting.

(7) Effects of the stock dividend issuance on Company Operating Performance and Earnings Per Share, as Resolved in the Shareholders' Meeting Resolution: Not Applicable

(8) Employee Bonus & Compensation of Directors and Supervisors

i The percentages or range of the employee bonus and compensation of directors and supervisors stated in the Article of Incorporation:

According to the Company's Articles of Incorporation, if the Company has surplus left from its annual settlement of accounts, it shall first allocate the amount for accrued taxes, cover past losses and set aside 10% of the remaining surplus as the legal surplus reserve, followed by allocating no more than 1% of the balance as director compensation and no less than 1% of the amount as employee bonus. The distribution of employee stock dividend shall cover the employees of the Company's subordinate companies meeting specific terms set up by the board of directors. For the distribution of the remaining dividend, the board of directors shall follow the dividend policy prescribed by Paragraph 2 of Article 20 of the Article of Incorporation to propose the earnings distribution which shall be resolved by the shareholders' meeting.

ii. If the actually distributed amount has any difference from the amount estimated for the current period's employee bonus and director and supervisor compensation and calculated according to distribution of the shares of the stock bonus, it will be handled as follows:

For the expected costs of employee bonus and director and supervisor compensation, they shall be recognized as expenses and liabilities when they are with legal or constructive obligation and the amounts can be reasonably estimated. When the actual distribution amount resolved by the shareholders' meeting later on has any difference from the estimated amount, the difference shall be listed in the next year's income statement.

iii. Information on the employee bonus proposal adopted by the board of directors:

(1) For any difference of the amounts of employee cash bonus, stock bonus and director and supervisor compensation from the ones estimated in the year in which the expenses are recognized, the difference amounts, reasons and handling status shall be disclosed:

The Company's 2013 earnings distribution was adopted by the board of directors on Feb. 25, 2014, in which the total employee cash bonus was NT$91,131,950 and total director compensation was NT$4,800,000. The aforesaid director compensation is NT$4,313,196 less than the estimate listed in the 2013 account book. The difference will be handled according to the change in accounting estimation and listed in the 2014 income statement. In the case that the Company repurchases its shares, transfers or cancels its treasury shares, converts its convertible corporate bonds, exercises the share option or gives seasoned equity offering later on, which lead to change in the number of outstanding shares and the stockholder dividend rate, a proposal will be submitted to the board of shareholders for authorizing the board of director to handle the issue with full authority.

(2) The employee stock bonus amount planned to be distributed and the ratio of it to the amount of current period's net income after tax plus employee bonus:

As adopted by the board of directors on Feb. 25, 2014, the employee bonus to be distributed will be the cash bonus.

(3) The EPS calculated after taking employee bonus and director and supervisor compensation to be distributed into account:

The employee bonus and director compensation have all been with expenditure-basis, and after being resolved by the shareholders' meeting for the actual distribution amount, the difference from the estimated amount will be deemed as change in accounting estimation and listed in the 2014 income statement, so there will be no significant impact on the EPS.

iv. If the employee bonus and director and supervisor compensation (including the number, amount and price of distributed shares) actually distributed in the previous year have any difference from the recognized employee bonus and director and supervisor compensation, the difference amount shall be indicated and the reasons and handling status shall also be described:

Unit: NT$

Item of distribution	The amount distributed resolved by board of shareholders	The amount and the estimated figure for the fiscal year these expenses are recognized	Amount of difference	Reasons for the difference and handling status
Employee cash bonus	59,773,662	59,773,662	-	-
Compensation of directors	3,200,000	5,977,366	2,777,366	The difference resulted from the inconsistent calculation basis between originally estimated expenses and actually released amount. After being adopted by the shareholders' meeting, the difference was handled according to change in estimation and listed in the 2013 income statement

(9) The Company's repurchase of its shares: Nil

2. Issuance of corporate bonds: Nil
3. Issuance of preferred stock: Nil

4. Status of overseas depositary receipt

Description \ Date issued (processed)	Nov. 12, 2013		
Date issued (processed)			Nov. 12, 2013
Place of issuance and transaction			Luxembourg Stock Exchange
Total amount of issued certificates			USD291,700,000
Price on issuance per unit			USD29.17
Total units issued			10,000,000 units
Source of negotiable securities recommendation			The Company's common stock issued by seasoned equity offering and the participation in issuance from the existing shareholders holding the issued shares.
Volume of negotiable securities recommendation			10,000,000 shares
Rights and obligations of the depositary receipt bearer			The same as the original common shares issued
Depository			none
Depository bank			BNY Mellon, U.S.A.
Custodian bank			Mega International Commercial Bank
Remaining unredeemed certificates non-exchange balance (Mar. 31, 2014)			3,812,087 units
Amortization of the issuance and validity period related fees			Issuance expenses: they shall be shared by the issuance company and the shareholders selling the shares Expenses incurred from the duration period: They shall be paid by the issuance company.
Key provisions of depository contract and custodian contract			See the details of depository contract and custodian contract
Market price per unit	2013	High	USD32.48
		Low	USD29.76
		Average	USD31.32
	As of Apr. 10, 2014	High	USD48.35
		Low	USD28.47
		Average	USD35.83

5. **Process of employee stock warrants: Nil**
6. **Issuance of restricted shares for employees: Nil**
7. **New share issuance for acquisition or assigned shares: Nil**
8. **Use of proceeds**

The securities which were issued or privately placed previously but the issuance has yet to be completed or has been completed in the last three years but the expected effects have yet to show up:

(1) 2013 overseas depositary receipt

1. Plan content

i. Date approved by the industry competent authorities and doc. ref. No.: Approved by the Financial Supervisory Commission on Sep. 3, 2013 via the doc. ref. Chin-Kuan-Cheng-Fa-Tzu No. 1020034994.

ii. Total amount of the capital required for this plan: NT$4,500,000 thousand.

iii. Capital sources: issuance of 5,000,000 units of the overseas depositary receipt (in recognition of 5,000,000 shares of common stock) for a total of USD145,850 thousand which is equivalent to NT$ 4,300,000 thousand (based on the exchange rate of USD 1 = NT$29.48). The deficiency of the capital required by the plan will be made up by the Company's owned funds or other ways.

iv. The issuance and placement of this plan were finished on Nov. 12, 2013 and the information has been put on the Market Observation Post System.

v. The Plan's items and expected execution schedule are as below:

Unit: USD1,000; NT$1,000

Plan's items	Expected date of completion	Amount required		Expected execution schedule of funds												
				2013	2014				2015				2016			
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Introduce new products and technologies R&D project	Q4 of 2016	USD	150,000	10,900	12,700	12,800	13,800	11,100	12,400	9,400	10,200	10,200	11,100	11,100	12,100	12,200
		NT$ equivalent (Note)	4,500,000	327,000	381,000	384,000	414,000	333,000	372,000	282,000	306,000	306,000	333,000	333,000	363,000	366,000
Total		USD	150,000	10,900	12,700	12,800	13,800	11,100	12,400	9,400	10,200	10,200	11,100	11,100	12,100	12,200
		NT$ equivalent (Note)	4,500,000	327,000	381,000	384,000	414,000	333,000	372,000	282,000	306,000	306,000	333,000	333,000	363,000	366,000

Note: Exchange Rate of USD to NT$ (1:30)

vi. Expected effects:

The EBI produced by the Company falls in the mid-stream of the entire semi-conductor industry. By integrating the components of precision machinery, E&M control, electronic optical imaging, IPC, etc. from the up-stream suppliers, the Company has developed EBI to upgrade its future profitability. The increase of its annual sales value, gross profit margin and operating profit is estimated as the table below:

Unit: NT$1,000

Plan's items	Year	Sales value	Gross profit margin	Operating profit
New product and technology development project	2014	6,150,000	3,997,500	2,460,000
	2015	6,723,000	4,571,640	3,025,350
	Total	12,873,000	8,569,140	5,485,350

Note: Estimated capital Payback period: about 1.67 years

2. Execution status

i. Capital execution schedule

Unit: USD1,000; NT$1,000

Plan's items	Execution status		Q1 of 2014		As of Q1 of 2014		Reasons for ahead of or behind schedule and improvement plan
			USD	NT$ equivalent (Note)	USD	NT$ equivalent (Note)	
New product and technology development project	Disbursement amount	Expected	12,700	381,000	23,600	708,000	As affected by customer demand, the overall product conversion schedule was slightly adjusted, which resulted in revision of related schedules. However, as a whole, the adjusted schedule does not have significant difference from the annual expected schedule.
		Actual	16,859	505,770	25,154	754,620	
	Execution schedule (%)	Expected	8.47%	8.47%	15.73%	15.73%	
		Actual	11.24%	11.24%	16.77%	16.77%	
Total	Disbursement amount	Expected	12,700	381,000	23,600	708,000	
		Actual	16,859	505,770	25,154	754,620	
	Execution schedule (%)	Expected	8.47%	8.47%	15.73%	15.73%	
		Actual	11.24%	11.24%	16.77%	16.77%	

Note: Exchange Rate of USD to NT$ (1:30)

For the Company's participation in issuance of the overseas depositary receipt by issuing new shares through seasoned equity offering in 2013, the placement was finished on Nov. 12, 2013, for which the actually raised amount was USD143,662 thousand, which is equivalent to NT$4,309,860 thousand, and, as of March 31, 2014, the actual disbursement amount was USD25,154 thousand, which is equivalent to NT$754,620 thousand, representing a completion rate of 16.77%. It was slightly ahead of original schedule as a result of slight adjustment of the overall product conversion schedule as affected by customer demand, which led to ensuing revisions of related schedules. However, as a whole, the adjusted schedule does not have significant difference from the annual expected schedule. By randomly checking the related certificates, no material irregularities have been found.

ii. By comparing expected effects and actual completion progress, since the Company's new product and technology development project execution plan was slightly adjusted due to customer demand, the plan's effect achievement rate was also slightly adjusted accordingly. However, the schedule of the annual execution plan still remains unchanged. Hence, after sale of the trial products and launch of mass production, it is expected that the annual effects shall still be achieved as originally scheduled. The effects shown as of March 31, 2014 are as follows:

Unit: NT$1,000

Plan's items	Year		Sales value	Gross profit margin	Operating profit
New product and technology development project	2013	Expected	–	–	–
		Actual	187,036	121,573	74,814
	Q1of 2014	Expected	1,537,500	999,375	615,000
		Actual	202,726	131,772	81,090
	total	Expected	1,537,500	999,375	615,000
		Actual	389,762	13,036	253,345
		Effectiveness	25.35%	25.35%	25.35%

iii. Influence on shareholders' equity and improvement plan:

The ceiling of the common stock issued by this time of seasoned equity offering was 5,000 thousand shares, which diluted the original shareholders' shares by 7.04%. Even though this time of the Company's participation in issuance of the overseas depositary receipt by processing seasoned equity offering would slightly expand its capital, the capital raised from seasoned equity offering will be used to pay for the new product and technology development project. Thus, it is a requisite for the Company to keep its future profits growing and shall have a positive effect on shareholders' equity.

V. Operational Highlights

1. The business content

(1) Scope of business

1. The main operational contents

A. CB01010 Machinery and equipment manufacturing.

B. CC01080 Electronic components manufacturing.

C. I 501010 Product design.

D. Research, development, design, manufacturing and sale of the following products: E-beam wafer inspection equipment (E-beam Inspection Tool) and its technical support and services.

2. Revenue Breakdown

Unit: NT$1,000; %

Main products	2012		2013	
	Operating revenue	Operating revenue ratio	Operating revenue	Operating revenue ratio
E-beam Inspection Tool	4,040,672	97	5,035,270	94
Other	139,232	3	304,773	6
Total	4,179,904	100	5,340,043	100

3. Current company products (services)

A. eScan 300/310/315/320/500

B. eScan 380/Lite/400

C. Hot spot inspection series

D. eXplore

E. Supernova

4. New products (services) the Company plans to develop

A. Multi-column

B.Jupiter

C.Saturn

(2) Industry Overview

1. The current industry status and development

According to the final statistical results of the international research and advisory firm Gartner, the 2013 total worldwide semiconductor manufacturing equipment expenditures amounted to USD 33.8 billion, representing a decline of 11.5% over that of 2012. The requirements for wafer manufacturing equipment outperformed the market, with lithography and related processes performing strongest while the back-end manufacturing sector, on the other hand, underperformed the market average. Looking at 2013, wafer manufacturing outperformed the market. And compared to the sectors in dry etching, lithography, process automation, and deposition areas, it appeared to be relatively stronger. The expenditures were very selective and were focused on upgrading and purchasing the latest technology and the production capacity didn't increase much. Logic expenditures were concentrated on the 20 nm / 14 nm manufacturing process preparation. Only a small number of sub-areas appeared to have grown. The most obvious is the stepper motors in the lithography field, non-tube chemical vapor deposition (non-tube CVD), conductor etch, rapid thermal processing and thermal furnace, and some other areas of manufacturing process controls (such as wafer inspections, defect examinations and classifications).

However, under the influence of low- and medium-cost smart phone demands of countries like China, India, and other newly emerging markets like the Southeast Asian countries, and other factors like the improved global economic visibility, Gartner expects the 2014 semi-conductor industry's capital expenditures will return to its growth momentum, and the capital expenditures will increase by 14.1%. In addition to encouraging chip developers to intensify research and development to come up with more cost-effective solutions due to market demands, it will also set in motion the investment boom in the new technologies of 16/14 nm Fin Field Effect Transistors (FinFET) and three-dimensional (3D) flash memory. That is why Gartner has forecasted that the semiconductor equipment spending will grow by another 13.8% in 2015.

When the semiconductor advanced manufacturing process is undergoing evolution, the semiconductor manufacturing companies have to shoulder several times more than ever before the research and development costs as well as the manufacturing plant construction costs. In addition, with an objective condition of the external environment, the maturity of the semiconductor materials, equipment, and the overall market are also challenges that have to be faced in the continuing scaling down or miniaturization of the manufacturing process. How to master more advanced process technology and increase the manufacturing yield compared to competitors have always been core issues of concern for many in the semiconductor industry. In order to control the process quality and yield, the wafer fabrication (FAB) manufacturers use testing equipment to first detect any wafer defects and then let the post processing equipment do the re-testing and classification. Defect detection techniques are mainly darkfield, brightfield and e-beam. Before the nanometer technology generation, optical technology was used to perform defect detections. With the use of new semiconductor materials, new process technologies and the miniaturization trend of

semiconductor components entering into the 90 nm generation, the traditional optical detection technologies (darkfield, brightfield) started experiencing bottlenecks. Therefore, starting from below 90 nm, optical detection technology and the new technology of e-beam detection were used. For 28 nm, the clear winner was the e-beam technology. Currently, optical inspection equipment still dominates the wafer defect detection in the production line of the wafer FAB manufacturers but with the advent of nanotechnology generation, and the continuing miniaturization of the semiconductor advanced process technology, the future of e-beam detection equipment will have a very good growth potential.

For our company to continue maintaining its leading position in the market and improve our product profitability, we will adopt the following strategies:

A. Provide fast and immediate highly efficient after-sales maintenance services in order to firmly secure our existing customer base.

As the semiconductor front-end testing equipment is a high capital expenditure, rapid response to customer needs, working closely with the customers to build up a close cooperative relationship, and designing equipment that meets the needs of customers in order to fully meet the different needs of each customer has become very important. Our company has set up 100% wholly owned subsidiary companies in Japan and Korea known respectively as HMI Japan and HMI Korea. For the above-mentioned subsidiary companies, aside from its functions of selling and distributing our semiconductor testing equipment products, they are also involved in after-sales maintenance services in order to provide fast and immediate highly efficient after-sales services to our customers in the different areas as well as maintaining a long term and stable relationships with our existing customers.

B. Continuous R & D and innovation, develop new customers and improve product profitability

The manufacturing processes of the semiconductor industry are progressing rapidly, the needed technologies are also continuously improving and diversifying, and it is only by continuous innovation in technology that you cannot be eliminated or be left behind by the market. The company's technical team has a deep knowledge of the semiconductor industry, highly skilled and experienced, and has successfully developed nearly one hundred patented innovative products at home and abroad. We were also verified and accredited by numerous world-class manufacturing plants and we continue to receive direct inquiries from our sales customers to cooperate and help develop their related e-beam inspection systems. The company has good key components and developed technologies, and together with our foresight to grasp its keen insight into the future development of the industry, and continuing research, development and innovative technologies, we are able to introduce new products with high competitiveness. We expect our products will have compatibility with different devices and the extents of our support will continue to gain the acceptance and recognition from our customers and the industry, resulting in the expansion of our customer base and increasing our product profitability.

C. Cooperate with the government industrial promotion policy

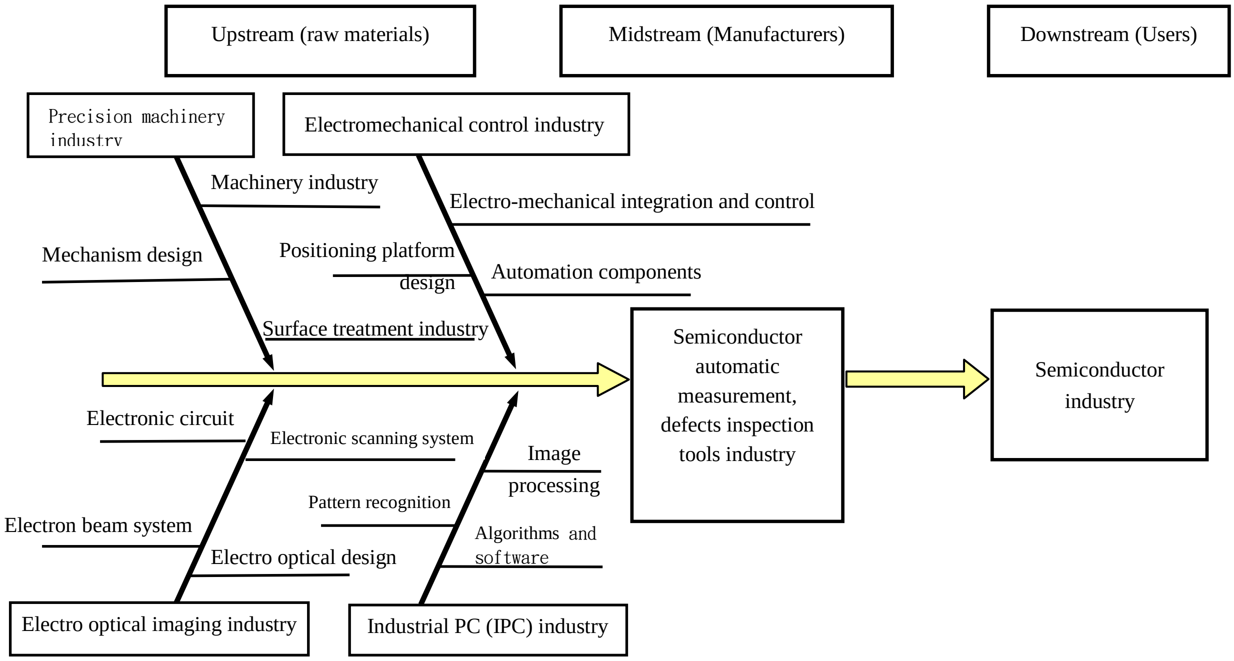
The Industrial Development Bureau, Ministry of Economic Affairs is actively promoting the localization of the semiconductor industry facilities. Localization of the equipment helps the wafer fabrication factories reduce their manufacturing cost, shorten the delivery lead time, and improve the market share of the Taiwan branded equipment suppliers. The company's business operation is in line with the government vision to accelerate the industrial upgrading and localization of the Taiwan process equipment industry and therefore, the government's drive to promote related industry assistance program will contribute to the future development of the Company. The company will continue to support the government's industrial promotion strategy and expand the localization of our products and our market share in the global market for semiconductor equipment.

In summary, because the products of the Company belong to the front-end product development manufacturing process where it is required, it is not very much affected by the economic business cycle. Coupled with the semiconductor manufacturers' continuing development of high level manufacturing processes, the future development of the Company for the next coming two years shall continue to have high growth and the industry prospects for the future shall still be considered adequate.

Technology	Inspection source	Sensitivity	Inspection rate	Machine price
Dark Field	Laser	Medium	Fast	Low
Bright Field	Laser or visible light	High	Slow	Highest
E-beam	E-beam	Highest	Slowest	High

Early wafer inspection tools suppliers were the American companies like AMAT, KLA-Tencor and the Japanese company Hitachi, etc. who invested in R & D and production. However, due to the complex technology required, the need for a strong patent protection and the need for a lot of capital investments, most of the companies had already withdrawn from the wafer inspection tools market at present except for KLA-Tencor and the Company.

2. The industry upstream, midstream, and downstream relationship



The Company belongs to an industry that includes the manufacturing of components by the upstream companies, then supplied to the midstream companies that produce the semiconductor automatic measurement and defects inspection tools, and then eventually supplied to the downstream semiconductor manufacturing industry for the measurement and inspection of their production manufacturing. The e-beam inspection tools produced by the Company are in the midstream position of the overall semiconductor industry. We integrate the precision machineries, electromechanical controls, electro optical imaging, industrial PC (IPC) and other component parts from the upstream manufacturers, develop and manufacture the e-beam inspection tools, and then through our overall distribution network, supply these tools to the downstream end-users. The downstream market consists mainly of the foundries and memory manufacturers.

3. Development trends of various products

The appearance of the e-beam inspection tool is to replace the optical defect inspection system, mainly because, in the present 28 nanometer technology, the optical system is already experiencing a significant bottleneck. The physical limits of the optics - diffraction phenomenon - restrict the imaging resolutions, leading to the significant drop of pattern identification rate for 28 nm or below wafers. It is unable to clearly identify circuits and defects and obtain sufficient information, so that it is not possible to immediately detect the yield on the production line and allow rapid improvements within the limits of the nanometer manufacturing processes.

Looking at the utilization cost perspective, because the size of the target object being inspected by the e-beam is extremely small, it is currently not possible to achieve the same high output rates as the optical system. However, the measurement standard for an inspection machine is for it to effectively detect the defects, rather than just blindly scanning or sweeping through at high speed. If we look at the results of the effective inspection, and achieving early detection of problems, problem solving, and problem prevention

as the ultimate inspection objective or test indicator, the introduction of e-beam inspection in the new generation of technology is already the best cost effective selection available in the market. We will use the eScan500 product series below to further illustrate:

eScan500 is the next generation model for the current flagship models eScan320 and eScan400 of Hermes Microvision Inc. Faced with the continuing miniaturization demands of the manufacturing processes of the semiconductor customers, the image resolution of the eScan500 will be enhanced by more than 30% compared to the eScan320. At the same time, it will be bundled with a more flexible "LeapNScan" leap scanning system and together with the Continuous Scan system, it will improve the efficiency of the wafer defect inspection and hence increase FAB productivity. In the future, the eScan500 will play a very important role in the 14 nm and below manufacturing process yield upgrade. In response to the continuing advancement in the semiconductor technology, the direction of the Company's future product strategy will advance towards the development of the semiconductor manufacturing processes and productions in order to continue to grasp the leading position in the semiconductor inspection tools market. Based on the process of evolution of the semiconductor technology, it takes 2 years to research and develop a new manufacturing process and another 2 years to go into volume production. During the 2 years volume production period, in order to come up on time with a new manufacturing process, the semiconductor manufacturing companies will invest related human resources and materials to research and develop the next generation of manufacturing processes during this same time frame. In order to cope up with the overlapping situation of simultaneous research and development, and volume production of the semiconductor manufacturing companies, aside from actively investing in developing inspection tools for the new manufacturing processes, the Company also arranges at the same time the production line schedule in advance in order to handle the required machine units for the volume production.

For the Company to announce promptly the development of new products meeting the development schedule of the semiconductor manufacturing processes, we summarize below our expected development progress and related technology levels as follows:

Year / Item	2014		2015	2016
Machine model	eScan500	eP4	Multi-column	Multi-column
Manufacturing Process Stage	14/10 nanometer	14/10 nanometer	14/10 nanometer	14/10 nanometer
Inspection Method	Combo LS, CS, HS	HS	CS	CS

The company operates in coordination with the semiconductor manufacturing companies' advanced manufacturing processes and according to different manufacturing process stages, we develop products with different specifications or standards. Based on the above table, we can see that the present development progress and technologies of the Company are in line with the evolution of the semiconductor manufacturing processes. In the future, we shall continue to develop faster processing speed, more sophisticated inspection ranges, and higher throughput machines to meet the demands of the market.

In summary, with the semiconductor advanced manufacturing processes advancing towards the 14/16 nanometer and 10 nanometer geometry, the demands for mask inspection will increase substantially. The company has developed the eScan series of machines for the mask inspection requirements. In accordance with the current development progress and technical aspects, it has met the demands of the semiconductor market. The future product development and strategy will also be based on the development and volume

production time schedule of the semiconductor manufacturing process as an important basis of consideration. At the same time, we shall observe the changes in the circumstances of the related manufacturing processes, and according to the changes, research and develop new technical levels for a machine that will meet the semiconductor inspection demands.

4. Competition

Early wafer inspection tools suppliers were the American companies like Applied Materials, KLA-Tencor and the Japanese company Hitachi, etc. who invested in R & D and production. However, due to the complex technology required, the need for a strong patent protection, and the need for a lot of capital investments, some of the market competitors had already withdrawn from the wafer inspection tools market one after another. At present, most companies had already disappeared from the inspection tools market except for KLA-Tencor and the Company.

(3) Technology and R&D

1. The technology level, and research and development of the business operations

The conventional defect inspection technology is encountering a great challenge with new semiconductor materials, the use of new manufacturing process technologies, and the trend of miniaturization of the semiconductor components. In order to improve the product yield as soon as possible, the new generation defect inspection technology must, under the circumstance of cost limitation, be able to capture and automatically classify various defects with faster speed and higher sensitivity. The main defect inspection techniques are dark field, bright field and electron beam (E-beam).

A. Dark Field

Usually it uses laser as the light source, the sensitivity is moderate, the inspection speed is fast, and the cost is low. When installed in a lower position in an inclined angle, it can easily detect surface defects. It is more sensitive to the pattern and HAR defects when perpendicular or near perpendicular to the wafer surface.

B. Bright Field

It uses visible light or laser as the light source, the sensitivity is high, but the inspection speed is slow and the cost is high. The incident lights and inspection signals of the bright field inspection tools are identical. They are all perpendicular to the wafer surface. When the incident light illuminates the defect areas, the defect signal will be darker than the brighter background formed by reflection. The pixel size (< 1 micron) during bright field inspection is very small. It is very sensitive to pattern defects, HAR defects and very small plane defects. It is usually used in FEOL, ADI, AEI and other inspection sites. Despite the fact that small pixels can improve the bright field inspection sensitivity, the inspection speed is slower due to the huge amount of data signals. Following the use of UV/DUV light source and the inspection pixels continuing to become smaller, the inspection sensitivity of the bright field inspection also continually improves. The new generation of bright field inspection tools can, under the situation where it is not going to affect the inspection speed, capture very small defects (20 x 40 nanometers) and satisfy the demands of the 65 nanometer and below manufacturing process technologies.

C. Electron Beam (E-beam)

E-beam inspection uses a focused e-beam as the inspection source, sensitivity is the highest, but the inspection speed is the slowest and the cost is second highest. When using an e-beam for inspection, the incident e-beam excites secondary electrons, and then through the collection of the secondary electrons, the defects of the wafer during the manufacturing processes are analyzed through the image presented. The scanned image presented by the machine is used to analyze and capture the defects that an optical inspection tool is unable to detect. For example, when the Contact, VIA, HAR or such other structures weren't sufficiently etched (Contact Open), and due to the fact that the defects were in the bottom of the structure, it is therefore very hard for dark field or bright field inspection tools to detect. However, because the defects can impact the transmission of the incident electron, it will therefore form a Voltage Contrast image and detects the various defects affecting the electrical properties caused by the HAR structure abnormalities. Furthermore, since e-beam is the inspection source, the inspection results are not affected by certain surface physical properties such as color anomalies, changes in thickness, or front layer defects. Therefore, the e-beam inspection technology can also be used in detecting the defects in very small surface such as gate etching residue and the like.

In general, the defects that impact the yield are usually derived from the physical defects of the partial or entire component. As the pixel size of the e-beam is smaller than the optics, the e-beam inspection can detect very small physical defects that the optical inspection cannot. Aside from the physical defects, the e-beam inspection can also detect the voltage contrast caused by the abnormal current created by the electrical defects of part of the component or of the entire component. The e-beam caused the wafer surface to be electrically charged, so that a voltage difference will appear in the defective location and impact the wafer surface secondary electron escape rate. The resulting difference in image can then be detected. Typically such defects cannot be seen from an optical instrument but it can be found through an e-beam inspection system, especially in the Front-end-of-line (FEOL) manufacturing process of many cutting-edge components. Residual Poly, Contact Hole Etch Stopping, SAC Hole Punch-Through, Dielectric Gap-filling Void, defects in Substrate, abnormal Ion Implant, etc. are all considered these kinds of critical defects. These defects will cause component failures and will have a negative effect on the yield rate. Using conventional measurement methods to detect these defects is a very difficult matter. However, the general electrical measurements, oftentimes, can only be carried out after the manufacturing processes were carried out and the feedback time was usually very long. In contrast, the use of e-beam inspection technology not only shortens the feedback time, it can also effectively reduce the learning time to confirm and exclude the various manufacturing process issues as well as reduce the risk of wafer cost. After a problematic manufacturing process, the FAB or R&D can use the e-beam inspection system to immediately collect critical information on the locations of the defects, feedback data of the optimized manufacturing processes, and such other crucial information to accelerate the development and trial production.

2. The invested Research and Development expenses from recent year till the annual report publication date

Unit: NT$1,000; %

Item	2013	As of Mar. 31, 2014
R&D expenditure (A)	743,966	192,419
Operating revenue (B)	5,340,043	1,167,655
Percentage (A)/(B)	13.94%	16.48%

Note: With the adoption of the International Financial Reporting Standards, all the disclosures are on consolidated basis starting year 2013.

3. Successfully developed technologies or products

Year	Product/ Patented Technology	Main Purpose and Functions
2006	eScan 310	eScan 310 is the upgraded model of eScan 300. It is the first and only leap scan system (Leap Scan) in the industry. It expands the electro-optical system scanning field, achieving the market's unique large-field scanner with 600 x 600 microns (Large FOV - Field of View). It moves the wafer to the area to be scanned, allowing the wafer to be scanned in a stationary state, and reached the market's highest resolution e-beam scanner imaging system and under the same conditions, with a higher signal to noise ratio (S/N).
	eScan 380	eScan 380 is a continuous scanning system (Continuous Scan). It was aimed at customers manufacturing memory components and provided them with a large area continuous scanning machine. Using a similar method like the optical defect inspection tools, it proceeds to carry out scanning while the wafer is in a motion state. At the same time, the high resolution electron gun (e-Gun) has a much higher signal to noise ratio (S/N ratio) under the same conditions.
2008	eScan 315	eScan 315 is the next generation model of eScan 310. It is an entirely new designed electro optical and image processing system with a more convenient user interface and with a unique leap scan type of scanning system (Leap Scan). It is the highest resolution e-beam inspection system in the market and it helps improve the semiconductor product yield more efficiently and became the world's semiconductor manufacturing companies' main models of defect inspection tools.
2008	eScan Lite	eScan Lite is the subsequent model after eScan 380. After improving the design, it has a more stable scanned image and it was directed at the demands of the NAND Flash memory manufacturers. With the exclusive patented Lightning Scan that we developed and under the same defect inspection sensitivity conditions, it can reach 4 times the speed of other

Year	Product/ Patented Technology	Main Purpose and Functions
		equipment and effectively reduce the cost of the semiconductor manufacturing companies.
	eP2	eP2 was aimed at the hot spot produced as a result of the lack of capabilities of the designed components and the manufacturing process by the advanced manufacturing processes. In connection with these hot spots, it uses the high resolution e-beam to carry out high speed image capture or use the Gray Level to measure the divergence of the measurement analysis produced by each manufacturing process between each wafer and pattern matching, and then find the location of the abnormalities and proceed to monitor the manufacturing process of the production line.
2009	eScan 400	eScan 400 is the next generation model of eScan Lite. Through the new generation electron gun, the optical electronic lens system, more stable wafer carrier operating system and powerful computing, the equipment now has a fast continuous scanning (Continuous Scan) and very high resolution. It satisfies the customer's need for an equipment that has the capability for the development of the new generation memory component manufacturing process and yield enhancement while at the same time being economical and has an inspection capability.
2010	eScan 320	eScan 320 is the next generation model of eScan 315. It has the world's highest resolution e-beam defect inspection system. The wafer defect inspection rate was increased by 30% as compared to the previous generation models, the speed was improved 1.7 times, and it has efficiently helped the development of cutting-edge semiconductor and yield improvement.
	eManager Workstation	eMW is an advanced computer analysis system developed and manufactured by the Company. It has the capability of analyzing the hot spots of semiconductors, and assist semiconductor manufacturing companies in effectively identifying the hot spots in order to increase yield.
	Supernova	Supernova is a world-class computing system developed and manufactured by the Company. It has a formidable computing capability to compare and analyze the wafer defects and design pattern matching and with the eScan, eP and eXplore systems of the Company, it is an indispensable equipment for the analysis and improvement of the yield of the advanced manufacturing processes.
	eXplore	eXplore is the first design specially made for the mask manufacturing companies' e-beam defect inspection system. Its defect inspection technology provides the highest resolution and defect inspection rate for the extreme ultraviolet (EUV) mask and nanoimprint lithography system. It provides the most immediate solution for the EUV mask defect inspection technology needed by the future 16 nanometer wafer manufacturing process.

Year	Product/ Patented Technology	Main Purpose and Functions
2011	eP3	eP3 is the next generation model of the eP2. It is the new generation electro optical system and has a more stable wafer carrier operating system and has the industry's highest resolution image. In connection with the hot spots generated by the lack of capabilities of the designed components and the manufacturing process by the advanced manufacturing processes, it uses the high resolution e-beam to carry out high speed image capture or use the gray level to measure the divergence of the measurement analysis produced by each manufacturing process between each wafer and pattern matching, and then find the location of the abnormalities and proceed to monitor the manufacturing process of the production line. By using it together with the Supernova system, it can be applied in confirming the lithography optical pattern correction field.
2013	eScan500	eScan500 is the next generation model for the current flagship models eScan320 and eScan400 of Hermes Microvision Inc. Along with the continuing geometry migration, the semiconductor manufacturers are asking for superior technical performance in resolution and sensitivity of wafer inspection tools. To fulfill their demand, the resolution of the eScan500 is enhanced by more than 30% compared to the eScan320. At the same time, it is bundled with a more flexible "LeapNScan" leap scanning system and together with the Continuous Scan system, it will improve the efficiency of the wafer defect inspection and hence, increase the FAB productivity.

As of Apr. 1, 2014, the summary of the Company's approved and licensed patents and patent applications are as follows:

Status \ Area	Taiwan	USA	China	Japan	Korea	Singapore	Israel	PCT	Total
Approved & Licensed	28	72	4	2	2	1	0	0	109
Application	39	65	0	4	0	0	3	3	114
Total	67	137	4	6	2	1	3	3	223

The above table shows that the Company's patent application strategy is to prioritize our applications in the United States and this was due to the fact that the equipment production facilities of the Company's main competitor, the American company KLA-Tencor, are located in the United States. As the protection of a patent is to prevent other parties from manufacturing without consent, using, offering for sale, or selling receives the protections of a patented product, or receives the protection of a product produced by a patented manufacturing process, so it is generally the practice to choose the place of manufacture as a priority consideration for applying a patent. In order to avoid the advance patents owned by

the Company be subjected to the infringement by the American company KLA-Tencor and to keep abreast with the patent information on the related products of our competitors, the Company considered the most efficient and convenient place of law enforcement to apply for patent is in the United States. Should there be any patent disputes in the place of manufacture of the American company KLA-Tencor, it is then possible to stop their business operations on all their global sales offices (including the United States, Europe, Japan, Korea and Taiwan). Therefore, the Company's main location of patent strategy is in the United States.

In Taiwan, as US approved patents need to go through translation, proofreading, internal audit, consultation with lawyers and such other procedures, and it also needs to go through the review and approval of the competent government authorities before licensing, the application process is much slower. At present, we commissioned PriceWaterhouseCoopers Taiwan and Hitek International Patent and Trademark Office to handle these cases and they report back to us the status of these cases monthly. While in other countries like China, Japan, Korea, Europe and Singapore, as they are not the major manufacturing base of the Company and our competitors and the application procedures take a long time, our patent application cases in these countries are less but it is not going to have a material impact on the Company's operations.

(4) Long and Short Term Business Development Plans

1. Short Term Development Plan

A. Cultivate existing customers, and provide the customers with a total solution
B. Enhance productivity and shorten the production cycle
C. Continue to reduce production costs and enhance our competitiveness

2. Long Term Development Plan
A. Develop new technologies and products, in order to maintain our market competitiveness.
B. To cultivate outstanding research and development, and production management personnel.

2. Market and Sales Situations

(1) Market Analysis

1. Areas of sales (supply) of the Company's major products (services)

Unit: NT$1,000; %

Area/Year		2011		2012		2013	
		Amount	%	Amount	%	Amount	%
Export	Asia	1,499,117	55.98	1,219,012	29.16	1,678,772	31.44
	America	322,564	12.05	1,386,036	33.16	1,791,602	33.55
	Sub-total	1,821,681	68.03	2,605,048	62.32	3,470,374	64.99
Domestic Sales		856,274	31.97	1,574,856	37.68	1,869,669	35.01
Total		2,677,955	100.00	4,179,904	100.00	5,340,043	100.00

2. Market Share

In the early years of production line wafer defect inspection of the wafer manufacturing companies, the optical inspection tools were the major equipment in use while the e-beam inspection tools were used mainly in the research and development and front-end manufacturing processes of the wafer manufacturing companies. It accounted for a proportion of less than 5% of the entire wafer equipment. However, in the 90 nm and below manufacturing process, the optical inspection tools started encountering bottlenecks while in the 28 nm it is very clear that the winner is the e-beam technology. Therefore, the market for the e-beam inspection tools is still very large and after years of research and development, the Company not only had successfully introduced our tools into the market, it had also gained the recognition of a lot of international companies and was adopted for use by these companies.

The main product of the Company is the e-beam inspection tools and is mainly used for research and development purposes by the wafer fabrication manufacturing companies. In the early stage, wafer inspection tools suppliers include American companies like AMAT and KLA-Tencor and Japanese company Hitachi and they invested in the R&D and manufacturing of these tools. However, due to the fact that semiconductor front-end inspection tools are a high capital expenditure item, and e-beam inspection tools are an integration of electronic, optical, mechanical, materials, software and hardware integration of information and system, application engineering and other areas of high-end technologies, coupled with many patent protection issues, entry into this industry has a very high barrier. Under this very competitive situation, being able to survive and continuing to be in business is already an achievement. In the present market situation, aside from KLA-Tencor and the Company, the rest of the competitions had already withdrawn from the wafer inspection tools market.

Due to the difficulty of obtaining the statistical information of our competitors, we therefore made our own estimation of our market share. In 2013, based on the number of equipment installed by our customers as well as the number of e-beam inspection tools installed by the downstream customers, the Company estimates that the Company's market share for the overall e-beam inspection tools is about 85%.

3. The future market supply and demand situation and growth

Though the electronic products are turning towards the lighter, thinner and smaller trend, the demands for higher quality by Taiwan and other developed countries are now much higher. With the trend in the miniaturization of the semiconductor manufacturing processes, the semiconductor inspection tools will turn towards the development of more precise and higher speed equipment. As the conventional optical defect inspection tools are unable to effectively detect much smaller defects, the demand for more sophisticated e-beam defect inspection tools will definitely increase.

For the past two years, the foundry industry has significantly increased their capital expenditures, and it is primarily related to the development and expansion of the advanced manufacturing processes capacities. The research and development expenses of the advanced manufacturing processes of the 40 nm and below technology are astonishingly high (it has a positive correlation with lithography equipment), and a significant portion of the capital expenditure increases in recent years were closely related to the advanced manufacturing processes. As the advanced manufacturing processes development and plant expansion require a large amount

of funding, the industry leaders, by virtue of high profit and possessing a high capital expenditure condition, can increase capital expenditures to lay the ground for the advanced manufacturing processes. Through high profit margin and high market share gained from the expansion of advanced manufacturing processes, they further pressure the competitor's profitability and market share and eventually, force the competitors out of the market. We anticipate that, in the future, in considerations of obtaining leading technologies by the various foundries and cost considerations by customers, capital expenditures will continue to grow, enabling the future development of the semiconductor equipment industry.

4. Competitive niche

A. Experienced management team

The Company's management team members used to work with well-know semiconductor companies both locally and abroad. Each of the major department heads has more than 10 years of related industry work experience and qualifications. They have considerable experience in the semiconductor market trend, IC equipment industry and related technology development, knowledge of software development and the development of international customers. They also have enough confidence in the future overall competitiveness and sustainable management of the Company.

B. Strength of a strong R & D team

The research and development team includes the industry's outstanding talents in the applications of e-beam (E-beam) and image. They successfully developed the first unit of "E-beam inspection machine eScan", leading the world with the exclusive leap scan inspection and stable electron gun technology, providing more advanced inspection tools and technologies, effectively improving the inspection instruments and equipment efficiencies, and enhancing the Chinese technology level for it to be able to enter into the world of high technology equipment and components supply chain.

C. Fast and immediate efficient after-sales maintenance services

As the semiconductor front-end inspection tools are a high capital expenditure, and in order to fully meet the different needs of each customer, rapid response to the customer needs, working closely with the customers to build up a close cooperative relationship, and designing tools that meet the needs of the customers have become very important. Aside from providing customer after-sales service through our agents, the Company has also set up 100% wholly owned subsidiary companies in Japan and Korea known respectively as HMI Japan and HMI Korea. This is to provide fast and immediate highly efficient after-sales service to the customers in the different areas. This is an important and crucial point for maintaining a long term and stable relationship with our customers.

5. The long-ranged view of favorable and unfavorable development factors and countermeasures

A. Advantage factor

(A) Inspection tool demands continue to expand

With the flourishing global trend of the electronic information and communication industry and the complete information industry of our country driving the increased demand of upstream production equipment, coupled with continuing expansion of the worldwide personal computer and consumer electronic product demands, it results in a significant increase in the demands for IC products. With the use of new semiconductor materials, new manufacturing process

technologies and the miniaturization trend of semiconductor components, the conventional optical inspection technology will start experiencing bottlenecks. Whether it is the wafer fabrication factories or the memory vendors, they will continue to invest in advanced manufacturing processes in order to lower the wafer cost, reduce risk and improve yields. The demand for inspection will continue to increase and the requirements for e-beam inspection tools will also increase.

In recent years, our government has also actively promoted the localization of the semiconductor industry equipment. In order to actively push up the manufacture of the semiconductor wafer front-end manufacturing process equipment locally and allow the domestic semiconductor industry supply chain to be more robust and complete, the Council for Economic Planning and Development (CEPD) plans to put up a NT$ 330 million fund within 4 years starting 2013 to help the domestic equipment manufacturers strengthen their R&D capabilities, increase their scale of operations, and at the same time, the IC foundries and other manufacturers can take this opportunity to reduce the risk on supply chain concentration and achieve the goal of decentralizing procurement concentration, and strengthen their bargaining power with the leading equipment manufacturers and such other targets. Localization of FAB equipment not only helps to reduce the costs of the wafer fabrication companies, it also strengthens the partnerships, and also enhances the market share of Taiwan's branded equipment suppliers and the manufacturing capabilities of the OEM manufacturers. This is a positive factor in the future growth of the Company. The company is committed to the development of functional and superior quality e-beam inspection tools and will actively market our products to master the market trend.

(B) High barriers to enter this industry

As the e-beam inspection tools need to integrate electronic, optical, mechanical, materials, software and hardware integration of information and system, application engineering and other areas of high-end technologies in order to complete the manufacturing of the equipment, it is necessary to recruit talents from all sectors and at the same time invest a lot of money. Therefore, the success stories of companies entering this field are few and far between.

(C) We have our own development team and command the ability to research and develop key technologies

The company has already successfully developed dozens of innovative and patented products domestically and internationally. We were also verified and accredited by numerous world-class plants and we continue to receive direct inquiries from our sales customers to cooperate and help develop their own e-beam inspection system. The key components of wafer inspection tools such as electron gun, secondary electron detector (Detector) and electronic aperture (Aperture), etc. are the main core of our research and development technologies. For this reason, having the research and development capabilities to master the crucial technologies are the key factors in upgrading our technology levels and customization capabilities, and maintaining the favorable factors of competitive advantage and high profit margins.

B. Disadvantage factor & Countermeasures

(A) Competition of foreign manufacturers

Compared to other foreign companies engaged in semiconductor equipment manufacturing like KLA-Tencor who were involved in the development of this technology, the Company started

late and cannot compare in scale of operations with these large foreign companies as our financial resources are likewise relatively weaker.

<u>Countermeasures:</u>

a. Put to good use the advantage of flexible operations of the small and medium enterprise. Use problem solving as the direction of development, and cooperate with the semiconductor companies in the pursuit of research and development of the overall manufacturing processes.

b. Through superior technology and diversification of industry risk, develop the most optimized production model in order to achieve the advantage of cost reduction.

c. Provide products with short development time, fast delivery, high quality and strong integration capability. Provide the customers with diversified and comprehensive solutions, and with the most immediate and best quality service as the goal, build up a partnership with the customers.

(B) Existing product line is confined within the semiconductor industry

After long term development of the semiconductor industry, and undergoing technological change, the industry development is likely to produce a structural change.

<u>Countermeasures:</u>

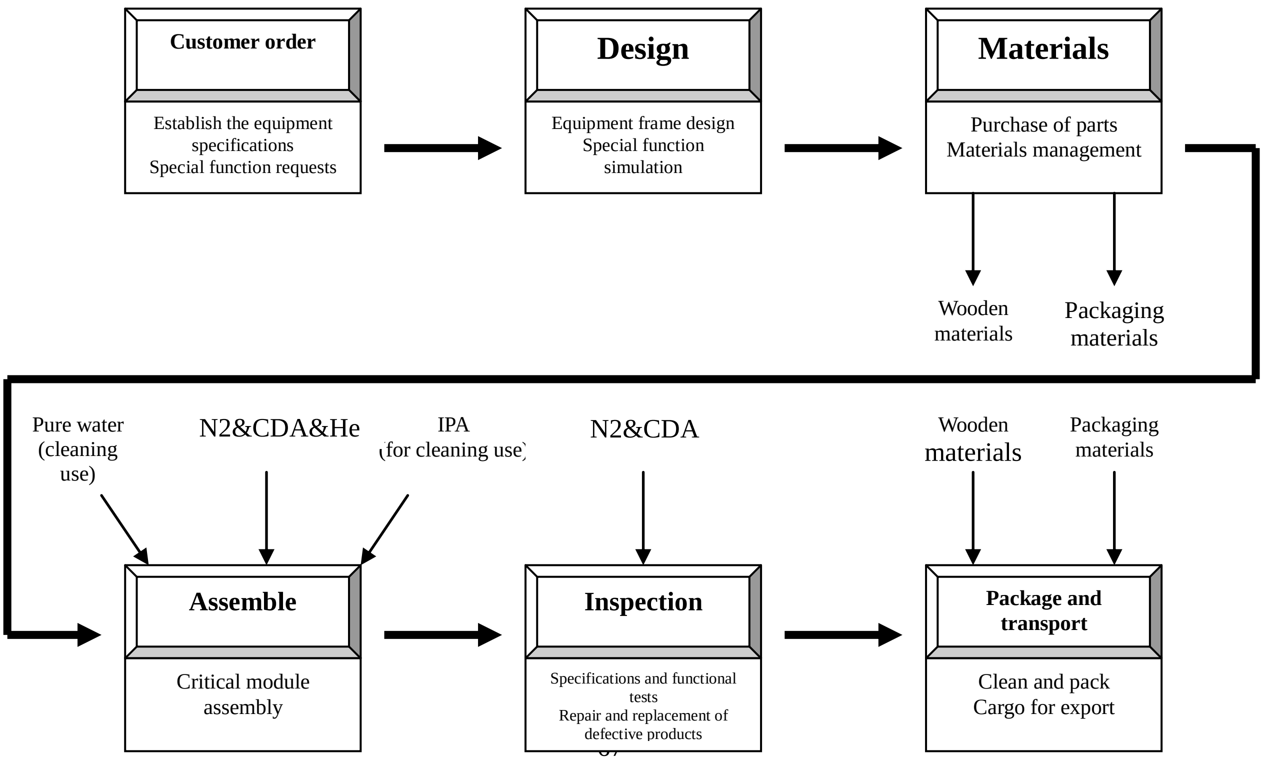
With the existing successful e-beam inspection technology, develop usage in different other industries such as the medical industry. Increase the types of applications in different industries and proceed to expand the sales of the products in the market.

(2) Uses of our main products and production process:

1. Uses of our main products:

The company mainly produces e-beam inspection tools. Its application areas include inspection of defects through scanning of the wafer, and feedback the defect density and distribution areas to the users so that manufacturing process monitoring and optimization can be carried out.

2. The manufacturing process of main products:



(3) Supply condition for main materials :

The product of the Company is the e-beam inspection tool and it is mainly used in the inspection of defects through scanning of the wafer. The e-beam related modules are the key modules of the Company. It mainly consists of the power supply and the electron gun module. The e-beam inspection tools system was the original design of the Company and more than 80% of the key modules are manufactured within our own group of companies. The main items of materials purchased are the wafer transfer or carrier module, e-beam assembly, and the vacuum system components.

The company holds 94% and 100% equity shares of HMI USA and HMI Beijing respectively and we have complete control over our subsidiary companies. After we received orders from our customers, we will then entrust HMI USA and HMI Beijing to produce the electron gun module and power supply device respectively. And upon receiving the orders from the Company, HMI USA and HMI Beijing will proceed on its own to plan and schedule the production. Since the Company has control over these two companies, we also have effective control over its production and supply situation. So far, the supply situation of the power supply devices and electron gun modules can meet the production demands of our e-beam inspection tools and the supply situation is stable and good. In order to control the risks with regard to the supply stability of the power supply device and the electron gun module, we also put up in our Tainan factory a backup facility for the maintenance and production capability for the above mentioned power supply device and electron gun modules. This is in case HMI USA and HMI Beijing encountered any kind of production problems, we can immediately make up for and reduce the risk of supply shortage of these related modules.

The Company based its purchases primarily on the sales forecasts and the contemplated orders obtained from the actual sales situation, R&D production plan, and the inventory level, and proceed to order from our suppliers. This is to avoid excessive or inadequate procurements from happening. When making any procurement, aside from following the normal procedure of price inquiries and comparisons to select the best quality products and good stable supply sources of vendors, the Company also always observes the changes in the market situation and tries to understand the market price. From time to time, we conduct price negotiations with our existing suppliers to reduce our purchase costs.

Overall, the main raw material suppliers of the Company are our own subsidiary companies or companies with a good and long term cooperation with us. From the last three years up to the publication date of the annual report, we have not encountered any supply shortage or interruption situation and hence, our supply sources and the supply situation are stable and good.

(4) Major purchasing / selling clients' list

1. The suppliers who once took up more than 10% of the Company's total purchase amount in either year of the latest two years:

Unit: NT$1,000；%

2012				2013				Q1 of 2014			
Name	Amount	% of annual net purchase (%)	Relation-ship with the issuer	Name	Amount	% of annual net purchase (%)	Relation-ship with the issuer	Name	Amount	% of annual net purchase (%)	Relation-ship with the issuer
Rorze Automation Inc.	76,204	10.58	—	Rorze Automation Inc.	94,824	10.59	—	Wintec Industries	49,651	12.86	—
Other	643,680	89.42	—	Other	800,419	89.41	—	Other	336,606	87.14	—
Net purchase	719,884	100.00	—	Net purchase	895,243	100.00	—	Net purchase	386,257	100.00	—

Reasons for increase or decrease:

The Company's purchases from Rorze Automation Inc. are mainly wafer transmission modules, components and spare parts. Due to the heavy market demand for the Company's E-beam inspection equipment in the 4th quarter of 2013, the Company purchased more materials from Rorze Automation Inc. in the period, which resulted in the less purchase amount from the supplier in the 1st quarter of 2014. Wintec Industries is the Company's power supply E&M control component supplier. Due to raw material adjustment in the 1st quarter of 2014, the Company purchased more from Wintec Industries in the period.

2. The clients who once took up more than 10% of the Company's total sales amount in either of the last two years:

Unit: NT$1,000; %

item	2012				2013				Q1 of 2014			
	Name	Amount	% of annual net sale (%)	Relationship with the issuer	Name	Amount	% of annual net sale (%)	Relationship with the issuer	Name	Amount	% of annual net sale (%)	Relationship with the issuer
1	B company	957,947	22.91	No	B company	1,201,781	22.51	No	F company	393,027	33.66	No
2	I company	584,613	13.99	No	E company	1,080,427	20.23	No	E company	262,440	22.48	No
3	F company	523,289	12.52	No	F company	663,837	12.43	No	G company	129,107	11.06	No
4	—	—	—	No	—	—	—	No	—	—	—	No
5	Other	2,114,055	50.58	—	Other	2,393,998	44.83	—	Other	383,081	32.8	—
	Net sale	4,179,904	100.00	—	Net sale	5,340,043	100.00	—	Net sale	1,167,655	100.00	—

Reasons for increase or decrease:

1. Company B

The Company started its business relationship with company B in 2004. Given that company B has expanded its production capacity every year, it has purchased eScan and ePointer series of products from the Company for its wafer inspection. The net amount of the Company's sales to company B in 2012 was NT$957,947 thousand. In 2013, due to its aggressive deployment of advanced process, company B continued to purchase equipment from the Company. As a result, the Company's sales to company B topped NT$1,201,781 thousand in 2013, making company B the Company's top client. Currently, the transaction status is still stable. The Company had no operating income from company B in the first quarter of 2014. It was because the period was a low season of the industry and it ran into an old and new product transitional period. The Company has still continued to receive orders from company B, and expected to have the operating income from company B from the 2nd quarter of 2014.

2. Company I

Company I is a computer supplier. The Company started its business relationship with company I in 2011. The net amounts of the Company's sales to company I in 2012 and 2013 were NT$584,613 thousand and NT$384,639 thousand respectively. In 2012, the Company continued to develop its high-end micro process resulting in company I's increased demand for the Company's E-beam inspection instruments, so its sales to company I in 2012 was higher than that in 2013.

3. Company E

Company E is a semiconductor manufacturer. It is a new client developed by the Company in 2013. Company E has worked hard to promote its products in the Western market and successfully joined company S's supply chain in 2013. The Company's net amount of sales to company E was

NT$1,080,427 thousand in 2013, making company E the Company's 2nd largest client in 2013. Company E continued to place orders with the Company in the 1st quarter of 2014, and the Company's sales amount generated from Company E in the period was NT$262,440 thousand.

4. Company F

Company F is an electronic component and product manufacturer. The Company started its business relationship with company F in 2005, whereas, starting from 2009, company F has directly placed its orders with the Company for ePointer and eScan series of products. The Company's net amount of sales to company F in 2012 and 2013 were NT$523,289 thousand and NT$663,837 thousand respectively. Company F continued to place orders with the Company in the first quarter of 2014, and the Company's sales amount generated from company F in the period was NT$393,027 thousand.

5. Company G

It is a semiconductor manufacturer and an old client of the Company. It has aggressively deployed its high-end process since 2014, so its demand for the Company's E-beam inspection instruments has increased accordingly.

(5) Annual Production Volume in the last 2 years

Unit: set; NT$1,000

Year / Volume / Main product	2012			2013		
	Production capacity	Production volume	Production amount	Production capacity	Production volume	Production amount
e-Beam inspection equipment	—	1,480	4,040,672	—	1,460	5,035,270
Total	—	1,480	4,040,672	—	1,460	5,035,270

Note: Given that the Company is an equipment manufacturer, other than a few processing machines and pieces of R&D equipment, it puts its focus on labor fabrication, so it shall not be subject to calculation of equipment's production capacity.

(6) Sales Volume in the last 2 years

Unit: set; NT$1,000

Year	2012				2013			
Volume / Main Product	Domestic sales		Exports		Domestic sales		Exports	
	Volume	Amount	Volume	Amount	Volume	Amount	Volume	Amount
e-Beam inspection equipment	400	1,529,306	760	2,450,464	500	1,742,775	960	3,292,495
Other	—	45,550	—	154,584	—	126,894	—	177,879
Total	400	1,574,856	760	2,605,048	500	1,869,669	960	3,470,374

Note: The aforesaid "others" are mainly the income of sales of parts and components, and services for maintenance, warranty and integration of main boards. Due to varying characteristics of the product items, there is no way to quantify them.

3. Personnel Information in the latest 2 years

Year		2012	2013	As of Mar. 31, 2014
employees	Manufacturing personnel	49	168	182
	Management & sales personnel	98	173	176
	R &D personnel	72	206	216
	Total	219	547	574
Average age		35.00	36.10	35.48
Average seniority		6.04	6.14	5.98
Educational Attainment Rate (%)	PhD.	4.11%	8.59%	8.68%
	Master	37.90%	34.92%	33.51%
	University / College	56.62%	47.71%	51.21%
	Senior High School	0.46%	8.78%	6.6%
	Senior High School below	-	-	-

Note: Given that IFRSs conversion has been applicable since 2013, the disclosure is made according to the consolidated data.

4. Environmental Conservation Expense

(1) The total amount of the losses (including compensation) and penalties resulting from environmental pollution in the latest year and as of the date of printing of the annual report: Nil

(2) Countermeasures (including improvement measures) and the total estimated amount of the possible expenditures (including possible losses, penalties and compensation resulting from not taking countermeasures, for which, if the amount cannot be reasonably estimated, its reason shall be explained):

The Company's major product is E-beam inspection equipment and no environmental pollution has occurred in the product process, so this issue is not applicable to the Company.

5. Labor Relations

(1) A variety of the Company's employee welfare measures, advanced studies, training, retirement system and their implementation status, agreements between labor and capital and measures to protect employees' rights and interests:

1. Welfare measures and their implementation status

The Company has worked hand in hand with its employees, and both sides have developed a consensus on joint growth. As such, employees are making every effort to do their job and create good performance, whereas the Company is providing sound compensation to return hard-working employees' contribution. In addition, the Company has also set up its employee welfare committee, and has monthly contributed the welfare fund and taken care of related welfare issues. The Company's major employee welfare benefits include: the annual traveling activity, monthly birthday gifts, festival bonuses and gifts, year-end lucky draws, employee educational training and subsidies, wedding, funeral and birth allowances, and group insurance, etc.

2. Advanced studies and training and their implementation status

In order to elevate its personnel’s quality and enhance their working efficiency and quality, the Company has provided orientation training for its new entrants. Also, during the employment period, the Company has also non-periodically provided its employees with professional education training (including internal training and external training) or the opportunity for advanced studies. In addition, the Company has also registered all the educational training actually received by employees for management, in the hope of cultivating professional talent, effectively developing its employee’s potential and making the best use of the talent.

Type of training		Course topic		Class	No. of attendance	No. of trained personnel	Rate of trained personnel	Total expense	Total hours
Internal training	Course class	Professional	22	39	233	223	95.71%	70,371	25,464
		Occupational	11						
	Online course	Professional	0	2	8	4	50%	3,333	
		Occupational	2						
	Sub-Total		35	41	241	227	94.19%	73,714	
External training		Professional	26	39	49	49	100%	154,403	
		Occupational	13						
Total			39	80	290	276	100%	228,117	25,464

3. Retirement System and Implementation Status

In order to protect its employees’ rights and interests, care for their retirement lives, and enhance labor relations, the Company has established its “labor pension supervision committee” and monthly contributed the pension reserve to Standard Chartered Bank for exclusive use. In addition, starting from July 2005, the Company has also followed the “Labor Pension Act” to monthly contribute the pension for its employees and deposit it in the labor pension personal account set up by the Bureau of Labor Insurance, in the hope of providing more protection for its employees’ retirement lives.

No employees have retired since the Company’s establishment.

4. Labor Agreements & Employees’ Right Protection

The Company has set up an internal control system – the payroll cycle, which gives integrated planning ranging from employee recruitment, employment, promotion and transfer to retirement, and is used as the common rules of the Company and its employees. In addition, the Company has also non-periodically held meetings to have opinion exchanges with its employees. As such, the Company has harmonious labor relations and, with which, no disputes with its employees have ever occurred.

5. Protection measures applied to the working environment and personnel

Item	Content
Access security	1. Around the clock strict monitoring system 2. All colleagues must use identification cards to gain passage in going in and out of the office or important storehouse or warehouse. 3. We contracted a private security company to secure and maintain the safety of the Company premises during night time and holidays. 4. We cooperate with the community management committee (CMC) and coordinate with the building security to have a direct alert communication link.
Maintenance and inspection of all facilities	1. In accordance with the building public safety attestation and report related regulations, the landlord, Hermes-Epitek Corp., shall commission a professional company to conduct a public safety inspection every two years. 2. Based on the provisions of the Fire Services Act, the Company shall commission a qualified company to conduct an annual fire inspection of the leased premises. 3. Based on the automatic inspection method and provisions of the Company "Factory Service Facilities Management Program", we shall conduct inspection and maintenance of all our facilities like electrical power system, air conditioning, fire-fighting facilities, dangerous machineries and equipment on a daily, monthly, semi-annual or annual basis. 4. Based on the provisions of the Labor Safety and Health Act, the Company shall commission a qualified inspection company to conduct operational environment evaluation of the Company including noise, lighting, CO_2 concentration, chemical concentration, etc. every six months.
Disaster preparedness and response measures	1.The company has established the "Emergency Preparedness and Response Program Manual", "Event Processing and Investigation Procedures", "Code of Practice on Occupational Safety and Health", "Hazard Identification and Risk Assessment Procedures", and "Health and Safety Operational Control Procedures" and such other disaster prevention, event handling, and incident reporting procedures and clear standards for all personnel of the Company on the roles they have to play and the task contents when faced with an emergency, major event, general accident and other unexpected situations. We conduct emergency evacuation drills once every six months. 2. We established a self-defense firefighting group subdivided into firefighting, fire reporting, evacuation guidance, safety and protection, and first aid groups. Together with the emergency evacuation drills, we carry out practice every six months and invite competent firefighting authorities to conduct disaster preparedness workshops. 3. To maintain employee safety and health, and to implement safety and health management, we set up the Occupational Safety Office as an organizational unit. To promote environmental health and safety services, we appointed two persons in charge of the labor safety matters (on a part-time position) and a Labor Health Management Officer (full-time) and have submitted to the Northern Region Labor Inspection Office and the Tainan Administration Bureau for approval.
Reporting the damage caused by operations of the contractors	The company has set up the "Contractor Environment Safety and Health Management Regulations" and supervises the contractors to comply with the following: 1. The contractor shall, according to the scale and nature of its operations, put up a qualified safety and health management officer or an on-site person in charge of implementing safety and health management. 2. All the personnel employed by the contractor entering the Company premises to work shall be insured with the labor insurance policy and the National Health Insurance. 3. The laborers employed by the contractor or its subcontractors shall go through the Company's "Contractor Hazard Information Training Course" first before they are allowed to start work in the Company. 4. Only properly trained and qualified personnel shall operate any dangerous machineries or equipment. They should prepare the "Machine and Equipment Inspection Certificate" and the "Operator Training Certificate" ready for inspection. 5. The contractor shall conduct construction safety assessment first when they enter our

	factory before performing any construction and they shall provide a construction application form (and shall clearly fill out the job classifications, job sites, and the names of the construction workers).
Environment Management And Occupational Health and Safety Assessment Series (OHSAS) Certification	1. The company passed the ISO 140001 and the OHSAS 18001 international certification in 2011 and 2012 respectively. During the operational procedures in the performance of the Company's manufacturing processes, products and services, the Company was able to effectively manage any negative impact on the environment, the unacceptable risks involved in safety and health, or the matters that do not conform to the demands of the environment, safety and health regulations. The company also continues to improve the overall environment, safety and health performance of the Company. 2. The business commitment of the Company is to actively implement our promise to protect the environment, safety and health of our personnel. Our environment, safety and health policies are: to comply with the regulations, implement energy conservation, promote safety and health, and continue to improve our performance in these areas.
Physical Health	1. Physical check-up: provide assistance for the physical check-up of new employees; annual regular physical checkups in accordance with the Occupational Safety and Health Act for all regular employees. 2. Work Environmental Health: hired a full-time cleaning staff to clean the premises, banned smoking in the place of work, set up a smoking area, hold health lectures, CPR first aid training, regular carpet cleaning and disinfection in the office area.
Psychological Health	1. Educational Training: provide pressure (emotional) management and communication skills courses, publicize related counseling activities and articles 2. Expression of opinions: Set up a dedicated discussion forum on the internet website. Aside from providing information for the retrieval of our colleagues, it also provides a learning channel for the discussions, expression of opinions, venting of emotions, and interactions. 3. Employees Assistance Program (EAP): In cooperation with the Hsinchu Lifeline Association and through third party professional consulting service, our colleagues can request for assistance in handling psychological, legal, financial, medical, management, and other matters related to the daily life or work activities of the employees. Each employee is given three consultation service opportunities for free.
Insurance and Medical Benefits	1. In accordance with the provisions of the Labor Insurance Act, we insure all our employees with the government labor insurance (including occupational accident insurance) and health insurance. We arrange with private insurance companies to provide our employees with life insurance, accident insurance and medical insurance, hospital and cancer medical insurance and other group insurance protection and the Company pays the whole amount of the insurance policy premium. 2. The insurance company provides hospitalization and cancer treatment insurance for the employees' spouses and children, and hospitalization daily allowance insurance for the employees' parents, and the Company provides subsidy of up to 66% of the insurance premium. If the employees' spouses, children and parents become sick, then the insurance claims will provide relief and help to the employees and their dependents. 3. The company insured all the employees with an accident insurance coverage of NT$ 3 million. If the employees became disabled or died because of an accident while in the performance of duties, the insurance claims will provide relief and help to the employees or their heirs.

6. Code of Conduct

The company has prepared and established an employee code of conduct or code of ethics for the compliance of the employees and observance of proper behavior during their daily work. We advocate this in the course of new employee training and to our regular employees from time to time. This is to strengthen the employees' integrity and values and for each and everyone to observe.

(2) For the most recent fiscal year up to the publication date of the annual report, losses suffered as a result of labor disputes and the estimated monetary amount involved in the disclosure of present and future possible occurrences and their corresponding countermeasures. If it is not possible to come up with a reasonable estimate, then the reasons for being unable to provide the estimate shall be provided:

Both the employers and the employees of this company use the Labor Standards Act as the basis. We adopt humane management system in our organization and the relationship between labor and management is harmonious and there were no labor disputes that created losses for the Company. From here on, with the labor and management maintaining a mutual cooperation and growth to nurture the relationship, we expect that there will be no labor disputes and should see no danger of suffering any losses.

6. Key Contracts

Type of Contract	Principal	Year of Contract	Validity period	Purpose
Technical Cooperation Agreement	Hermes Microvision, Inc. (USA)	Jan. 1, 2013~Dec. 31, 2014	Research & Development Contract - Hermes Microvision, Inc. (USA) to perform all technology development, and the development results and technologies belongs to this company	None
Tenancy Agreement	Tainan Science Park Branch, Hermes-Epitek Corp.	Jan. 1, 2013~Dec. 31, 2014	Leasing of Tainan Plant	None
Tenancy Agreement	Wei Shan Investment Co., Ltd.	Jan. 1, 2013~Dec. 31, 2013	Leasing of De-an 7th Floor Office	None
Tenancy Agreement	Southern Taiwan Science Park Bureau	May 1, 2013~Apr. 30, 2033	Southern Taiwan Science Park Administration land lease (new factory building)	None
Construction Contract	Marketech International Corp.	June 25, 2013~Aug. 31, 2014	HMI Tainan building construction	None
Product Agency Agreement	Yarbrough Southwest	Jan. 1, 2012~Dec. 31, 2014	Product sales agreement	None

VI. Financial Status

1. Simplified Balance Sheets and Statements of Income for the Last 5 Years

(1) Simplified balance sheet – Taiwan's Statements of Financial Accounting Standard (SFAS)

Unit: NT$1,000

Item \ Year		Last 5 years' financial data (Note 1)				
		2009	2010	2011	2012	2013 (Note 2)
Current asset		1,494,660	2,179,545	2,237,300	4,607,056	–
Fund & investment		76,168	495,643	479,107	585,271	–
Fixed assets		120,674	102,111	100,919	110,596	–
Intangible assets		29,294	26,354	22,615	21,676	–
Other assets		5,192	23,163	49,030	27,267	–
Total assets		1,725,988	2,826,816	2,888,971	5,351,866	–
Current Liabilities	Before appropriation	1,735,155	2,072,628	1,446,148	1,369,563	–
	After appropriation	1,735,155	2,072,628	1,710,148	2,161,563	–
Long-term liabilities		–	–	–	–	–
Other liabilities		233,849	25,356	35,996	42,362	–
Total liabilities	Before appropriation	1,969,004	2,097,984	1,482,144	1,411,925	–
	After appropriation	1,969,004	2,097,984	1,746,144	2,203,925	–
Capital stock		410,000	600,000	600,000	660,000	–
Capital surplus		–	–	–	1,234,348	–
Retained earnings	Before appropriation	(658,204)	149,616	797,137	2,049,737	–
	After appropriation	(658,204)	149,616	533,137	1,257,737	–
Unrealized gain/loss on financial merchandise		–	–	–	–	–
Cumulative translation adjustment		5,188	(18,186)	9,690	1,554	–
Unrecognized net loss of pension cost		–	(2,598)	–	(5,698)	–
Total Stockholder Equity	Before appropriation	(243,016)	728,832	1,406,827	3,939,941	–
	After appropriation	(243,016)	728,832	1,142,827	3,147,941	–

Note 1: The Company financial data from 2009 to 2012 were audited and certified by the CPA.

Note 2: The Company prepared its 2013 financial statements in accordance with the International Accounting Standards.

(2) Individual Simplified Balance Sheet

Unit: NT$1,000

Item \ Year		Latest 5 years' financial data (Note 1)					As of Mar. 31, 2014 (Note 3)
		2009	2010	2009	2012	2013	
Current asset					4,607,056	10,716,351	
Property, plant and equipment					110,596	268,730	
Intangible assets					5,467	5,028	
Other assets					611,605	869,194	
Total assets					5,334,724	11,859,303	
Current Liabilities	Before appropriation				1,382,210	2,080,797	
	After appropriation				2,174,210	3,216,797 (Note 2)	
Non-current Liabilities					85,482	84,100	
Total liabilities	Before appropriation				1,467,692	2,164,897	
	After appropriation				2,259,692	3,300,897 (Note 2)	
Equity attributable to owners of the parent company				Not applicable			
Capital stock					660,000	710,000	
Capital surplus					1,234,348	5,427,023	
Retained earnings	Before appropriation				1,980,820	3,542,426	
	After appropriation				1,188,820	2,406,426 (note 2)	
Total equity					(8,136)	14,957	
Treasury stock					—	—	
Non-controlling interest					—	—	
Total equity	Before appropriation				3,867,032	9,694,406	
	After appropriation				3,075,032	8,558,406 (Note 2)	

Note 1: The Company has adopted International Accounting Standards to prepare its financial reports since 2013, whereas The Company financial data from 2012 to 2013 were audited and certified by the CPA.

Note 2: The Company's 2013 earnings distribution was already adopted by the board of directors, which will be resolved by the shareholders' meeting.

Note 3: The Company only issued a major consolidated review statement for the 1st quarter of 2014, which is not applicable.

(3) Consolidated Simplified Balance Sheet-IFRSs

Unit: NT$1,000

Item \ Year		Latest 5 years' financial data (Note 1)					As of Mar. 31, 2014 (Note 3)
		2009	2010	2009	2012	2013	
Current asset					4,971,559	11,444,474	12,302,529
Property, plant and equipment					170,246	334,590	329,281
Intangible assets					10,717	10,632	13,545
Other assets					35,137	61,841	60,631
Total assets					5,187,659	11,851,537	12,705,986
Current Liabilities	Before appropriation				1,198,662	2,034,405	2,285,833
	After appropriation				1,990,662	3,170,405 (Note 2)	3,421,833 (Note 2)
Non-current liabilities					88,954	84,100	84,180
Total liabilities	Before appropriation				1,287,616	2,118,505	2,370,013
	After appropriation				2,079,616	3,254,505 (Note 2)	3,506,013 (Note 2)
Equity attributable to owners of the parent company					3,867,032	9,694,406	10,294,640
Capital stock					660,000	710,000	710,000
Capital surplus					1,234,348	5,427,023	5,427,497
Retained earnings	Before appropriation				1,980,820	3,542,426	4,126,739
	After appropriation				1,188,820	2,406,426 (Note 2)	2,990,739 (Note 2)
Total equity					(8,136)	14,957	30,404
Treasury Stock					—	—	—
Non-controlling interest					33,011	38,626	41,333
Total equity	Before appropriation				3,900,043	9,733,032	10,335,973
	After appropriation				3,108,043	8,597,032 (note 2)	9,199,973 (note 2)

Note 1: The Company has adopted International Accounting Standards to prepare its financial reports since 2013, whereas The Company financial data from 2012 to 2013 were audited and certified by the CPA.

Note 2: The Company's 2013 earnings distribution was already adopted by the board of directors, which will be resolved by the shareholders' meeting.

Note 3: The Company's financial data of 1st quarter of 2014 were audited by the CPA.

(4) Simplified Statements of Income - Taiwan's Statements of Financial Accounting Standard (SFAS)

Unit: NT$1,000

Item \ Year	Latest 5 years' financial data (Note 1)				
	2009	2010	2011	2012	2013
Operating revenue	1,149,120	1,523,060	2,646,436	4,174,028	
Gross profit margin	611,779	830,590	1,660,976	2,843,457	
Operating profit or loss	(76,966)	54,780	743,497	1,609,556	
Non-operating revenue & profit	18,679	235,188	124,310	109,758	
Non-operating expenses & losses	65,703	38,828	139,713	74,031	
Profit or loss before taxes of continuing operations	(123,990)	251,140	728,094	1,645,283	
Profit or loss of continuing operations	(120,278)	251,140	652,242	1,516,600	
Profit or loss of discontinued operations	—	—	—	—	
Extraordinary gain or loss	—	—	—	—	
Cumulative effect of changes in accounting principles	—	—	—	—	
Profit or loss for the period	(120,278)	251,140	652,242	1,516,600	
EPS(Note 2)	(2.93)	5.69	10.87	23.34	

Note 1: The Company financial data from 2009 to 2012 were audited and certified by the CPA, whereas the Company has adopted International Accounting Standards to prepare its financial statements since 2013.

Note 2: The calculation was made according to the weighted average number of the outstanding shares of the year in question.

(5) Individual Simplified Statements of Comprehensive Income - IFRSs

Unit: NT$1,000

Item \ Year	Latest 5 years' financial data (Note 1)					As of Mar. 31, 2014
	2009	2010	2011	2012	2013	
Operating revenue				4,174,028	5,487,228	
Gross profit margin				2,843,457	3,548,866	
Operating profit or loss				1,607,847	2,241,286	
Non-operating revenue & expense				38,002	279,299	
Net income before tax				1,645,849	2,520,585	
Net income for the period of continuing operations				1,517,166	2,343,600	
Loss of discontinued operations				-	-	
Net income (loss) for the period				1,517,166	2,343,600	
Other comprehensive profit or loss for the period (Net income after tax)				(34,548)	33,099	
Total comprehensive profit or loss for the period				1,482,618	2,376,699	
Net income attributable to owners of the parent			Not Applicable			
Net income attributable to non-controlling interest			Not Applicable			
Comprehensive profit or loss attributable to owners of the parent			Not Applicable			
Comprehensive profit or loss attributable to non-controlling interest			Not Applicable			
EPS (Note 2)				23.34	35.09	

Note 1: The Company financial data from 2012 to 2013 were audited and certified by the CPA, and the consolidated financial statement of 1st quarter of 2014 is not applicable.

Note 2: The calculation was made according to the weighted average number of the outstanding shares of the year in question.

(6) Consolidated Simplified Statements of Comprehensive Income - IFRSs

Unit: NT$1,000

Item \ Year	Latest 5 years' financial data (Note 1)					As of Mar. 31, 2014 (Note 2)
	2009	2010	2011	2012	2013	
Operating revenue				4,179,904	5,340,043	1,167,655
Gross profit margin				2,980,848	3,758,459	821,829
Operating profit or loss				1,707,316	2,411,521	463,126
Non-operating revenue & expense				(40,247)	144,010	167,060
Net income before tax				1,667,069	2,555,531	630,186
Net income for the period of continuing operations				1,520,429	2,347,275	585,649
Loss of discontinued operations				—	—	—
Net income (loss) for the period				1,520,429	2,347,275	585,649
Other comprehensive profit or loss for the period (Net income after tax)				(35,846)	34,003	16,328
Total comprehensive profit or loss for the period				1,484,583	2,381,278	601,977
Net income attributable to owners of the parent				1,517,166	2,343,600	584,313
Net income attributable to non-controlling interest				3,263	3,675	1,336
Comprehensive profit or loss attributable to owners of the parent				1,482,618	2,376,699	599,760
Comprehensive profit or loss attributable to Non-controlling interest				1,965	4,579	2,217
EPS (Note 3)				23.34	35.09	8.22

Note 1: The Company financial data from 2012 to 2013 were audited and certified by the CPA.

Note 2: The Company's financial data of 1st quarter of 2013 were audited by the CPA.

Note 3: The calculation was made according to the weighted average number of the outstanding shares of the year in question.

(7) Names of the CPAs and their audit opinions over the last five years:

Parent Company

Year	The Name of the CPA	The Name of the Office of CPA	Audit Opinion
2008	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2009	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2010	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2011	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2012	Cheng, Ya-Huei, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion

Consolidated

Year	The Name of the CPA	The Name of the Office of CPA	Audit Opinion
2009	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2010	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2011	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2012	Cheng, Ya-Huei, Wang, Wei-Chen	PwC Taiwan	Modified unqualified opinion
2013	Cheng, Ya-Huei, Lee, Tien-Yi	PwC Taiwan	Unqualified opinion

2. Analysis for The Last 5 years' Financial Status

(1) Analysis for the last 5 years' Individual Financial Status –IFRS

Categories	Year (Note 1) (Note 3)	Analysis for the last 5 years' Financial Status (Note 1)					As of Mar. 31, 2014 (Note 2)
		2009	2010	2011	2012	2013	
Financial structure (%)	Ratio of liabilities to assets				27.51	18.25	
	Ratio of long-term investment to property, plant and equipment				3,497	3,607	
Solvency %	Current ratio				333.31	515.01	
	Quick ratio				267.6	473.23	
	Times interest earned				283.6	9,405,169	
Operation ability	Receivables turnover ratio (times)				4.12	3.66	
	Average collection days				89	100	
	Inventory turnover ratio (times)				1.22	1.76	
	Payables turnover ratio (times)				6.04	6.21	
	Average selling days				300	207	
	Property, plant and equipment turnover ratio (times)				36.35	28.93	
	Total assets turnover ratio (times)				1.01	0.63	
Profitability	Return on assets (%)				37.11	27.26	
	Return on shareholders' equity (%)				58.12	34.56	
	Ratio of net income before tax to paid-in capital (%) (note 7)				249.37	355.01	
	Net profit ratio (%)				36.35	42.71	
	EPS (NT$)				23.34	35.09	
Cash flows	Cash flow ratio (%)				128.44	117.74	
	Cash flow adequacy ratio (%)				240.10	101.70	
	Cash re-investment ratio (%)				37.18	16.80	
Leverage	Degree of operational leverage				1.03	1.02	
	Degree of financial leverage				1.00	1.00	

Reasons for changes of a variety of financial ratios over the latest two years (for those that have more than 20% increase or decrease) 1. Ratio of financial structure: Mainly resulted from profit increase in 2013, and placement of GDR capital in 2013, which led to substantial improvement of the financial structure. 2. Ratio of solvency: Mainly resulted from profit increase in 2013, and placement of GDR capital in 2013, which led to substantial improvement of the solvency. 3.Increase of inventory turnover ratio: Mainly resulted from profit increase in 2013 and more inventory prepared in 2013 than 2012. 4.Decrease of property, plant and equipment turnover ratio: Mainly resulted from construction of the factory at the Tainan Science Park in 2013. 5.Decrease of total assets turnover ratio: Mainly resulted from profit increase in 2013, and placement of GDR capital in 2013, which led to substantial improvement of the financial structure. 6.Decrease of selling days: Mainly resulted from profit increase in 2013 and more inventory prepared in 2013 than 2012. 7. Ratio of Profitability: Mainly resulted from operating revenue and profit increase in 2013, and placement of GDR capital in 2013, which led to substantial improvement of the shareholders' equity. 8. Ratio of cash flows: Mainly resulted from continuing business growth in 2013, which led to increase of current period's net income and operating activity cash inflow, and GDR capital raising in 2013, which led to capital increase.

Note 1: The Company financial data from 2012 to 2013 were audited and certified by the CPA.

Note 2: The companies which have gone public or whose stocks have been traded at securities firms' business outlets shall include their financial data as of the previous quarter of the date of printing of the annual report of the year in question for analysis. The Company only issued the consolidated financial statements for the 1st quarter of 2014.

(2) Analysis for the last 5 years' Consolidated Financial Status -IFRS

Categories (Note 3)	Year (Note1)	Analysis for the last 5 years' Financial Status (Note 1)					As of Mar. 31, 2014 (Notes 1, 2)
		2009	2010	2011	2012	2013	
Financial structure (%)	Ratio of liabilities to assets				24.82	17.88	18.65
	Ratio of long-term investment to property, plant and equipment				2291	2909	3139
Solvency %	Current ratio				414.76	562.55	538.21
	Quick ratio				305.1	484.51	455.73
	Times interest earned				287.2	9,535,546	-
Operation ability	Receivables turnover ratio (times)				4.57	4.16	3.17
	Average collection days				80	88	115
	Inventory turnover ratio (times)				0.76	0.84	0.58
	Payables turnover ratio (times)				14.57	11.89	6.38
	Average selling days				479	435	626
	Property, plant and equipment turnover ratio (times)				24.70	21.16	14.07
	Total assets turnover ratio (times)				1.05	0.67	0.38
Profitability	Return on assets (%)				38.48	27.55	19.08
	Return on shareholders' equity (%)				57.64	34.44	23.35
	Ratio of net income before tax to paid-in capital (%) (note 7)				252.59	359.93	355.03
	Net profit ratio (%)				36.37	43.96	50.16
	EPS (NT$)				23.34	35.09	8.23
Cash flows	Cash flow ratio (%)				155	106.70	145.09
	Cash flow adequacy ratio (%)				240.39	218.13	246.88
	Cash re-investment ratio (%)				38.52	13.85	31.38
Leverage	Degree of operational leverage				1.04	1.02	1.03
	Degree of financial leverage				1.00	1.00	1.00

Reasons for changes of a variety of financial ratios over the latest two years (for those that have more than 20% increase or decrease)
1. Ratio of financial structure: Mainly resulted from profit increase in 2013, and placement of GDR capital in 2013, which led to substantial improvement of the financial structure.
2. Ratio of solvency: Mainly resulted from profit increase in 2013, and placement of GDR capital in 2013, which led to substantial improvement of the solvency.
3.Ratio of operation ability: Mainly resulted from profit decline in the 1st quarter of 2014, which led to drop of business performance.
4. Ratio of Profitability: Mainly resulted from operating revenue and profit increase in 2013, and placement of GDR capital in 2013, which led to substantial improvement of the shareholders' equity. It mainly resulted from profit decline in the 1st quarter of 2014, which led to drop of operation ability.
5. Ratio of cash flows: Mainly resulted from continuing business growth in 2013, which led to increase of current period's net income and operating activity cash inflow, and GDR capital raising in 2013, which led to capital increase. It mainly resulted from profit decline in the 1st quarter of 2014, which led to drop of financial ratio.

Note 1: The Company financial data from 2012 to 2013 were audited and certified by the CPA.

Note 2: The companies which have gone public or whose stocks have been traded at securities firms' business outlets shall include their financial data as of the previous quarter of the date of printing of the annual report of the year in question for analysis.

Note 3：The calculation formulae below shall be listed at the end of the annual financial report:

1.Financial structure

(1)Ratio of liabilities to assets = Total liabilities / Total Assets

(2)Ratio of long-term investment to property, plant and equipment = (Total equity + Non-current Liabilities) / Net property, plant and equipment

2.Solvency

(1)Current Ratio = Current asset / Current Liabilities

(2)Quick Ratio = (Current asset – Inventory - Prepaid expense) / Current Liabilities

(3)Times interest earned = Net profit before income tax and interest expense / Interest expenses of the period

3.Operation ability

(1) Turnover of receivables (including receivables and accounts/notes receivable from sales) = net sales / average receivables for each period (including receivables and accounts/notes receivable from sales)

(2)Average collection days = 365 / Receivables turnover ratio

(3)Inventory turnover ratio = sales cost / Average inventory

(4) Payables (including accounts payable and notes payable from business) turnover ratio = Sales cost / Balance of average payables (including accounts payable and notes payable from business)

(5)Average Selling days = 365 / Inventory turnover ratio

(6) Property, plant and equipment turnover ratio = Net sales / Net average property, plant and equipment

(7)Total assets turnover ratio = Net sales / average total assets

4.Profitability

(1)Return on assets = [Profit or loss after tax + Interest expense × (1 - Tax rate)] / average total assets

(2)Return on shareholders' equity = Profit or loss after tax / Average total shareholders' equity

(3)Net profit ratio = Profit or loss after tax / Net sales

(4)EPS = (Equity attributable to owners of the parent company - Dividends of preferred stock) / Weighted average shares issued (Note 4)

5.Cash flows

(1)Cash flow ratio = Net cash flows of operating activities / Current Liabilities

(2) Net cash flow adequacy ratio = Net cash flows of operating activities in latest 5 years / (Capital expense + Increase in inventories + Cash Dividends) in last 5 years

(3)Cash re-investment ratio = (Net cash flows of operating activities - Cash Dividends) / (Gross of property, plant and equipment + Long-term investments + Other non-current asset + Working capital) (Note 5)

6.Leverage:

(1)Degree of operational leverage = (Net operating revenue - Variable operating costs and expenses) / Operating profit (Note 6).

(2)Degree of financial leverage = Operating profit / (Operating profit - Interest expense)

Note 4: For the aforesaid EPS calculation formula, please pay special attention to the following matters in calculation:

1. Instead of using the number of the shares issued before the end of the year as the basis, the weighted average number of the shares of the common stock shall prevail
2. Those that have seasoned equity offering or treasury stock transactions shall take their circulation period into account in calculation of the weighted average number of the shares.
3. For those that have capital increase by earnings recapitalization or by capital surplus as stock dividend, the calculation of the EPS for the past year or past half year shall be adjusted according to the ratio of the capital increase without considering the issuance period of the increased capital.
4. In the case that the preferred stock is a non-convertible accumulated preferred stock, its dividend (no matter whether it is released or not) of the year in question shall be deducted from the net income after tax or added to the after-tax net loss. If the preferred stock is not in the accumulative character and there is a net income after tax, its dividend shall be deducted from the net income after tax whereas no adjustment is required if there is a loss.

Note 5: When giving the cash flow analysis, please pay special attention to the following matters:

1. Operating activity net cash flow refers to the amount of the operating activity net cash flow shown in the cash flow statement.
2. Capital expenditure refers to the amount of the cash outflow from each year's capital investment.
3. The amount of inventory increase shall not be calculated unless the amount of the ending balance is greater than that of the beginning balance. If the inventory reduces at the end of the year, it shall be calculated as zero.
4. Cash dividend covers the cash dividends of common stock and preferred stock.
5. The gross amount of property, plant and equipment refers to the total amount of property, plant and equipment before deducting accumulated depreciation.

Note 6: The issuer shall divide a variety of operating costs and expenses into fixed and current amounts according to their characteristics. In case of involving estimation or subjective judgment, attention shall be paid to their rationality and consistency.

Note 7: If a company's stock is a no-par stock, or its face value is not at NT$10 per share, calculation of the ratio of it to the paid-in capital shall be replaced by the ratio of the owner of parent shown in the balance sheet.

(3) Analysis for Financial Status - Taiwan’s Statements of Financial Accounting Standard (SFAS)

Categories (Note 2)	Year (Note 1)		Analysis for the last 5 years’ Financial Status (Note)				
			2009	2010	2011	2012	2013
Financial structure (%)	Ratio of liabilities to assets		114.08	74.22	51.30	26.38	
	Ratio of long-term investment to fixed assets		(201.38)	713.76	1,394.02	3,562.46	
Solvency %	Current ratio		86.14	105.16	154.71	336.39	
	Quick ratio		54.22	69.12	93.13	270.10	
	Times interest earned		(55.69)	32.87	42.77	283.50	
Operation ability	Receivables turnover ratio (times)		3.28	2.49	3.57	4.12	
	Average collection days		111	146	102	89	
	Inventory turnover ratio (times)		0.76	0.90	1.07	1.28	
	Payables turnover ratio (times)		1.98	3.28	6.17	6.37	
	Average selling days		480	405	341	284	
	Fixed assets turnover ratio (times)		9.52	14.92	26.07	39.47	
	Total assets turnover ratio (times)		0.67	0.54	0.93	1.01	
Profitability	Return on assets (%)		(7.66)	11.38	23.37	36.94	
	Return on shareholders’ equity (%)		(65.32)	103.39	61.08	56.73	
	Ratio on paid-in capital (%)	Operating profit	(18.77)	9.13	123.92	243.87	
		Net income before tax	(30.24)	41.86	121.35	249.29	
	Net profit ratio (%)		(10.47)	16.49	24.65	36.33	
	EPS (NT$)		(2.93)	5.69	10.87	23.34	
Cash flows	Cash flow ratio (%)		0.70	(70.07)	55.85	119.24	
	Cash flow adequacy ratio (%)		(15.23)	(198.54)	(108.34)	137.55	
	Cash re-investment ratio (%)		65.88	(179.20)	53.38	33.35	
Leverage	Degree of operational leverage		(4.98)	10.51	3.00	1.62	
	Degree of financial leverage		0.97	1.17	1.02	1.00	

Please describe the reasons of the changes in various financial rates in the latest 2 years. (No analysis is provided for the change of not more than or less than 20%.)

1. Ratio of financial structure: Mainly resulted from profit increase in 2012, which led to substantial improvement of the financial structure.
2. Ratio of solvency: Mainly resulted from profit increase in 2012, which led to substantial improvement of the solvency.
3. Increase of inventory turnover ratio: Mainly resulted from continuing business growth and substantial rise of sales cost in 2012, whereas, on the other hand, the Company had a good control of its inventory in which the level of the rise in the average inventory amount was smaller than that in the sales cost.
4. Increase of fixed assets turnover ratio: Mainly resulted from selling revenue increase in 2012.
5. Ratio of Profitability: They mainly resulted from operating revenue and profit increase in 2012.
6. Ratio of cash flows: Mainly resulted from continuing business growth in 2012, which led to increase of current period's net income and operating activity cash inflow.
7. Decrease of degree of operational leverage: Mainly resulted from the fact that the level of the rise in business profit was greater than that in operating revenue.

Note 1: The Company financial data from 2009 to 2012 were audited and certified by the CPA.

Note 2: The Company's 2013 financial statement was made by International Accounting Standards.

Note 3: The calculation formulae below shall be listed at the end of the annual financial report:

1.Financial structure

(1)Ratio of liabilities to assets = Total liabilities / Total Assets

(2)Ratio of long-term investment to fixed assets = (Net shareholders' equity＋long-term liabilities) / Net fixed assets

2.Solvency

(1)Current Ratio = Current asset / Current Liabilities

(2)Quick Ratio = (Current asset - Inventory - Prepaid expense) / Current Liabilities

(3)Times interest earned = Net profit before income tax and interest expense / Interest expenses of the period

3.Operation ability

(1) Receivables (including accounts receivable and notes receivable from business) turnover ratio = Net sales / Balance of average receivables (including accounts receivable and notes receivable from business)

(2)Average collection days = 365 / Receivables turnover ratio

(3)Inventory turnover ratio = sales cost / Average inventory

(4) Payables (including accounts payable and notes payable from business) turnover ratio = Sales cost / Balance of average payables (including accounts payable and notes payable from business)

(5)Average Selling days = 365 / Inventory turnover ratio

(6)Fixed assets turnover ratio = Net sales / Net average fixed assets

(7)Total assets turnover ratio = Net sales / average total assets

4.Profitability

(1)Return on assets = [Profit or loss after tax + Interest expense × (1 - Tax rate)] / average total assets

(2)Return on shareholders' equity = Profit or loss after tax / Average total shareholders' equity

(3)Net profit ratio = Profit or loss after tax / Net sales

(4)EPS = (Net profit after tax - Dividends of preferred stock) / Weighted average shares issued (Note 4)

5.Cash flows

(1)Cash flow ratio = Net cash flows of operating activities / Current Liabilities

(2)Net cash flow adequacy ratio = Net cash flows of operating activities in latest 5 years / (Capital expense + Increase in inventories + Cash Dividends) in the last 5 years

(3)Cash re-investment ratio = (Net cash flows of operating activities - Cash Dividends) / (Gross fixed assets + Long-term investments + Other Assets + Working capital) (Note 5)

6.Leverage:

(1)Degree of operational leverage = (Net operating revenue - Variable operating costs and expenses) / Operating profit (Note 6)

(2)Degree of financial leverage = Operating profit / (Operating profit - Interest expense)

Note 4: For the aforesaid EPS calculation formula, please pay special attention to the following matters in calculation:

1. Instead of using the number of the shares issued before the end of the year as the basis, the weighted average number of the shares of the common stock shall prevail
2. Those that have seasoned equity offering or treasury stock transactions shall take their circulation period into account in calculation of the weighted average number of the shares.
3. For those that have capital increase by earnings recapitalization or by capital surplus as stock dividend, the calculation of the EPS for the past year or past half year shall be adjusted according to the ratio of the capital increase without considering the issuance period of the increased capital.
4. In the case that the preferred stock is a non-convertible accumulated preferred stock, its dividend (no matter whether it is released or not) of the year in question shall be deducted from the net income after tax or added to the after-tax net loss. If the preferred stock is not in the accumulative character and there is a net income after tax, its dividend shall be deducted from the net income after tax whereas no adjustment is required if there is a loss.

Note 5: When giving the cash flow analysis, please pay special attention to the following matters:

1. Operating activity net cash flow refers to the amount of the operating activity net cash flow shown in the cash flow statement.
2. Capital expenditure refers to the amount of the cash outflow from each year's capital investment.
3. The amount of inventory increase shall not be calculated unless the amount of the ending balance is greater than that of the beginning balance. If the inventory reduces at the end of the year, it shall be calculated as zero.
4. Cash dividend covers the cash dividends of common stock and preferred stock.
5. The gross amount of fixed assets refers to the total amount of fixed assets before deducting accumulated depreciation.

Note 6: The issuer shall divide a variety of operating costs and expenses into fixed and current amounts according to their characteristics. In case of involving estimation or subjective judgment, attention shall be paid to their rationality and consistency.

(4) Key performance indicators for the businesses equipped with special characteristics

	2011	2012	2013
The ratio of operating revenue of the advanced process (2Xnm and more advanced process)	20%	43%	56%
Growth rate of operating income	73%	56%	28%
Growth rate of operating revenue	474%	147%	41%
Growth rate of net income after tax	161%	132%	54%

3. The audit committee's review report in last year's financial report: Please refer to P. 112 of this year's annual report.

4. Consolidated financial report of the last year: Please refer to P. 113 to P. 183 of this year's annual report.

5. Parent company only financial report of the last year: Please refer to P. 184 to 250 of this years' annual report.

6. In case that the Company and its affiliated enterprises encountered any financial difficulties in the latest year and as of the date of printing of the annual report, the influence on the Company's financial status shall be listed: Nil

VII. Financial Status, Operating Result and Risk Item

1. Financial Status

(1) Comparative Analysis of the Financial Status

Unit: NT$1,000

Item \ Year	2013	2012	Difference	
			Amount	%
Current asset	11,444,474	4,971,559	6,472,915	130%
Property, plant and equipment	334,590	170,246	164,344	97%
Intangible assets	10,632	10,717	(85)	(1%)
Other assets	61,841	35,137	26,704	76%
Total assets	11,851,537	5,187,659	6,663,878	128%
Current liabilities	2,034,405	1,198,662	835,743	70%
Other liabilities	84,100	88,954	(4,854)	(5%)
Total liabilities	2,118,505	1,287,616	830,889	65%
Capital stock	710,000	660,000	50,000	8%
Capital surplus	5,427,023	1,234,348	4,192,675	340%
Retained earnings	3,542,426	1,980,820	1,561,606	79%
Other adjustment	14,957	(8,136)	23,093	(284%)
Total shareholders' equity	9,733,032	3,900,043	5,827,374	151%

Major reasons for material changes in assets, liabilities and shareholders' equity over the past two years and the influence of the changes. If the influence is significant, the countermeasures shall be explained:

1. Increase of current assets: Mainly resulted from good business performance and issuance of GDR in 2013, which led to increase of cash and accounts receivable.
2. Increase of real estate, factory buildings and equipment: Mainly resulted from construction of the factory at the Tainan Science Park in 2013.
3. Increase of other assets: Mainly resulted from increase of deferred income assets in 2013.
4. Increase of current liabilities: Mainly resulted from increase of related warranty reserves, commission expenditure and income tax payables due to good business performance in 2013.
5. Increase of capital surplus: Manly resulted from issuance of the overseas depositary receipt at a premium price in 2013.
6. Increase of retained earnings: Mainly resulted from increase of the net profit in 2013, which led to increase of retained earnings.
7. Decrease of other adjustment items: Mainly resulted from decrease of translation adjustment and recognition of un-recognized net loss of the pension cost according to the pension actuarial report in 2013.

(2) For those that have significant influence, their improvement plan shall be explained: Nil

2. Financial performance

(1) Comparative Analysis of Operating Results

Unit: NT$1,000

Item \ Year	2013	2012	Increase/ Decrease	Rate of Change (%)
Operating revenue	5,340,043	4,179,904	1,160,139	27.76%
Operating cost	1,581,584	1,199,056	382,528	31.90%
Gross profit margin	3,758,459	2,980,848	777,611	26.09%
Operating expense	1,346,938	1,273,532	73,406	5.76%
Net operating profit	2,411,521	1,707,316	704,205	41.25%
Non-operating revenue & expense	144,010	(40,247)	184,257	(457.82%)
Net income before tax	2,555,531	1,667,069	888,462	53.29%
Less: Income tax expense	208,256	146,640	61,616	42.02%
Net profit for the period	2,347,275	1,520,429	826,846	54.38%

Main reasons for significant changes in operating revenue, net operating profit and pre-tax net profit over the past two years, expected sales volume as well as its possible influence on the Company’s future financial business, and the countermeasures to be taken:

1. Increase of operating net revenue, operating gross profit margin and operating net profit: Mainly resulted from major clients’ continuing promotion of their high-end micro process and expansion of their production capacity in 2013, which led to increase of machine sales volume in 2013.
2. Increase of operating costs: Mainly resulted from increase of machine sales volume which led to increase of related costs.
3. Increase of operating expenses: Mainly resulted from increase of the Company’s sales volume in 2013, which led to more expenses incurred from management, promotion and R&D in 2013 than 2012.
4. Non-operating income and profit: Mainly resulted from a strong U.S. dollar in 2013, which led to a gain on exchange, and the profit gained from the Company’s disposal of Elpida debt-equity.
5. Increase of income tax expenses: Mainly resulted from increase of 2013 pre-tax net profit.
6. Increase of pre-tax and net income after tax: Mainly resulted from growth of operating income, a gain on exchange due to a strong U.S. dollar and the profit gained from disposal of Elpida in 2013.

Note: The 2012 and 2013 financial data are from the consolidated statements prepared according to International Accounting Standards, which were audited and certified by the CPA.

(2) Expected sales volume as well as its possible influence on the Company’s future financial business and the countermeasures to be taken:

By evaluating the industry’s environment, market future supply and demand status, and referring to its R&D plan and business development status, the Company predicts that its sales in the year to come will remain a growing trend.

3. **Analysis of Cash Flows**

(1) Analysis for the last 2 year's cash flows change

Year / Item	2013	2012	Rate of Change (%)
Cash flow ratio	106.70%	155.00%	(31.16%)
Cash flow adequacy ratio	218.13%	240.39%	(9.26%)
Cash re-investment ratio	13.85%	38.52%	(64.04%)

Analysis of changes in cash flows:

1. Decline in the cash flow ratio and adequate cash flow ratio: Mainly resulted from continuing growth of sales in 2013, which led to increase of current period's net income, and warranty reserve, and stimulated more amounts of operating activity cash inflow and liabilities.
2. Decline in the cash re-investment ratio: Mainly resulted from the fact that the working capital increase ratio is greater than the operating activity cash inflow ratio in 2013.

(2)Improvement plan for deficient liquidity:

Due to its intimate business relationship with local banks, the Company has developed a good financing position. Compounding the capital inflow from issuance of the overseas depositary receipt in 2013, currently, the Company's working capital is affluent, and there is no sign of deficiency in financial liquidity and capital.

(3) Analysis of cash liquidity for the coming year.

Unit: NT$1,000

Beginning cash balance A	Expected annual net cash flow from operating activities B	Expected annual cash outflow C	Expected cash surplus (deficiency) amount A＋B－C	Countermeasures for cash deficiency	
				Investment plan	Finance plan
5,370,702	7,100,000	(5,600,000)	6,870,702	-	-

1. Analysis of current year's changes in cash flows:
   (1) Operating activity net cash inflow: As a result of the Company's sales growth, a net cash inflow is expected.
   (2) Operating activity net cash outflow: As a result of new factory construction at the Tainan Science Park, a net cash outflow is expected.
   (3) Financing activity net cash inflow: Except for the cash dividend expected to be released, no other significant cash inflows or outflows are expected.
2. Countermeasures for expected cash deficiency and liquidity analysis:
   No cash deficiency is expected this year. The Company's cash is sufficient to support its normal business operations.

4. **Effects of Key Capital Expenses on Finances and Business**: The construction of the Company's new manufacturing plant located in Tainan Science Park was started in 2013 and will be completed in 2014. This is expected to substantially increase the production capacity of the Company and will meet the demands for the e-beam inspection tools of the advanced semiconductor processes.

5. **Most recent year trans-investment policy, the main reasons for its profit or loss, improvement plans and the coming year investment plan**

   1. Recent year trans-investment policy: The Company's investment plan is in accordance with the Company's internal control system and the "Acquisition or Disposition of Assets Handling Procedures". On the trans-investment management policies, the finance department regularly collects and analyzes the financial statements of the invested enterprises, understands the working

conditions of the invested enterprises, and is responsible for the management of matters related to the invested enterprises. Also, the Company has established the "Regulations for the Supervision and Management of Subsidiaries", "Related Party Transaction Policies and Procedures" and "Specific Companies, Conglomerates, and Related Party Transaction Operation Procedures" as the standards to follow with regard to the operation management of the invested enterprises. Following the standards of the "Guidelines for the Establishment of Internal Control Systems of Public Companies", implement the monitoring and management operation of the invested enterprises.

2. Trans-investment profit analysis:

Unit: NT$1,000

Name of Company Invested	Investment policy	2013 Investment Profit & Loss	Main Reasons for Profit or Loss	Improvement Plans	Future Investment Plans
Hermes Microvision, Inc.(USA)	Research and Development Center	57,561	Mainly due to increase in operating revenue and good cost control, resulting in HMI USA gaining profit	-	Depends on operating conditions
HMI Holdings Inc.	Investments in various enterprise	143,341	Profit & loss in invested companies HMI Korea, HMI Japan & Ansing International LLC.	-	Depends on operating conditions
Hermes Microvision Korea Inc.	Sales & support services for e-beam inspection tools & components	2,250	Mainly due to increase in operating revenue and good cost control, resulting in HMI Korea gaining profit	-	Depends on operating conditions
Hermes Microvision Japan Inc.	Sales & support services for e-beam inspection tools & components	132,446	Mainly due to increase in operating revenue and good cost control, resulting in HMI Japan gaining profit	-	Depends on operating conditions
Ansing International LLC.	Investments in various enterprise	8,645	Profit & loss in invested company HMI Beijing	-	Depends on operating conditions
Hermes Microvision Co., Ltd. (Beijing)	Research, development, production and technical support services of semiconductor machines and equipment	8,645	Mainly due to increase in operating revenue and good cost control, resulting in HMI Beijing gaining profit	-	Depends on operating conditions

3. Next year investment plan: None

6. Risk analysis and evaluation issues

(1) The effects of interest rates, changes in exchange rates, and inflation situation on the Company's profit & loss and future countermeasures

1. Interest rate:

In terms of changes in interest rates, the main impact on the Company is the cash flow risk due to interest rate changes. The main reason is the floating rate of fixed-term deposits. With regards to the time period of the fixed-term deposits, the Company normally uses the shorter days of deposit to minimize the impact of floating interest rate and safeguard the assets and maintain its liquidity. Overall, the Company's risk due to changes in the interest rate is very minimal.

2. Exchange Rate:

With regards to changes in the exchange rate, the foreign exchange risks came mainly from the U.S. dollars denominated purchases and sales. Aside from using a natural offsetting principle, the Company maintains close contact with the banks and assigned specific persons to gather related information for judging the future trend of exchange rate. The Company also regularly review the difference between assets and liabilities in USD and if necessary, undertake a forward foreign exchange contract at the appropriate time or hedging instruments like foreign currency swaps in order to reduce the impact of exchange rate changes on the Company.

The information on the Company’s financial assets and liabilities denominated in foreign currencies and having material influence is as follows:

	Dec. 31, 2013		
	Foreign currency (In thousands of dollars)	Exchange rate	Book value (NT$)
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NT$	$213,128	29.805	$6,352,280
USD: JPY	1,730	105.390	51,563
Non-monetary items			
Financial liabilities			
Monetary items			
USD: NT$	$14,133	29.805	$421,234
USD: JPY	568	105.390	16,929

	Dec. 31, 2012		
	Foreign currency (In thousands of dollars)	Exchange rate	Book value (NT$)
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NT$	$58,829	29.04	$1,708,394
JPY: NT$	12,367	0.34	4,155
USD: JPY	4,391	86.58	127,515
Financial liabilities			
Monetary items			
USD: NT$	$6,415	29.04	$186,292
USD: JPY	9,288	86.58	269,724

The analysis on the Company's market risk denominated in foreign currencies and having material influence is as follows:

	Jan. 1, 2013 to Dec. 31, 2013		
	Analysis for sensibility		
	Variable Range	Influence of profit / loss	To affect other consolidated profit / loss
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NT$	1%	$63,523	$-
USD: JPY	1%	516	-
Financial liabilities			
Monetary items			
USD: NT$	1%	$4,212	$-
USD: JPY	1%	169	-

	Jan. 1, 2012 to Dec. 31, 2012		
	Analysis for sensibility		
	Variable Range	Influence of profit / loss	To effect other consolidated profit / loss
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NT$	1%	$17,084	$-
JPY: NT$	1%	42	-
USD: JPY	1%	1,275	-
Financial liabilities			
Monetary items			
USD: NT$	1%	$1,863	$-
USD: JPY	1%	2,697	-

3. Inflation:

In the aspect of inflation, as of the date of printing of the annual report, it did not have significant impact on the Company's business operation. However, the Company will keep a keen eye on any change of the circumstance, and take countermeasures whenever required.

(2) The policies for engaging high risk and high leverage investment, lending capital to others, endorsements as well as guarantees, and derivative product transactions, the main reasons for profits or losses and future improvement measures:

The Company has prudent financial management, and has never engaged in high risk and high leverage investment. In addition, the Company has already set up its "regulations governing management of lending capital to others", "regulations governing management of endorsements and guarantees" and "asset acquisition and disposal handling procedure" for its personnel across the Company to comply with. Also, as of the date of printing of the annual report, the Company had not engaged in any high-risk and high-leverage investment, lent its capital to others and given any endorsements or guarantees.

In addition, for the derivative products engaged by the Company, instead of the trading purpose, the Company has held currency forward contracts to hedge the currency risk which may arise from business operations. Furthermore, the Company only deals with qualified banks, so it shall have no material credit risk. Also, the gain or loss on exchange and hedge items can cancel each other out, so the Company shall have no material market risk.

(3) Future R&D plans and projected future R&D outlay

In response to the demands of the FAB manufacturing process diversification and dimensional shrinkage, the constant upgrading of inspection methods to effectively inspect the increasingly smaller defects, immediately and promptly reflect the present situations and analyze the cause of failure hidden within the structure, and thus accelerate the development pace and quickly reach a higher production with high yields. This is the objective of the Company's future

development of the next generation e-beam inspection tools and equipment. The Company's future research and development emphasis will focus on the following directions:

1. Continue to improve the image resolution and defect detection rate: Strengthen the electron optical system capability, strengthen the stability of the wafer movement, and strengthen the defect signal to noise ratio (S/N ratio).
2. Continue to improve the defect inspection speed: Enhance the electron optical system processing speed, and improve the computing power of the computer.
3. Continue to improve the computing capability of the advanced pattern matching: With a high resolution e-beam imaging coupled with semiconductor design pattern comparison, the defects can be detected at a glance. The Company will focus on enhancing the computing capability of pattern matching in order to satisfy the stringent demands of the customer for a higher production yield in an advanced manufacturing process.
4. Development of the next generation inspection tools and equipment: In order to comply with the future large demands of the semiconductor companies to use the e-beam inspection technology in replacing the present optical inspection tools, the Company will also develop a breakthrough e-beam inspection technology to satisfy the market application demands for a higher speed and higher resolution inspection tool.
5. The development of newly emerging application of semiconductor technology: The new generation of machines will take into considerations the future cutting-edge technology needed and its application by the semiconductor industry, such as the extreme ultraviolet (EUV) mask defect inspection system, the nanoimprint lithography (NIL) imprint defect inspection, the FinFET 3D transistor structure defect inspection, and other potential technologies that could become the mainstream technology.

Through constant innovation and R&D, the Company mastered the key technology of wafer inspection tools. In order to maintain its competitiveness in the industry, the combined R&D expenses for the year 2012 and 2013 reached a total of more than NT$ 700 million and this goes to show that the Company attaches great importance to the development of technologies. The amount of funds put into R&D in the future is forecast to be maintained at about 16 to 18% of the operating revenues annually. Depending on the operating conditions and industry trends, the Company will make appropriate adjustment in order to strengthen its competitive advantage in the market.

(4) The impact of changes in domestic and foreign policies and laws on the Company's financial operations and response measures

On Apr. 16, 2002, the Executive Yuan, through order Yuan-Tai-Chin-Tzu No. 0910083707, directed the Ministry of Economic Affairs to establish the Semiconductor Industry Promotion Office (SIPO) to be in charge of the overall planning, promotion, and evaluation of the country's semiconductor industry development. At the same time, establish a single window responsible for inter-ministerial coordination, investment promotions, and understand the difficulties being encountered by the investment plans of companies, and actively coordinate at all levels to exclude the investment barriers.

At the present stage, the government is actively promoting the domestic semiconductor industry to proceed in producing high added value products and to undertake technology research and development. It is advocating the domestic self-development of semiconductor facilities, in

order to enhance the self-sufficiency capability of the country's semiconductor equipment manufacturers, reducing the degree of reliance on foreign semiconductor equipment, and assist in the technology industrialization and help push the industry momentum. The Company produces the e-beam inspection tools using exclusive leap type scanning inspection and stable electron gun technology and provides the semiconductor manufacturers with a more advanced inspection tool and technology. This assists them in effectively improving the front-end manufacturing process performance. The focus of the Company's future research and development will continue to center on the next generation inspection tools needed by the semiconductor manufacturing companies. This, in turn, will fit in with the direction of the government's present and future promotion of the semiconductor industry. The Company's business operation complements with the industrial policy of the government. It has a positive effect on the Company's financial operations and it also works together to create a win-win situation.

Furthermore, in accordance with the provisions of the Financial Supervisory Commission, starting 2013, all publicly traded companies shall use the interpretations and announcements of the International Financial Reporting Standards, International Accounting Standards (hereinafter referred to as IFRS) as well as the Regulations Governing the Preparation of Financial Reports by Securities Issuers in preparing their financial reports. The effects of adopting the IFRS include changing the ways of expressing certain parts of the accounting treatment and financial reporting. The Company has completed the switch over to the IFRS reporting according to regulations since 2013. Please refer to the applicable 2013 Consolidated Annual Financial Reports for all the new and revised standards and interpretations.

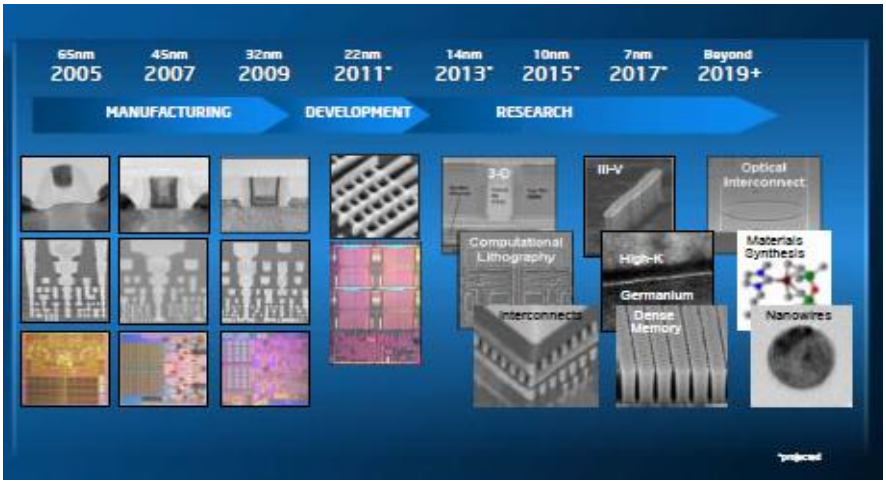
In summary, the Company's daily operations are in compliance with relevant laws and regulations at home and abroad, and the Company always pays attention to the development trend of domestic and foreign policies and the situation changes in laws and regulations. The Company also collects relevant information and disseminates this information to all levels for their policy decision reference in order to adjust the Company's underlying business strategy. So far, the Company has not experienced any significant impact on the Company's financial operations due to important domestic and foreign policy and legal changes.

(5) The effects of technology and industry changes on the Company's financial operations and response measures

1. The effects of future industry technology changes to the Company

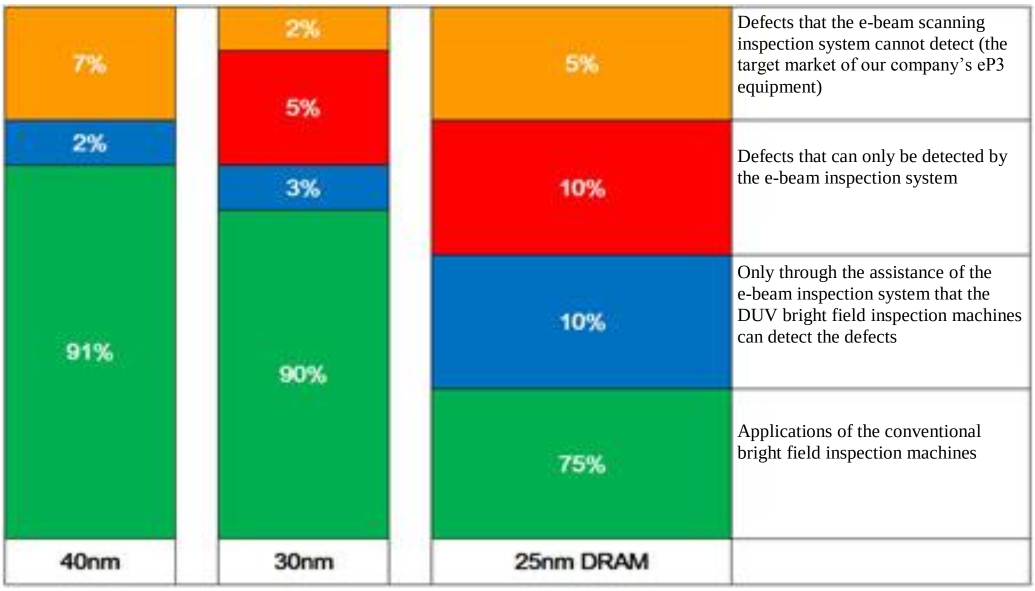
In order to reduce production costs and let the ICs have higher levels of functionalities and processing speed, the design node of the semiconductor industry will evolve towards the trend of miniaturization.

The technology roadmap announced by Intel



Source: Published in June 2011 Intel Technology Roadmap

Based on the Intel published technology roadmap in June 2011, it is estimated that by 2013, 2015 and 2017, the manufacturing capabilities will evolve towards the 14 nm, 10 nm and 7 nm geometry respectively. This shows that the manufacturing process line width will become thinner and the demand for better accuracy will increase following the reduction of the manufacturing process line width. As the line width is already thinner than the inspection limits of the conventional optical inspection methods can inspect, and with the increasing density of the IC patterns and complexities of the manufacturing process, it is making the manufacturing process yields of the 45 nm and below geometry face an enormous challenge. Consequently, with the high resolution e-beam inspection system possessed by the Company, the importance to the future advanced manufacturing process development of large semiconductor companies will be especially important.

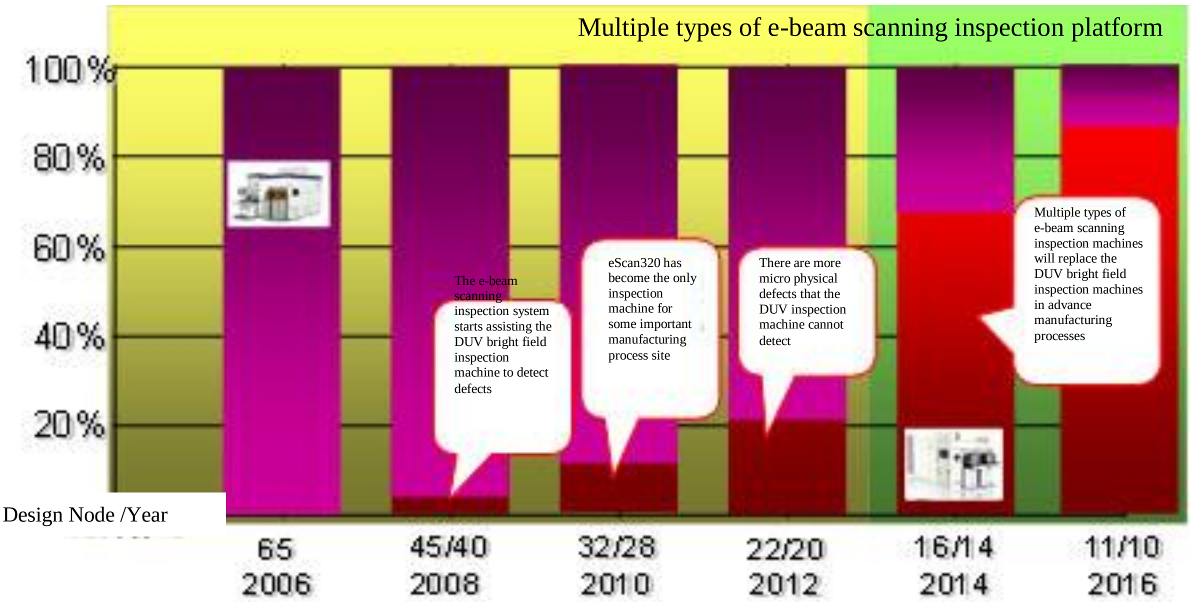


Source: Arranged by the Company

Currently, the wafer defect inspection of the FAB production line uses mostly the optical detection tools. However, with the advent of nanotechnology generation, the optical inspection tool starts experiencing bottlenecks in the 90 nm and below manufacturing process. As shown above, using the 25 nm DRAM manufacturing process as an example, 10% of the defects need to be assisted by e-beam inspection tools before the deep ultraviolet (DUV) inspection machines can detect the defects; there are 10% defects that only an e-beam inspection system can detect; and there is another 5% that needs the Company's manufacturing process monitoring system eP3 before it can be detected. Therefore, in the continuing miniaturization of the semiconductor advanced manufacturing processes, the e-beam inspection tools of the Company will have considerable growth potential.

Defect inspection plans as proposed by large advanced semiconductor manufacturers

Source: the Company

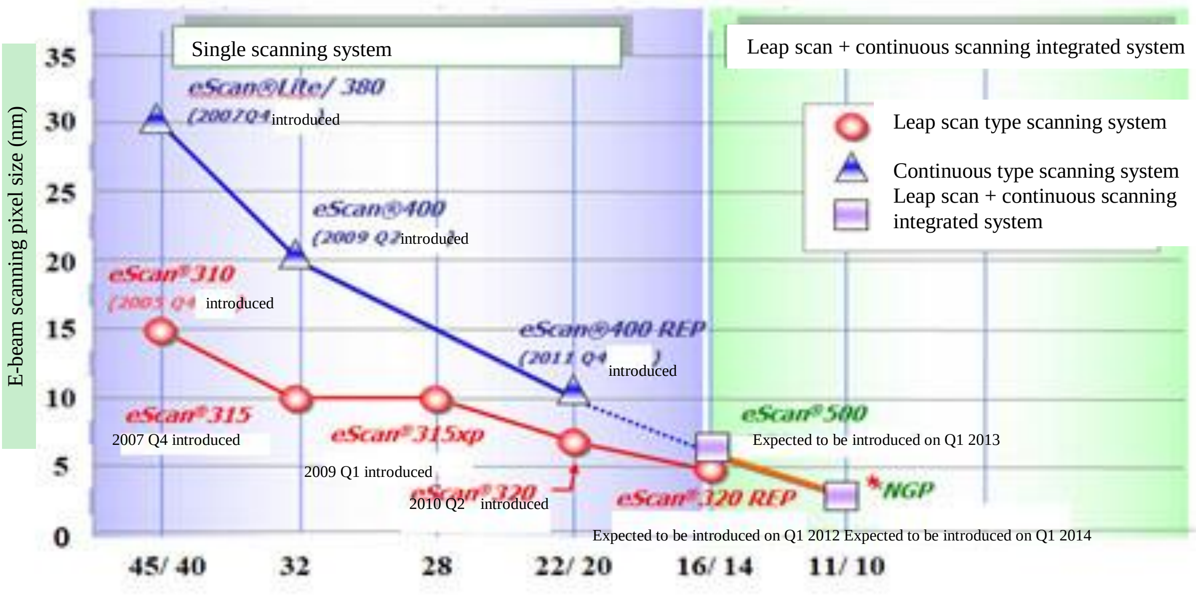


From the defect inspection plans proposed by the large advanced semiconductor manufacturers, we can see that from the design node of 65 nm of 2006 all the way to the 45/40 nm of 2008, 32/28 nm of 2010, and in the coming years of 2012, 2014, and 2016, the design nodes will continue to shrink to the 22/20 nm, 16/14 nm, and 11/10 nm geometry. Due to the fact that, from 45 nm and below manufacturing processes, the conventional optical image inspection method cannot already clearly detect the wafer defects, plus the density of the IC design and manufacturing processes becoming increasingly complex, therefore the e-beam inspection tools with high resolution functions produced by the Company will become an indispensable important weapon for the manufacturing process development of the large semiconductor manufacturing companies.

2. The Company's response measures

Due to the advances in technology and in response to the e-beam scanning pixel size and design node going towards the trend of miniaturization, the Company has already provided a number of different models of products with special characteristics to cope with the industry technology changes and meet the different needs of the customers.

E-beam scanning pixel size (nm) vs Design Node (nm)



Source: the Company

From the above chart, we can see that in the continuous scanning series, the Company has introduced the eScan 400 REP in the 4th quarter of 2011 aside from the previously introduced eScan Lite, eScan 380 and the eScan 400. This reveals that in the high yield wafer inspection system, the Company developed technology continues to lead in the industry; and in the leap scans series, the Company has already launched the eScan 310, eScan 315, eScan 315xp and the eScan 320 one after another, providing customers with e-beam scan pixel size of 5 nm leading technology equipment; in addition, the combined leap scans and continuous type integrated system equipment eScan 500 and NGP (Next Generation Platform) were also successfully introduced into the market in late 2013. eScan 500 is the new flagship model directed at the design node of 16/14 nm manufacturing process wafer inspection machine and it shows that the R&D technology and machine integration capability of the Company is remarkable. The Company can also respond to technology changes and continue to introduce new models of e-beam scanning machines with higher resolutions that meet the demand for a continually growing smaller pixel size machine in the market.

In summary, the Company's industry leading high resolution e-beam scanning machine development time frame fully supports, and even exceeds, the technology development blueprint of the large semiconductor manufacturing companies. Therefore, when large semiconductor manufacturing companies study the advanced manufacturing process development in the future, they will rely more on the e-beam scanning inspection machines launched by the Company. However, for the semiconductor manufacturers to maintain their technological leadership during the economic downturn, they will have to unceasingly develop more advanced manufacturing processes in order to continue their competitiveness and pull away from their competitors when the economy improves. Therefore, the R&D trend of the semiconductor manufacturers will not stop their development of new manufacturing processes during fluctuations of the economy. The economic cycles of the industry will not produce significant fluctuations for the Company. The Company already has a plan in response to the future technology changes in the industry. The tools and equipment produced by the Company are in line with the future development of

the semiconductor manufacturing processes and in accordance with its plans, research, development and manufacture, so that the financial operations of the Company will not be greatly affected by any changes in the technology industry.

The main products of the Company have been widely accepted by our customers and the market demand continues to expand. The Company is also actively increasing its production capacity and R&D capability and we also have in our grasp the industry developments and the information of our peers in the market. We adopt prudent financial management strategy in order to maintain our market competitiveness. The Company will continue to pay attention to the future science and technology related changes and situations, and to assess its impact on Company's operations, and make corresponding adjustments to strengthen the Company's business development and financial position.

(6) The impact of changes in corporate image to the corporate crisis management and response measure

The Company always upholds the principles of integrity and professional management, attach great importance to the corporate image and risk management, and there were no major events that affected the Company's corporate image.

(7) The anticipated benefits of acquisitions, possible risks and response measures

The Company has no present plans of mergers and acquisitions. Should there be any merger and acquisition plans in the future, the Company shall maintain an attitude founded on the basis of intrinsic careful assessment, taking into considerations whether the mergers or acquisitions will bring specific and comprehensive benefits to the Company in order to protect the interests of the Company and the shareholders' rights and interests.

(8) The expected benefits of the plant expansion, possible risks and response measures

In response to the industry needs and in coordination with the Company's growth plans and to fit in with the Company's expected target, starting the 3rd quarter of 2013, the construction of a new factory building had begun in the Southern Taiwan Science Park and installation of the factory systems and facilities was initiated. If there is no corresponding increase in revenues for the increase in engineering, personnel and other operating costs, it is going to create a negative impact on the Company's finances. Consequently, aside from working closely together with the customers and maximizing the value of the technology in order to strengthening the customer relationship and the market share, the Company also continues to strive to develop the most advanced technology in order to meet the increasingly sophisticated market demands of the semiconductor industry and maintain its leading position in the advance technology of the semiconductor front-end manufacturing process equipment. As of the annual report publication date, the Company's factory expansion plan is progressing normally according to schedule.

(9) Concentration risk of purchases or sales and the response measures

1. The risk of purchase concentration

The product of the Company is the e-beam inspection tool and it is mainly used in the inspection of defects through scanning of the wafer. The e-beam related modules are the key modules of the Company. It mainly consists of the power supply and the electron gun module. The e-beam inspection tools system was the original design of the Company and more than 80% of the key modules are manufactured within our own group of companies. The main items of materials purchased are the wafer transfer or carrier module, e-beam assembly, and the vacuum system components. The purchase amount of the Company in

the recent three years coming from a single supplier accounting for more than 10% of the total purchases consists of only one supplier and the purchased amount was less than 15% of the annual consolidated net purchases. This doesn't constitute a purchase concentration and there were no significant unusual transactions. If it is ordinary components, the Company will always maintain 2 or more suppliers in principle and they will be those who have frequent contacts with us and are the more stable cooperative suppliers.

Response measures:

When making any procurement, aside from following the normal procedure of price inquiries and comparisons to select the best quality products and good stable supply sources of vendors, the Company also always observes the changes in the market situation and tries to understand the market price. We also conduct price negotiations with our existing suppliers to reduce our purchase costs from time to time.

2. The risk of Sales Concentration

The Company is an upstream semiconductor equipment supplier. In response to the different needs of the equipment users, the Company needs to plan and design special machines based on their key technologies, plant configurations and manufacturing processes. The Company has the experience of integrating hardware and software systems and after sales maintenance capabilities that meet the needs of the users. Due to the fact that the equipment produced by the Company are customized, with high precision and high price characteristics, it is easy to have a situation where sales concentration may happen if during the current year the customer has a plant expansion and capital expenditure plans and then accordingly purchase related equipment in big volumes. However since 2013, the Company already has a good understanding and grasp of important American customers, and there were no customers, including the semiconductor manufacturing companies with advanced manufacturing processes, who have the situation of sales concentration.

Response measures:

In addition to the establishment of good working relationship with the existing customer base, the Company also actively develops new customers at home and abroad in order to reduce the risks of sales concentration.

(10) The impact, risks and response measures on the transfer or replacement of the Company equity by the Company directors, supervisors, or major shareholders holding more than 10% of the Company's equity shares.

All the transfers or replacements of the Company's equity shares by the directors follow the relevant laws and regulations for equity trading and they don't have any significant impact on the Company's operations.

(11) The impact, risks, and response measures of the change in management team of the Company

The Company's management team is committed to the sustainable development of the Company and in the recent years up to the publication of the annual report, there were no changes in the management team of the Company.

(12) Court Cases

1. From the recent years up until the annual report publication date, legal cases of the Company with

decisions rendered or presently still under litigation, non-litigation, or administrative litigation where the results of which may impact materially the rights and interests of the shareholders or the price of the securities, then the facts of the disputes, the amount involved in the litigation, the start date of the litigation, the major parties involved in the suit, and how it is presently being handled should be disclosed: None.

2. The Company directors, supervisors, president, and the real person in charge of the Company holding more than 10% of the Company's equity shares or its affiliated companies, who are with legal cases with decisions already rendered or presently still under litigation, non-litigation, or administrative litigation, the results of which may impact materially the rights and interests of the stockholder or the price of the securities: None.

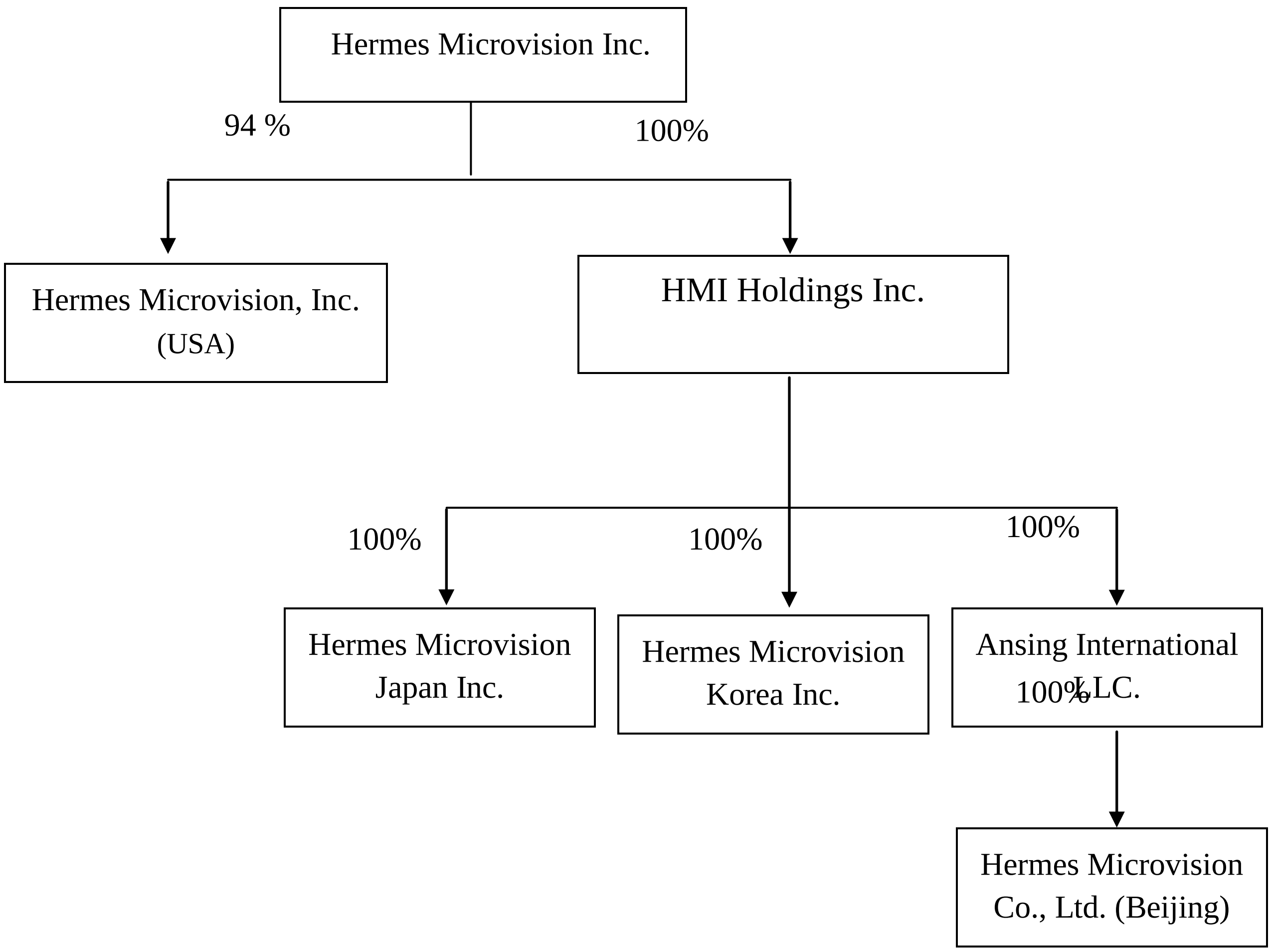
(13) Other important risks and response measures: None.

7. Other important matters: None

VIII. Special Notes

1. Information of Affiliated Companies

(1) Organization Chart of Affiliated companies



(2) Basic Information on various affiliated companies

Dec. 31, 2013

Name	Date of Establish-ment	Address	Paid-in capital	Major business items
Hermes Microvision, Inc.(USA)	Mar. 29, 2004	1762 Automation Parkway, San Jose, CA95131 USA	USD31,079 thousand	Research and Development Center
HMI Holdings Inc.	June 16, 2008	Level 2, Lotemau Centre, Vaea Street, Apia, Samoa	USD5,955 thousand	Investments in various enterprise
Hermes Microvision Korea Inc.	Sep. 19, 2008	2nd floor, Taeyang Building, 345-3, Banwol-dong, Hwasung-si, Kyungki-do, South Korea, 445-330	USD66 thousand	Sales & support services for e-beam inspection tools & components
Hermes Microvision Japan Inc.	Nov. 19, 2008	3F Cuore Ebisu, 4-11-9, Ebisu, Shibuyaku, Tokyo, Japan	JPY149,000 thousand	Sales & support services for e-beam inspection tools & components
Ansing International LLC.	Dec. 22, 2008	113, Barksdale Professional Center, Newark DE 19711-3258, Delaware, U.S.A.	-(Note 1)	Investments in various enterprise
Hermes Microvision Co., Ltd. (Beijing)	May 18, 2009	3rd Floor, No. 8 Liye Road, Beijing International Information Industry Base, Dingsi Road, Changping District, Beijing	-(Note 1)	Research, development, production and technical support services of semiconductor machines and equipment

Note 1: A limited company, the Company does not hold any equity shares

(3) In accordance with the Article 369-3 of the Company Act, if there is a presumption of controlling and subordinate relationship, it shall disclose the following items: None

(4) The industries covered by the business operations of the overall interrelated business enterprises or affiliated companies. The business operations with interconnections between the various affiliated companies should explain the division of labor among those companies:

Research, development, design, manufacture and sales of e-beam inspection tools and the technical support and services. For the division of labor among the affiliated companies, please look at (2) above for the basic information of each affiliated company.

(5) Information on directors, supervisors and president of respective affiliated enterprises:

Date of information: Dec. 31, 2013; Unit: share; %

Name	Position	Name or representative	Holding share	
			No. of shares	Rate of holding share
Hermes Microvision, Inc.(USA)	Responsible Person	Hwang, Ming-Chi	-	-
	Director	Shu, Chin-Yung	-	-
	Director	Jack Y. Jau	27,500	0.04
	President	Chen, Chung-Wei	12,500	0.01
HMI Holdings Inc.	Director	Jack Y. Jau	-	-
	Director	Shen, Hsiao-Lien	-	-
Hermes Microvision Korea Inc.	Responsible Person	Hwang, Ming-Chi	-	-
	Director	Shu, Chin-Yung	-	-
	Director	Jack Y. Jau	-	-
	Supervisor	Chen, Ming	-	-
Hermes Microvision Japan Inc.	Responsible Person	Eguchi Naoya	-	-
	Director	Hwang, Ming-Chi	-	-
	Director	Shu, Chin-Yung	-	-
	Supervisor	Chen, Ming	-	-
Ansing International LLC.	Director	Hmi Holdings Inc.	-	100
Hermes Microvision Co., Ltd. (Beijing)			-	-
	Chairman	Chen, Chung-Wei	-	-
	Director	Wang, Yi-Hsiang	-	-
	Director	Shen, Hsiao-Lien	-	-
	Supervisor	Pan, Chung-Shih	-	-
			-	-

(6) Operating status of respective affiliated enterprises

Unit: NT$1,000; Date of information: Dec. 31, 2013

Name	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating profit	Profit or loss for the period (After tax)	EPS (NT$)
Hermes Microvision, Inc.(USA)	665,970	1,121,203	477,627	643,576	1,707,278	82,089	61,236	-
HMI Holdings Inc.	181,851	211,086	-	211,086	-	-	143,341	-
Hermes Microvision Korea Inc.	2,122	53,426	41,692	11,735	74,669	(37,517)	2,250	-
Hermes Microvision Japan Inc.	52,574	108,957	56,510	52,447	641,006	10,665	132,446	-
Ansing International LLC.	127,155	146,904	-	146,904	-	-	8,645	-
Hermes Microvision Co., Ltd. (Beijing)	127,155	222,821	75,917	146,904	285,571	16,587	8,645	-

End-of-period exchange rate: USD1 = NT$29.805, and JPY1 = NT$0.2839

2. Private placement of securities in the latest year and as of the date of printing of the annual report: Nil

3. Subsidiary's holding or disposal of the Company's stock in the latest year and the date of printing of the annual report: Nil

4. Other supplementary explanations:

OTC-listing commitment	Status of the progress made for the commitment
Participate in assessment of the corporate governance system at least every two years, and the assessment results shall be reported in the shareholders' meeting. Also, when modifying related internal controls and audit systems, please refer to the "Corporate Governance Best-Practice Principles for TWSE/GTSM listed Companies".	Already participated in assessment of the corporate governance system, for which the Company will receive the assessment results in the 3rd quarter of 2014 and will report them in the 2015 regular shareholders' meeting. When modifying related internal controls and audit systems, the Company has referred to the "Corporate Governance Best-Practice Principles for TWSE/GTSM listed Companies"

IX. Any matters covered in Subparagraph 2 of Paragraph 2 of Article 36 of the Securities and Exchange Act occurred in the latest year and as of the date of printing of the annual report, which significantly impacted shareholders' equity and price of securities: Nil

Hermes Microvision, Inc.
Statement of Internal Control System

Date: Feb. 25, 2014

Based on the results of self-examination, I would like to state the following regarding the Internal Control System of the Company for the year 2013:

1. The Company ascertains that the establishment, implementation and maintenance of the internal control system is the duty and responsibility of the Company's board of directors and managers and the Company has already established such a system. Its aim is to provide a reasonable assurance that the effectiveness and efficiency of business operations (including profitability, performance and security of assets), reliability of the financial reports, and compliance with the various regulatory requirements, and other targets were accomplished.
2. Any internal control system has its inherent limitations, no matter how well it was designed. An effective internal control system can only provide a reasonable assurance that the above mentioned three targets were accomplished and due to changes in environments and circumstances, the effectiveness of the internal control system may change as well. Provided that the Company's internal control system has a self-monitoring mechanism, and when a deficiency is identified, the Company immediately takes a corrective action.
3. Based on the items determining the effectiveness of the internal control system under the provisions of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter called "Guidelines"), the Company determines whether the design and implementation of the internal control system are effective or not. The items determining the effectiveness of the internal control system adopted by the above mentioned "Guidelines" were based on the process of the management control, and divide the internal control system into five components: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, and 5. Supervision. Each component contains several items. For the aforementioned items, please refer to the provisions of the "Guidelines".
4. The Company has already adopted the above mentioned items that determine the effectiveness of the internal control system and for it to examine the effectiveness of the Company's design and implementation of the internal control system.
5. Based on the findings of the preceding paragraph, the Company believes that, as of Dec. 31, 2013, the internal control system (including the supervision and management of the subsidiaries), including the degree of attainment of its operational effectiveness and efficiency goals, the reliability of the financial reports and related regulatory compliance related to the design and implementation of the internal control system, was effective and it can reasonably ensures the achievement of the above mentioned objectives.
6. This statement will become an important part of the Company's annual report and prospectus and it will be disclosed to the public. Should there be any false information, omissions or other illegalities in the above public disclosure, it will involve legal liabilities as cited in Article 20, Article 32, Article 171 and Article 174 of the Securities Exchange Act.
7. This statement was approved by the board of directors of this Company on Feb. 25, 2014. Of the 7 directors present, there were no dissenting votes and the contents of this statement was approved by all present and we are hereby making this declaration.

Hermes Microvision, Inc.

Chairman: Shu, Chin-Yung

President: Jack Jau

Hermes Microvision, Inc.
Audit Committee's Review Report

The Financial Statements of Hermes Microvision, Inc. in fiscal year 2013 have been duly audited by PricewaterhouseCoopers and are believed to fairly represent the financial standing, operation results and cash flows of Hermes Microvision, Inc.. The Audit Committee has duly reviewed the Financial Statements along with the Business Report and proposal for profits distribution and hereby verify that they comply with the requirements of Company Law and relevant regulations. This report is duly submitted in accordance with Article 219 of the Company Law, and I, as the Chairman of the Audit Committee hereby submit this report.

To Hermes Microvision, Inc. 2014 Annual General Shareholders' Meeting

Hermes Microvision, Inc.
Chairman of the Audit Committee: Han-Liang Hu

February 25, 2014

Financial Statements

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR13000035

To Hermes Microvision, Inc.

We have audited the accompanying consolidated balance sheets of Hermes Microvision, Inc. and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hermes Microvision, Inc. and its subsidiaries as of December 31, 2013, December 31, 2012, and January 1, 2012 and the results of their operations and their cash flows for the years ended December 31, 2013 and 2012 in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the parent company only financial statements of Hermes Microvision, Inc. as of the years ended December 31, 2013 and 2012. In our report dated February 25, 2014, we expressed an unqualified opinion on these financial statements.

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

February 25, 2014

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2013 AMOUNT	%	December 31, 2012 AMOUNT	%	January 1, 2012 AMOUNT	%
	Current assets							
1100	Cash and cash equivalents	6(1)	$ 5,370,702	46	$ 2,776,308	53	$ 612,326	22
1147	Bond investments without active markets - current	6(3)	2,891,085	25	-	-	-	-
1170	Accounts receivable, net	6(4)	1,556,892	13	848,427	16	652,622	24
1180	Accounts receivable - related parties	7	13,367	-	303	-	7,135	-
1200	Other receivables		24,842	-	31,892	1	30,565	1
130X	Inventories	6(5)	1,516,157	13	1,278,613	25	1,189,641	44
1410	Prepayments		37,678	-	32,862	1	30,840	1
1470	Other current assets		33,751	-	3,154	-	22	-
11XX	**Current Assets**		11,444,474	97	4,971,559	96	2,523,151	92
	Non-current assets							
1523	Available-for-sale financial assets - noncurrent	6(2)	4,412	-	-	-	-	-
1600	Property, plant and equipment	6(6)	334,590	3	170,246	3	168,142	6
1780	Intangible assets	6(7)	10,632	-	10,717	-	11,045	1
1840	Deferred income tax assets	6(22)	48,626	-	27,020	1	30,595	1
1900	Other non - current assets		8,803	-	8,117	-	7,553	-
15XX	**Non - current assets**		407,063	3	216,100	4	217,335	8
1XXX	**Total assets**		$ 11,851,537	100	$ 5,187,659	100	$ 2,740,486	100

(Continued)

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

			December 31, 2013		December 31, 2012		January 1, 2012	
	Liabilities and Equity	Notes	AMOUNT	%	AMOUNT	%	AMOUNT	%
	Current liabilities							
2100	Short - term loans	6(8)	$ -	-	$ -	-	$ 657,000	24
2150	Notes payable		-	-	-	-	1,080	-
2170	Accounts payable		149,703	1	93,112	2	59,066	2
2180	Accounts payable - related parties	7	328	-	-	-	-	-
2200	Other payables	6(9)	678,687	6	378,101	7	168,240	6
2220	Other payables - related parties	7	68,731	1	62,125	1	87,590	3
2230	Current income tax liabilities	6(22)	159,758	1	85,194	2	100,064	4
2250	Provisions for liabilities - current	6(12)	972,259	8	577,257	11	218,576	8
2300	Other current liabilities		4,939	-	2,873	-	8,712	1
21XX	**Current Liabilities**		2,034,405	17	1,198,662	23	1,300,328	48
	Non-current liabilities							
2570	Deferred income tax liabilities	6(22)	5,042	-	14	-	3,589	-
2600	Other non - current liabilities	6(10)	79,058	1	88,940	2	61,412	2
25XX	**Non - current liabilities**		84,100	1	88,954	2	65,001	2
2XXX	**Total Liabilities**		2,118,505	18	1,287,616	25	1,365,329	50
	Equity							
	Equity attributable to owners of parent company							
	Share capital							
3110	Share capital - common stock	6(13)	710,000	6	660,000	13	600,000	22
3200	**Capital surplus**	6(14)	5,427,023	46	1,234,348	24	-	-
	Retained earnings	6(15)						
3310	Legal reserve		231,846	2	80,186	1	14,962	-
3320	Special reserve		4,144	-	-	-	-	-
3350	Unappropriated retained earnings		3,306,436	28	1,900,634	36	739,104	27
	Other equity interest	6(16)						
3400	Other equity interest		14,957	-	(8,136)	-	-	-
31XX	**Equity attributable to owners of the parent company**		9,694,406	82	3,867,032	74	1,354,066	49
36XX	**Non - controlling interest**		38,626	-	33,011	1	21,091	1
3XXX	**Total equity**		9,733,032	82	3,900,043	75	1,375,157	50
	Significant contingent liabilities and unrecognised contract commitments	9						
	Total liabilities and equity		$ 11,851,537	100	$ 5,187,659	100	$ 2,740,486	100

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars)

			For the years ended December 31			
			2013		2012	
		Notes	AMOUNT	%	AMOUNT	%
4000	**Operating revenue**	7	$ 5,340,043	100	$ 4,179,904	100
5000	**Operating costs**	6(5)(21)	(1,581,584)	(30)	(1,199,056)	(29)
5900	**Net operating margin**		3,758,459	70	2,980,848	71
	Operating expenses	6(20)(21) and 7				
6100	Selling expenses		(362,496)	(7)	(321,045)	(8)
6200	General and administrative expenses		(240,476)	(4)	(234,546)	(5)
6300	Research and development expenses		(743,966)	(14)	(717,941)	(17)
6000	**Total operating expenses**		(1,346,938)	(25)	(1,273,532)	(30)
6900	**Operating profit**		2,411,521	45	1,707,316	41
	Non-operating income and expenses					
7010	Other income	6(17)	79,312	2	34,570	1
7020	Other gains and losses	6(18)	64,698	1	(68,993)	(2)
7050	Finance costs	6(19)	-	-	(5,824)	-
7000	**Total non-operating income and expenses**		144,010	3	(40,247)	(1)
7900	**Profit before tax**		2,555,531	48	1,667,069	40
7950	Income tax expense	6(22)	(208,256)	(4)	(146,640)	(3)
8200	**Profit for the year**		$ 2,347,275	44	$ 1,520,429	37
	Other comprehensive income for the year					
8310	Cumulative translation differences of foreign operations		$ 27,061	1	($ 9,434)	-
8360	Actuarial gain (loss) on defined benefit plan		6,645	-	(26,412)	(1)
8399	Income tax relating to the components of other comprehensive income		297	-	-	-
8300	**Other comprehensive income for the year**		$ 34,003	1	($ 35,846)	(1)
8500	**Total comprehensive income for the year**		$ 2,381,278	45	$ 1,484,583	36
	Profit, attributable to:					
8610	Equity holders of the parent company		$ 2,343,600	44	$ 1,517,166	37
8620	Non-controlling interest		3,675	-	3,263	-
	Profit for the year		$ 2,347,275	44	$ 1,520,429	37
	Total comprehensive income attributable to:					
8710	Equity holders of the parent company		$ 2,376,699	45	$ 1,482,618	36
8720	Non-controlling interest		4,579	-	1,965	-
	Total comprehensive income for the year		$ 2,381,278	45	$ 1,484,583	36
	Basic earnings per share (In dollars)	6(23)				
9750	**Basic earnings per share**		$	35.09	$	23.34
	Diluted earnings per share (In dollars)	6(23)				
9850	**Diluted earnings per share**		$	35.04	$	23.30

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Equity attributable to owners of the parent								
			Retained earnings						
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Total	Non-controlling interest	Total equity
For the year ended December 31, 2012									
Balance at January 1, 2012	$ 600,000	$ -	$ 14,962	$ -	$ 739,104	$ -	$1,354,066	$ 21,091	$ 1,375,157
Issuance of common stock for cash	60,000	1,188,000	-	-	-	-	1,248,000	-	1,248,000
Appropriation of 2011 earnings									
Legal reserve	-	-	65,224	-	(65,224)	-	-	-	-
Cash dividends	-	-	-	-	(264,000)	-	(264,000)	-	(264,000)
Profit for the year	-	-	-	-	1,517,166	-	1,517,166	3,263	1,520,429
Other comprehensive income for the year	-	-	-	-	(26,412)	(8,136)	(34,548)	(1,298)	(35,846)
Adjustments arising from changes in percentages of ownership in subsidiary	-	10,517	-	-	-	-	10,517	9,955	20,472
Compensation cost for newly issued shares reserved for subscription by employees	-	35,831	-	-	-	-	35,831	-	35,831
Balance at December 31, 2012	$ 660,000	$ 1,234,348	$ 80,186	$ -	$ 1,900,634	($ 8,136)	$3,867,032	$ 33,011	$ 3,900,043

(Continued)

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Equity attributable to owners of the parent								
			Retained earnings						
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Total	Non-controlling interest	Total equity
For the year ended December 31, 2013									
Balance at January 1, 2013	$ 660,000	$ 1,234,348	$ 80,186	$ -	$ 1,900,634	($ 8,136)	$3,867,032	$ 33,011	$ 3,900,043
Issuance of common stock for cash	50,000	4,188,036	-	-	-	-	4,238,036	-	4,238,036
Appropriation of 2012 earnings									
Legal reserve	-	-	151,660	-	(151,660)	-	-	-	-
Special reserve	-	-	-	4,144	(4,144)	-	-	-	-
Cash dividends	-	-	-	-	(792,000)	-	(792,000)	-	(792,000)
Profit for the year	-	-	-	-	2,343,600	-	2,343,600	3,675	2,347,275
Other comprehensive income for the year	-	-	-	-	10,006	23,093	33,099	904	34,003
Adjustments arising from changes in percentages of ownership in subsidiary	-	4,639	-	-	-	-	4,639	1,036	5,675
Balance at December 31, 2013	$ 710,000	$ 5,427,023	$ 231,846	$ 4,144	$ 3,306,436	$ 14,957	$9,694,406	$ 38,626	$ 9,733,032

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	$ 2,555,531	$ 1,667,069
Adjustments to reconcile profit before tax to net cash provided by operating activities		
Income and expenses having no effect on cash flows		
(Reversal of allowance) provision for doubtful accounts	(67,806)	21,530
Depreciation	53,766	56,402
Amortization	6,440	6,162
Loss on disposal of property, plant, equipment and intangible assets	42	226
Compensation cost for newly issued shares reserved for subscription by employees	-	35,831
Compensation cost of employee stock option	2,827	4,403
Compensation cost of stock appreciation right	112,465	-
Interest expense	-	5,824
Interest income	(24,284)	(6,641)
Changes in assets/liabilities relating to operating activities		
Net changes in assets relating to operating activities		
Accounts receivable	(640,660)	(217,335)
Accounts receivable - related parties	(13,063)	6,832
Other receivables	7,050	(1,327)
Inventories	(229,323)	(137,171)
Prepayments	(4,816)	8,641
Other current assets	(30,597)	(3,132)
Net changes in liabilities relating to operating activities		
Notes payable	-	(1,080)
Accounts payable	56,591	34,046
Accounts payable - related parties	328	-
Other payables	110,726	210,077
Other payables - related parties	6,606	(25,465)
Provisions for liabilities	395,002	358,681
Other current liabilities	2,066	(5,839)
Other non - current liabilities	(3,237)	1,116
Cash provided by operations	2,295,654	2,018,850
Interest received	24,284	6,641
Interest paid	-	(6,040)
Income tax paid	(149,292)	(161,510)
Net cash provided by operating activities	2,170,646	1,857,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of bond investments without active markets-current	(2,891,085)	-
Acquisition of available - for - sales financial assets - non - current	(4,412)	-
Acquisition of property, plant and equipment	(146,627)	(46,416)
Proceeds from disposal of property, plant, equipment and intangible assets	612	393
Acquisition of intangible assets	(6,240)	(5,601)
Proceeds from disposal of intangible assets	47	-
Increased in deposits - out	(686)	(564)
Net cash used in investing activities	(3,048,391)	(52,188)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short - term loans	-	(657,000)
Proceeds from issuance of common stock	4,302,575	1,248,000
Cost of acquisition of capital	(64,539)	-
Cash dividends paid	(792,000)	(264,000)
Proceeds from the exercise of subsidiaries' employees stock option	-	20,472
Net cash provided by financing activities	3,446,036	347,472
Effect of exchange rate	26,103	10,757
Increase in cash and cash equivalents	2,594,394	2,163,982
Cash and cash equivalents at beginning of year	2,776,308	612,326
Cash and cash equivalents at end of year	$ 5,370,702	$ 2,776,308

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Hermes Microvision, Inc. (the "Company") was incorporated on May 19, 2003. The Company and its subsidiaries (collectively referred herein as the "Group") are engaged in the research, development, design, manufacturing and sale of precision instruments and machinery (electronic inspection equipment.) The Company's stock was listed on the GreTai Securities Market, effective from May 21, 2012.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on February 25, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

Not applicable as it is the first - time adoption of IFRSs by the Group this year.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

IFRS 9, 'Financial Instruments': Classification and measurement of financial instruments

A.The International Accounting Standards Board ("IASB") published IFRS 9, 'Financial Instruments', in November 2009, which will take effect on January 1, 2013 with early application permitted (Through the amendments to IFRS 9 published on November 19, 2013, the IASB has removed the previous mandatory effective date, but the standard is available for immediate application). Although the FSC has endorsed IFRS 9, FSC does not permit early application of IFRS 9 when IFRSs are adopted in R.O.C. in 2013. Instead, enterprises should apply International Accounting Standard No. 39 ("IAS 39"), 'Financial Instruments: Recognition and Measurement' reissued in 2009.

B.IFRS 9 was issued as the first step to replace IAS 39. IFRS 9 outlines the new classification and measurement requirements for financial instruments, which might affect the accounting treatments for financial instruments of the Group.

C. The Group has not evaluated the overall effect of the IFRS 9 adoption. However, based on preliminary evaluation, it was noted that the IFRS 9 adoption might have an impact on those instruments classified as “available-for – sale financial assets’ held by the Group, as IFRS 9 specifies that the fair value changes in the equity instruments that meet certain criteria may be reported in other comprehensive income, and such amount that has been recognized in other comprehensive income should not be reclassified to profit or loss when such assets are derecognized.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

The following are the assessment of new standards, interpretations and amendments issued by IASB but not yet endorsed by the FSC (application of the new standards and amendments should follow the regulations of the FSC):

Improvements to IFRSs 2010 cycle

Amendments to IFRS 7, ‘Financial instruments: Disclosures’

The amendment requires providing qualitative disclosures in the context of quantitative disclosures to enable users to link related disclosures and hence, form an overall picture of the nature and extent of risks arising from financial instruments. The amendment is effective for annual periods beginning on or after January 1, 2011.

Based on the Group’s assessment, the adoption of the amendment requires the Group to provide qualitative disclosures in the context of quantitative disclosures.

IFRS 9, ‘Financial instruments: Classification and measurement of financial liabilities’

IFRS 9 requires gains and losses on financial liabilities designated at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and cannot be reclassified to profit or loss when recognized the liabilities; and all other changes in fair value are recognized in profit or loss. The new guidance allows–the full amount of change in fair value recognized in profit or loss only if there is reasonable evidence showing on initial recognition that the recognition of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch (inconsistency). (That determination is made at initial recognition and is not reassessed subsequently.) The previous mandatory effective date has been removed, and the standard is available for immediate application.

Based on the Group’s assessment, the adoption of the standard has no significant impact on the consolidated financial statements of the Group.

IFRS 10,'Consolidated financial statements' and IAS 27, 'Separate financial statements' (as amended in 2011)

IAS 27 'Consolidated and separate financial statements' removes the guidance for consolidated financial statements and is renamed 'Separate financial statements'. The guidance is now addressed in IFRS 10, 'Consolidated financial statements'. IFRS 10 replaced all guidance on determination of control in IAS 27, 'Consolidated and separate financial statements' and SIC-12, 'Consolidation-special purpose entities' to solve the diversity in practice. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. These standards are effective for annual periods beginning on or after January 1, 2013.

Based on the Group's assessment, the adoption of the standard has no significant impact on the consolidated financial statements of the Group.

IFRS 12, 'Disclosure of interests in other entities'

The standard requires the disclosure of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after January 1, 2013.

Based on the Group's assessment, the adoption of the standard requires the Group to disclose additional information associated with its subsidiaries.

IFRS 13, 'Fair value measurement'

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The standard is effective for annual periods beginning on or after January 1, 2013.

Based on the Group's assessment, the adoption of the standard has no significant impact on the consolidated financial statements of the Group.

IAS 19 (revised), 'Employee benefits' (as amended in 2011)

The revised standard eliminates corridor approach and requires actuarial gains and losses to be recognized immediately in other comprehensive income. Past service costs will be recognized immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expense, is recognized in other comprehensive income. Additional disclosures are required to present how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows. The standard

(revised) is effective for annual periods beginning on or after January 1, 2013.

Based on the Group's assessment, the adoption of the amendment require the Group to recognize the past service costs in profit and loss when incurred. It is also required to categorize components of defined benefit costs in accordance with the revised standard. The Group expects the amendment will have impact to the Group's accrued pension liabilities and comprehensive income. Furthermore, the amendment will require the Group to increase the disclosure for the defined benefit plan.

Presentation of items of other comprehensive income ("OCI") (amendment to IAS 1)

The amendment changes the title used for the statement of comprehensive income to 'statement of profit or loss and other comprehensive income'. However, IAS 1 still permits entities to use 'statement of comprehensive income' as title. The amendment requires profit or loss and OCI to be presented separately. Also, the amendment requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss when meeting specific criteria subsequently. This amendment is effective for annual periods beginning on or after July 1, 2012.

This amendment mainly affects presentation of the financial statements. There is no significant impact to the Group based on the assessment.

Improvements to IFRSs 2009-2011

Amendment to IAS 32, 'Financial instruments: Presentation'

The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12,'Income tax'. Hence, income tax related to distributions is recognized in profit or loss, and income tax related to the costs of equity transactions is recognized in equity. The amendment is effective for annual periods beginning on or after 1 January 2013.

Based on the Group's assessment, the adoption of the amendments has no significant impact on the consolidated financial statements of the Group.

IFRIC 21, 'Levies'

The interpretation addresses the accounting for levies imposed by governments in accordance with legislation (other than income tax). A liability to pay a levy shall be recognized in accordance with IAS 37, 'Provisions, contingent liabilities and contingent assets'. An entity shall recognize a liability when an obligating event that gives rise to a liability to pay a levy and the timing and amount is certain. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future. The interpretation also requires that an obligation to pay a levy triggered by a minimum threshold is recognized when the threshold is reached. The interpretation is effective for annual periods beginning on or after January 1, 2014.

Based on the Group's assessment, the adoption of the interpretation has no significant impact on the consolidated financial statements of the Group.

Improvements to IFRSs 2010-2012 cycle

1. IFRS 2, 'Share-based payment'

   The amendment clarifies that the definition of a vesting condition only includes performance condition and service condition and revises or adds definition of performance condition, service condition and market condition.

   The amendment is effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

2. IFRS 13, 'Fair value measurement'

   When IFRS 13 'Fair value measurement' was published, paragraphs in relation to measuring those short-term receivables and payables with no stated interest rate at invoice amounts without discounting when the effect of not discounting is immaterial were deleted as consequential amendments. The amendment clarifies that the IASB did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases, noting that paragraph 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial.

Based on the Group's assessment, the amendments have no significant impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

A. These consolidated financial statements are the first consolidated financial statements prepared by the Group in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

B. In the preparation of the balance sheet of January 1, 2012 (the Group's date of transition to IFRSs) ("the opening IFRS balance sheet"), the Group has adjusted the amounts that were reported in the consolidated financial statements in accordance with previous R.O.C. GAAP. Please refer to Note 15 for the impact of transitioning from R.O.C. GAAP to IFRSs on the Group's financial position, operating results and cash flows.

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under

the historical cost convention:

(a)Available-for-sale financial assets measured at fair value.

(b)Liabilities on cash-settled share-based payment arrangement measured at fair value.

(c)Defined benefit liabilities recognized based on the net amount of pension fund assets plus unrecognized past service cost and unrecognized actuarial losses, and less unrecognized actuarial gains and present value of defined benefit obligation.

B.The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. The basis for preparation of consolidated financial statements:

(a)All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. In general, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The existence and effect of potential voting rights that are currently exercisable or convertible have been considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the Group gains control. They are de-consolidated from the date on which the control is lost.

(b)Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c)Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d)Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control over the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(e)When the Group loses control over a subsidiary, the Group revaluates any investment retained in the former subsidiary at its fair value. Any difference between fair value and carrying

amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control over a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. The subsidiaries included in the consolidated financial statements:

Name of Investor	Name of subsidiary	Main Business Activities	Percentage of Ownership		
			December 31, 2013	December 31, 2012	January 1, 2012
Hermes Microvision Inc.	Hermes Microvision, Inc. (USA)	Research and development center	94%	94%	96%
Hermes Microvision Inc.	HMI Holdings Inc.	Investment holdings	100%	100%	100%
HMI Holdings Inc.	Hermes Microvision Korea Inc.	Marketing of e-Beam inspection equipment and its components and related technical support services	100%	100%	100%
HMI Holdings Inc.	Hermes Microvision Japan Inc.	Marketing of e-Beam inspection equipment and its components and related technical support services	100%	100%	100%
HMI Holdings Inc.	Ansing International LLC.	Investment holdings	100%	100%	100%
Ansing International LLC.	Hermes Microvision, Co., Ltd. (Beijing)	Research, development and manufacturing of semiconductor machinery and equipment and related technical support services	100%	100%	100%

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which are the Company's functional currency and the Group's presentation currency.

A. Foreign currency transactions and balances

(a)Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b)Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c)Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d)All foreign exchange gains and losses are all presented in the statement of comprehensive income within "other gains and losses".

B.Translation of foreign operations

(a)The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and

iii. All resulting exchange differences are recognized in other comprehensive income.

(b)When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation.

(5) <u>Classification of current and non-current items</u>

A.Assets that meets one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a)Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b)Assets held mainly for trading purposes;

(c)Assets that are expected to be realized within twelve months from the balance sheet date;

(d)Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B.Liabilities that meets one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a)Liabilities that are expected to be paid off within the normal operating cycle;

(b)Liabilities arising mainly from trading activities;

(c)Liabilities that are to be paid off within twelve months from the balance sheet date;

(d)Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(7) Loans and receivables

A.Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, since short-term accounts receivable bear no interest, and considering that the effects of discounting would not be significant, the Group subsequently measures those receivables at the invoice amount.

B.Bond investments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognized in profit or loss.

(8) Available-for-sale financial assets

A.Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B.On a regular way purchase or sale basis, available-for-sale financial assets is recognized and derecognized using trade date accounting.

C.Available-for-sale financial assets are initially recognized at fair value plus transaction costs.

These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(9) <u>Impairment of financial assets</u>

A.The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B.The criteria that the Group uses to determine whether there is objective evidence of impairment loss is as follows:

(a)Significant financial difficulty of the issuer or debtor;

(b)A breach of contract, such as a default or delinquency in interest or principal payments;

(c)The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d)It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(e)The disappearance of an active market for that financial asset because of financial difficulties;

(f)Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(g)Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(h)A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C.When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows:

(a)Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate, and is recognized in profit or loss. If, in a subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized

impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b)Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss and is reclassified from "other comprehensive income" to "profit or loss". If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of and investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to receive cash flows expire.

(11) Lease receivables/ leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted - average method. The cost of finished goods and work - in - process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). The item-by-item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Property, plant and equipment

A.Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction periods are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial periods in which they are incurred.

C. Property, plant and equipment cost are measured at cost, and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Significant components are depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Machinery and equipment	3 ~ 8 years
Computer and communication equipment	5 years
Transportation equipment	5 ~ 10 years
Furniture and fixtures	3~ 7 years
Leasehold improvements	3~ 7 years
Other equipment	3~ 6 years

(14) Leased assets/ leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(15) Intangible assets

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 to 5 years.

(16) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not

exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

(17) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the periods of the borrowings using the effective interest method.

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured amortised cost using the effective interest method. However, since short-term accounts payable bear no interest, and considering that the effects of discounting would not be significant, the Group subsequently measures those payables at the invoice amount.

(19) Provisions

Provisions (including warranties, etc.) are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognized for future operating losses.

(20) Employee benefits

A.Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B.Pensions

(a)Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b)Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the periods in which they arise.

C.Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates. The Group calculates the number of shares of employees' stock bonus based on the fair value per share at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(21) Employee share-based payment

A.For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting periods, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. For the cash-settled share-based payment arrangements, the employee services received and the liability incurred are measured at the fair value of the liability to pay for those services, and are recognized as compensation cost and liability over the vesting period. The fair value of the liability shall be remeasured at each balance sheet date until settled at the settlement date, with any changes in fair value recognized in profit or loss.

(22) Income tax

A. The tax expense for the periods comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(24) Dividends

Dividends are recorded in the Company's financial statements in the periods in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(25) Revenue recognition

The Group manufactures and sells precision instruments and machinery. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(26) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Judgements and estimates are continually evaluated and adjusted based on historical experience and other factors. The above information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting periods. The resulting

accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A.Valuation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technological innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such a valuation of inventories is principally based on the demand for the products within the specified periods in the future. Therefore, there might be material changes to the valuation.

As of December 31, 2013, the carrying amount of inventories was $1,516,157.

B.Realisability of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realisability of deferred income tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

As of December 31, 2013, the Group recognized deferred income tax assets amounting to $48,626.

C.Provision for warranty liability

Warranty liabilities are primarily arising from sales of equipment. The amount of the obligation is estimated based on the sufficient objective evidences, including the historical warranty records.

As of December 31, 2013, the carrying amount of accrued warranty liabilities was $972,259.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2013	December 31, 2012	January 31, 2012
Cash on hand	$ 564	$ 689	$ 529
Checking accounts and demand deposits	2,419,466	1,418,499	611,797
Time deposits	2,950,672	1,357,120	-
	$ 5,370,702	$ 2,776,308	$ 612,326

A.The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B.The Group has no cash pledged to others.

(2) Available-for-sale financial assets

Item	December 31, 2013	December 31, 2012	January 1, 2012
Non-listed and emerging stocks	$ 4,412	$ -	$ -
Valuation adjustment of available-for-sale financial assets	-	-	-
Accumulated impairment- available-for-sale financial assets	-	-	-
Total	$ 4,412	$ -	$ -

The Group did not recognize any other comprehensive income for fair value change for the year ended December 31, 2013.

(3) Investments in bonds without active markets

Item	December 31, 2013	December 31, 2012	January 1, 2012
Deposit	$ 2,891,085	$ -	$ -

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

B.The Group recognized interest of $1,595 in profit for the year ended December 31, 2013.

C.The counterparties of the Group's investments have good credit quality. The maximum exposure to credit risk at balance sheet date is the carrying amount of investments in bonds without active markets.

(4) Accounts receivable

	December 31, 2013	December 31, 2012	January 1, 2012
Accounts receivable	$ 1,556,892	$ 998,329	$ 824,877
Less: allowance for bad debts	-	(149,902)	(172,255)
	$ 1,556,892	$ 848,427	$ 652,622

A. Analysis of movement of impaired accounts receivable:

(a)As of December 31, 2013, December 31, 2012, and January 1, 2012, the Group's provisions for impairment of accounts receivable were $0, $149,902 and $172,255, respectively.

(b)Movements on the Group's provision for impairment of accounts receivable are as follows:

	2013		
	Individual provision	Group provision	Total
At January 1	$ 149,902	$ -	$ 149,902
Reversal of impairment	(67,806)	-	(67,806)
Write off during the period	(70,790)	-	(70,790)
Effect of exchange rate changes	(11,306)	-	(11,306)
At December 31	$ -	$ -	$ -

	2012		
	Individual provision	Group provision	Total
At January 1	$ 172,255	$ -	172,255
Provision for impairment	1,710	-	1,710
Effect of exchange rate changes	(24,063)	-	(24,063)
At December 31	$ 149,902	$ -	$ 149,902

B.The credit rating of accounts receivable that were neither past due nor impaired had good credit quality.

C.As of December 31, 2013, December 31, 2012, and January 1, 2012, the maximum exposure to credit risk was the carrying amount of accounts receivable.

D.The Group does not hold any collateral as security.

E.On April 1, 2013 the Company's subsidiary – Hermes Microvision Japan Inc. entered an agreement with Merrill Lynch Japan Finance Co., Ltd. to sell its accounts receivable of Elpida Memory Inc. ("Elpida") at JPY 218,007 thousand. Under the agreement, Hermes Microvision Japan Inc. is not required to bear the uncollectibility risk of underlying accounts receivable. The original accounts receivable amounted to JPY 445,607 thousand, but it had been provided with 100% allowance for bad debt. Therefore, Hermes Microvision Japan Inc. had reversed the allowance for bad debt previously provided, and had written off the balance of outstanding accounts receivable.

(5) Inventories

	December 31, 2013		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 754,899	($ 184,878)	$ 570,021
Work - in - process	875,060	(96,009)	779,051
Finished goods	282,321	(115,236)	167,085
Total	$ 1,912,280	($ 396,123)	$ 1,516,157

	December 31, 2012		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 468,937	($ 138,843)	$ 330,094
Work - in - process	730,134	(22,043)	708,091
Finished goods	337,496	(97,068)	240,428
Total	$ 1,536,567	($ 257,954)	$ 1,278,613

	January 1, 2012		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 494,590	($ 121,996)	$ 372,594
Work - in - process	591,957	(39,866)	552,091
Finished goods	307,836	(42,880)	264,956
Total	$ 1,394,383	($ 204,742)	$ 1,189,641

For the years ended December 31, 2013 and 2012, the cost of inventories recognized as expense were $1,581,584 and $1,199,056, respectively, including the amounts of $135,721 and $82,396, respectively, that the Group wrote down from cost to net realizable value accounted for as ‘cost of goods sold’.

(6) Property, plant and equipment

	Machinery	Computer and communication equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment and construction in progress	Total
At January 1, 2013								
Cost	$ 228,967	$ 5,794	$ 4,728	$ 24,305	$ 44,307	$ 43,094	$ 9,094	$ 360,289
Accumulated depreciation and impairment	(120,701)	(1,723)	(1,733)	(13,197)	(20,403)	(32,286)	-	(190,043)
	$ 108,266	$ 4,071	$ 2,995	$ 11,108	$ 23,904	$ 10,808	$ 9,094	$ 170,246
2013								
Opening net book amount	$ 108,266	$ 4,071	$ 2,995	$ 11,108	$ 23,904	$ 10,808	$ 9,094	$ 170,246
Additions	26,917	1,980	744	3,967	9,733	2,544	178,137	224,022
Disposals	(652)	-	-	(2)	-	-	-	(654)
Reclassifications	-	-	-	-	-	(7,773)	-	(7,773)
Depreciation charge	(35,420)	(1,324)	(841)	(5,042)	(9,234)	(1,905)	-	(53,766)
Net exchange differences	1,625	111	34	117	614	-	14	2,515
Closing net book amount	$ 100,736	$ 4,838	$ 2,932	$ 10,148	$ 25,017	$ 3,674	$ 187,245	$ 334,590
At December 31, 2013								
Cost	$ 253,902	$ 7,515	$ 5,546	$ 26,050	$ 54,627	$ 4,088	$ 187,245	$ 538,973
Accumulated depreciation and impairment	(153,166)	(2,677)	(2,614)	(15,902)	(29,610)	(414)	-	($ 204,383)
	$ 100,736	$ 4,838	$ 2,932	$ 10,148	$ 25,017	$ 3,674	$ 187,245	$ 334,590

	Machinery	Computer and communication equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment	Leased assets	Total
At January 1, 2012									
Cost	$ 168,052	$ 5,803	$ 5,280	$ 20,740	$ 37,405	$ 41,549	$ 3,596	$ 23,448	$ 305,873
Accumulated depreciation and impairment	(80,068)	(2,259)	(1,783)	(9,005)	(12,985)	(26,327)	-	(5,304)	(137,731)
	$ 87,984	$ 3,544	$ 3,497	$ 11,735	$ 24,420	$ 15,222	$ 3,596	$ 18,144	$ 168,142
2012									
Opening net book amount	$ 87,984	$ 3,544	$ 3,497	$ 11,735	$ 24,420	$ 15,222	$ 3,596	$ 18,144	$ 168,142
Additions	23,767	1,755	255	4,671	6,874	-	9,094	-	46,416
Disposals	(501)	(3)	-	(115)	-	-	-	-	(619)
Reclassifications	31,212	-	5	(550)	952	1,836	(3,596)	(15,074)	14,785
Depreciation charge	(32,399)	(1,100)	(746)	(4,606)	(7,962)	(6,519)	-	(3,070)	(56,402)
Net exchange differences	(1,797)	(125)	(16)	(27)	(380)	269	-	-	(2,076)
Closing net book amount	$ 108,266	$ 4,071	$ 2,995	$ 11,108	$ 23,904	$ 10,808	$ 9,094	$ -	$ 170,246
At December 31, 2012									
Cost	$ 228,967	$ 5,794	$ 4,728	$ 24,305	$ 44,307	$ 43,094	$ 9,094	$ -	$ 360,289
Accumulated depreciation and impairment	(120,701)	(1,723)	(1,733)	(13,197)	(20,403)	(32,286)	-	-	(190,043)
	$ 108,266	$ 4,071	$ 2,995	$ 11,108	$ 23,904	$ 10,808	$ 9,094	$ -	$ 170,246

(7) Intangible assets

	Computer Software	
At January 1, 2013		
Cost	$	23,394
Accumulated amortization and impairment	(	12,677)
	$	10,717
2013		
Opening net book amount	$	10,717
Additions－acquired separately		6,240
Amortization charge	(	6,440)
Disposals	(	47)
Net exchange differences		162
Closing net book amount	$	10,632
At December 31, 2013		
Cost	$	22,571
Accumulated amortization and impairment	(	11,939)
	$	10,632

	Computer Software	
At January 1, 2012		
Cost	$	19,971
Accumulated amortization and impairment	(	8,926)
	$	11,045
2012		
Opening net book amount	$	11,045
Additions－acquired separately		5,601
Reclassifications		375
Amortization charge	(	6,162)
Net exchange differences	(	142)
Closing net book amount	$	10,717
At December 31, 2012		
Cost	$	23,394
Accumulated amortization and impairment	(	12,677)
	$	10,717

Details of amortization on intangible assets are as follows :

	2013	2012
Operating costs	$ 4	$ 46
Operating expenses	6,436	6,116
	$ 6,440	$ 6,162

(8) Short-term loans

December 31, 2013：None.

December 31, 2012：None.

Type of loans	January 1, 2012	Interest rate range	Collateral
Bank loans			
Unsecured loans	$ 657,000	1.2%~1.26%	None

(9) Other payables

	December 31, 2013	December 31, 2012	January 1, 2012
Accrued salaries and bonuses	$ 366,305	$ 200,997	$ 103,194
Accrued employees' bonuses and director's and supervisors' remuneration	100,245	77,982	12,231
Accrued commission	17,771	15,573	3,179
Payables on equipment	77,395	－	－
Others	116,971	83,549	49,636
	$ 678,687	$ 378,101	$ 168,240

(10) Pension

A.a)The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of a retirement fund monitoring committee.

b)The amounts recognized in the balance sheet are determined as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded obligations	($ 79,967)	($ 85,065)	($ 57,429)
Fair value of plan assets	12,500	11,188	10,001
Net liability in the balance sheet (show in other non-current liabilities)	($ 67,467)	($ 73,877)	($ 47,428)

c)Changes in present value of funded are as follows:

	2013	2012
Present value of funded obligation at January 1	$ 85,065	$ 57,430
Current service cost	330	327
Interest expense	1,273	1,003
Actuarial profit and loss	(6,701)	26,305
At December 31	$ 79,967	$ 85,065

d)Changes in fair value of plan assets are as follows:

	2013	2012
Fair value of plan assets at January 1	$ 11,188	$ 10,001
Expected return on plan assets	203	208
Actuarial profit and loss	(56)	(107)
Employer contributions	1,165	1,086
At December 31	$ 12,500	$ 11,188

e)Amounts of expenses recognized in comprehensive income

	2013	2012
Current service cost	$ 330	$ 327
Interest cost	1,273	1,003
Expected return on plan assets	(203)	(208)
Current service cost	$ 1,400	$ 1,122

Detail of cost and expenses recognized in statement of comprehensive income are as follows:

	2013	2012
Cost of sales	$ 505	$ 815
Selling expenses	224	61
General and administration expenses	264	93
Research and development expenses	407	153
	$ 1,400	$ 1,122

f) Amounts recognized under other comprehensive income are as follows:

	2013	2012
Recognition for current period	($ 6,645)	$ 26,412
Accumulated amount	$ 19,767	$ 26,412

g) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of 2013 and 2012 is given in the Annual Labor Retirement Fund Utilisation Report published by the government. Expected return on plan assets was a projection of overall return for the obligation period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilisation by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by Taiwan local banks.

h) The principal actuarial assumptions used were as follows:

	2013	2012	2011
Discount rate	2%	1.5%	1.75%
Future salary increases	4%	4%	3%
Expected return on plan assets	1.75%	1.75%	2%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

i) Historical information of experience adjustments was as follows:

	December 31, 2013	December 31, 2012
Present value of defined benefit obligation	($ 79,967)	($ 85,065)
Fair value of plan assets	12,500	11,188
Deficit in the plan	($ 67,467)	($ 73,877)
Experience adjustments on plan liabilities	-	-
Experience adjustments on plan assets	-	-

j) Expected contributions to the defined benefit pension plans of the Group within one year from December 31, 2013 amounts to $1,184.

A. a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

b) The Company's indirect Chinese subsidiary – Hermes Microvision Co., Ltd. (Beijing) has a funded defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (the "PRC") are based on certain percentage of the employees' monthly salaries and wages. Except for the monthly contributions, Hermes Microvision Co., Ltd. (Beijing) has no further obligations under the plan.

c) The subsidiary – Hermes Microvision, Inc. (USA) has established a 401(k) plan in accordance with Article 401(k) of the Internal Revenue Code of the U.S.A. Under the 401(k) plan, Hermes Microvision, Inc. (USA) may contribute monthly a certain amount of the employees' monthly salaries, not exceeding the maximum limit, to the employees' pension accounts based on its employee reward and retirement policy.

d) For the years ended December 31, 2013 and 2012, the Group recognized pension expenses based on the above pension plan amounting to $27,437 and $19,724, respectively.

(11) Share-based payment

The Company:

A. For the years ended December 31, 2013 and 2012, the Company's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Cash capital increase reserved for employee preemption	March 15, 2012	900,000	NA	Vested immediately
Stock appreciation rights plan	December 31, 2013	1,014,000 (Note)	3 years	2 years' service

Note: Including 399,500 units for the subsidiaries' employees. Each unit represents the future appreciation of a stock.

B. The fair value of share-based payment transactions granted measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Share price (in NT dollars)	Exercise price (in NT dollars)	Expected price volatility	Expected term	Expected dividends yield rate	Risk - free interest rate	Fair value per unit (in NT dollars)
Cash capital increase reserved for employee preemption	March 15, 2012	$ 238.30	$ 200	26.23%	2 months	-	0.7274%	$ 39.812
Stock appreciation rights plan	December 31,2013	N/A	N/A	38.29%~45.94%	3 Years	-	0.4309%~ 0.6795%	$216.63~ 352.26

Stock appreciation right plan that is settled by cash.

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

	2013	2012
Equity settled-cash capital increase reserved for employee preemption	$ -	$ 35,831
Cash settled-stock appreciation rights plan	112,465	-
	$ 112,465	$ 35,831

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

	December 31, 2013	December 31, 2012	January 1, 2012
Liabilities on cash-settled-Stock appreciation rights	$ 112,465	$ -	$ -

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

A. As of December 31, 2013, the Company's subsidiary-Hermes Microvision, Inc. (U.S.A) share-based payment arrangements were as follows:

Type of arrangement	Grant date	Outstanding quantity granted	Contract period	Vesting conditions
Employee stock options	January 1, 2006 ~ November 1, 2011	378,000	10 years	4 years' service

The above share-based payment arrangements are settled by equity.

B. Details of the share-based payment arrangements of Hermes Microvision Inc. (U.S.A) are as follows:

	2013		2012	
	No. of options	Weighted-average exercise price (in US dollars)	No. of options	Weighted-average exercise price (in US dollars)
Options outstanding at beginning of the year	672,044	$ 0.9126	1,845,826	$ 0.59839
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Options exercised	(119,877)	0.8003	(1,170,573)	0.32300
Options expired	(174,167)	0.8700	(3,209)	0.72018
Options outstanding at end of the year	378,000	0.8486	672,044	0.91262
Options exercisable at end of the year	164,209	0.8510	279,428	0.73215

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2013 and 2012 was $0.8003 (in US dollars) and $0.3230 (in US dollars), respectively.

D. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

		December 31, 2013		December 31, 2012	
Date of the plan	Expiry date	No. of shares (in thousands)	Exercise price (in US dollars)	No. of shares (in thousands)	Exercise price (in US dollars)
April 1, 2010 ~ November 1, 2011	March 31, 2020~ October 31, 2021	378	$ 0.56~0.87	672	$ 0.49~0.87

		January 1, 2012	
Date of the plan	Expiry date	No. of shares (in thousands)	Exercise price (in US dollars)
March 25, 2005 ~ November 1, 2011	March 24, 2015 ~ October 31, 2021	1,845	$ 0.2~0.87

E. The fair value of stock options granted is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Exercise price (in US dollars)	Expected Price volatility	Expected term	Expected dividends yield rate	Risk-free interest rate	Fair value per unit (in US dollars)
Employee stock options	March 25, 2005 ~ November 1, 2011	$0.49~0.87	29.85%~ 40.21%	1~9.84 years	-	2.22%~ 5.2%	$0.1043~ 0.4954

Note: Expected price volatility rate was estimated by using the peer companies' stock prices of the most recent period with length similar to the stock options' expected life and the standard deviation of return on the stock during this period.

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

	2013	2012
Equity-settled	$ 2,827	$ 4,403

(12) Provisions

	Warranty
At January 1, 2013	$ 577,257
Additional provisions	395,002
At December 31, 2013	$ 972,259

(13) Share capital

A. As of December 31, 2013, the Company's authorized capital was $1,200,000, consisting of 120,000 thousand shares of ordinary stock, and the paid-in capital was $710,000 with a par value of $10 (in NT dollars) per share. All proceeds from shares issued have been collected. Movements in the number of the Company's ordinary shares outstanding are as follows:

	2013	2012
At January 1	66,000,000	60,000,000
Issuance of common stock for cash	5,000,000	6,000,000
At December 31	71,000,000	66,000,000

B. As authorized during the shareholders' meeting on June 4, 2013, the Board of Directors adopted a resolution in the July 31, 2013 meeting to increase capital by issuance of Global Deposit Receipts ("GDRs"). The offering was completed in November 2013 with the issuance of 5,000 thousand new shares and 5,000 thousand existing outstanding shares, totalling 10,000 thousand units to be listed in Luxembourg Stock Exchange. Each unit of GDRs represents 1 common share. The issue price was US$29.17 per unit, which is equivalent to NT$860 per unit. Total proceeds raised were $4,238,036 after deducting the issuance costs.

(14) Capital surplus

Pursuant to the R.O.C. Company Law, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized as mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	Share premium	Adjustments arising from changes in ownership percentage in subsidiary
At January 1, 2013	$ 1,223,831	$ 10,517
Issuance of common stock for cash	4,188,036	-
Adjustments arising from changes in ownership percentage in subsidiary	-	4,639
At December 31, 2013	$ 5,411,867	$ 15,156

	Share premium	Adjustments arising from changes in ownership percentage in subsidiary
At January 1, 2012	$ -	$ -
Issuance of common stock for cash	1,188,000	-
Adjustments arising from changes in ownership percentage in subsidiary	-	10,517
Compensation cost for newly issued shares reserved for subscription by employees	35,831	-
At December 31, 2012	$ 1,223,831	$ 10,517

(15) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Bonus distributed to the employees and remuneration paid to the directors and supervisors should account for higher than 1% and less than 1%, respectively, of the total remaining distributable earnings. The individuals who are entitled to employee stock dividends may include the employees of the Company’s affiliates who meet certain criteria. Such criteria are determined by the Board of Directors. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.

B. As the Company’s industry is in the growth stage, in order to be in line with the industry’s overall environment and its characteristics and pursue the goals of the Company’s sustainable

operations and shareholders' long-term interests, the dividend policy is adopted taking into consideration the Company's actual operating results of the dividend distribution year and the capital budget planning of the following year. Dividends are distributed in the form of stock or cash. According to the Company's dividend policy, cash dividends shall account for at least 10% of the total dividends distributed.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the amount of the associated special reserve could be released and included in the distributable earnings.

E. For the years ended December 31, 2013 and 2012, employees' bonus was accrued at $91,132 and $59,774, respectively; directors' and supervisors' remuneration were accrued at $9,113 and $5,977, respectively. The difference of $2,777 between the amount resolved by the stockholders and the amount recognized in the 2012 financial statements regarding employees' bonus and directors' and supervisors' remuneration was adjusted in the current statement of comprehensive income. The proposed directors' and supervisors' remuneration are $4,800 and the proposed employees' cash bonus are $91,132. As of February 25, 2014, the above mentioned 2013 earnings appropriation had not been approved by the stockholders' meeting.

Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. Dividends distributed to owners amounted to $792,000 ($12 (in dollars) per share) and $264,000 ($4 (in dollars) per share) for the years ended December 31, 2013 and 2012, respectively. The dividend distribution proposal for 2013 was proposed by the Boards of Directors on February 25, 2014 and amounted to $1,136,000 ($16 (in dollars) per share). The above mentioned 2013 earnings appropriation had not been approved by the stockholders' meeting.

(16) Other equity

	Currency translation
At January 1, 2013	($ 8,136)
Cumulative translation difference of foreign operations	26,157
Tax on cumulative translation difference of foreign operations	(3,064)
At December 31, 2013	$ 14,957

	Currency translation
At January 1, 2012	$ -
Cumulative translation difference of foreign operations	(8,136)
Tax on cumulative translation difference of foreign operations	-
At December 31, 2012	($ 8,136)

(17) Other income

	2013	2012
Interest income from bank deposits	$ 24,284	$ 6,641
Rental revenue	-	27,062
Debt income, net	54,965	-
Others	63	867
Total	$ 79,312	$ 34,570

(18) Other gains and losses

	2013	2012
(Loss) gain on disposal of property, plant, equipment and intangible assets	($ 42)	($ 226)
Net currency exchange gain (loss)	64,815	(63,664)
Other losses	(75)	(5,103)
Total	$ 64,698	($ 68,993)

(19) Finance costs

	2013	2012
Interest expense:		
Bank loans	$ -	$ 5,824
Finance costs	$ -	$ 5,824

(20) Expenses by nature

	2013	2012
Employee benefit expense	$ 1,138,506	$ 1,058,672
Depreciation charges on property, plant and equipment	53,766	53,890
Amortization charges on intangible assets	6,440	6,162

(21) Employee benefit expense

	2013	2012
Wages and salaries	$ 877,585	$ 880,230
Compensation cost of employee stock options	115,292	40,233
Labor and health insurance fees	67,614	64,515
Pension costs	28,837	20,846
Other personnel expenses	49,178	52,848
	$ 1,138,506	$ 1,058,672

(22) Income tax

A. Income tax expense

a) Components of income tax expense:

	2013	2012
Current tax:		
Current tax on profits for the period	$ 197,541	$ 144,391
Adjustments in respect of prior years	(5,566)	2,249
Total current tax	191,975	146,640
Deferred tax:		
Origination and reversal of temporary differences	16,281	-
Income tax expense	$ 208,256	$ 146,640

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

	2013	2012
Cumulative translation differences of foreign operations	($ 3,064)	$ -
Actuarial gain / loss on defined benefit obligations	3,361	

B. As of December 31, 2013, the Company’s income tax returns have been assessed and approved by the Tax Authority through 2011.

C. The relationship between income tax expense and accounting profit is as follows：

	2013	2012
Tax on pretax income at statutory tax rate	$ 428,500	$ 279,698
Subsidiaries-income tax expense accrued in accordance with the local laws	31,271	15,295
Tax effect of non pretax income items	(10,576)	-
Estimated 10% corporate income tax on unappropriated earnings	56,880	32,302
Adjustment of prior years' income tax	(5,566)	2,249
Tax effect of income tax exemption	(322,106)	(254,229)
Tax effect of deferred tax assets realized	29,853	71,325
Income tax expense	$ 208,256	$ 146,640

D. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	2013				
	January 1,	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31,
Temporary differences					
-Deferred tax assets					
Unrealized loss on inventory	$ -	$ 9,580	$ -	$ -	$ 9,580
Provision for warranty	-	29,562	-	-	29,562
Unrealized investment loss on long-term equity investments	27,020	(26,184)	-	-	836
Accrued pension	-	2,009	-	-	2,009
Accrued employee bonus	-	3,278	-	-	3,278
Actuarial gain / loss on defined benefit plan	-	-	3,361	-	3,361
Subtotal	27,020	18,245	3,361	-	48,626
-Deferred tax liabilities					
Unrealized foreign exchange gain	(14)	(1,964)	-	-	(1,978)
Currency translation differences	-	-	(3,064)	-	(3,064)
Subtotal	(14)	(1,964)	(3,064)	-	(5,042)
Total	$ 27,006	$ 16,281	$ 297	$ -	$ 43,584

	2012				
	January 1,	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31,
Temporary differences					
-Deferred tax assets					
Unrealized investment loss on long-term equity investments	$ 30,595	($ 3,575)	$ -	$ -	$ 27,020
-Deferred tax liabilities					
Unrealized foreign exchange gain	(3,589)	3,575	-	-	(14)
Total	$ 27,006	$ -	$ -	$ -	$ 27,006

E. The amounts of deductible temporary difference that are not recognized are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Deductible temporary differences	$ 1,278,512	$ 1,003,602	$ 679,487

F. The Company's products are qualified to a five-year exemption on income tax under the "Incentives for Emerging Important Strategic Industries in Manufacturing and Technology Services". The income tax exemption is valid from January 1, 2012 to December 31, 2016.

G. As of December 31, 2013, December 31, 2012 and January 1, 2012 the subsidiary – Hermes Microvision Inc. (USA) was eligible for investment credits for research and development expenditures amounting to $99,996, $95,222 and $83,344, respectively, under the U.S. Federal Tax Law, which will expire in 2022 and $91,621, $74,140 and $71,012 under the California Tax Law, which has no expiry date, and unrecognized deferred tax assets.

H. Unappropriated retained earnings:

	December 31, 2013	December 31, 2012	January 1, 2012
Earnings generated in and before 1997	$ -	$ -	$ -
Earnings generated in and after 1998	3,306,436	1,900,634	739,104
	$ 3,306,436	$ 1,900,634	$ 739,104

I. As of December 31, 2013, December 31, 2012, and January 1, 2012, the balance of the imputation tax credit account was $137,913, $102,306, and $1,893, respectively. The creditable tax rate was 9.46% for 2012 and was estimated to be 4.17 % for the year ended December 31, 2013.

(23) Earnings per share

	2013		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands of shares)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 2,343,600	66,780	$ 35.09
Diluted earnings per share			
Profit attributable to equity holders of the parent company	$ 2,343,600	66,780	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	95	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 2,343,600	66,875	$ 35.04

	2012		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands of shares)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 1,517,166	64,989	$ 23.34
Diluted earnings per share			
Profit attributable to equity holders of the parent company	$ 1,517,166	64,989	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	112	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 1,517,166	65,101	$ 23.30

(24) Non-cash transactions

	December 31, 2013	December 31, 2012
Purchase of fixed assets	$ 224,022	$ 46,416
Add: opening balance of payable on equipment	-	-
Less: ending balance of payable on equipment	(77,395)	-
Cash paid during the period	$ 146,627	$ 46,416

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A.Operating revenue:

	2013	2012
Sales of goods:		
The entity with significant influence over the Group	$ 15,494	$ 8,998

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

B.Purchases of services:

	2013	2012
Technology service charge- The entity with significant influence over the Group	$ 19,751	$ 5,963
Commission expense- The entity with significant influence over the Group	$ 21,213	$ 61,867
Other expense- The entity with significant influence over the Group	$ 29	$ 2,492

The above transactions are under normal commercial terms and conditions.

C.Period-end balances arising from sales of goods:

	December 31, 2013	December 31, 2012	January 1, 2012
Receivables from the entity with significant influence over the Group	$ 13,367	$ 303	$ 7,135

The receivables from the entity with significant influence over the Group arise mainly from sale transactions. The receivables are due from one to two months after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions accrued against receivables from related parties.

D.Period-end balances arising from purchases of services:

	December 31, 2013	December 31, 2012	January 1, 2012
Receivables from the entity with significant influence over the Group	$ 68,731	$ 62,125	$ 87,590

E.Leases

	2013	2012
Rental expense- The entity has significant influence over the Group	$ 21,891	$ 15,091

(2) Key management compensation

	2013	2012
Salaries and other short-term employee benefits	$ 42,910	$ 39,735
Share-based payment	15,259	-
	$ 58,169	$ 39,735

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A.Operating leases commitments

The Group leases offices and plant assets under non-cancellable operating lease agreements. Rental expense of $73,854 and $72,979 were recognized for the years ended December 31, 2013 and 2012, respectively.

The majority of lease agreements are renewable at the end of the lease periods at market rates.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Not later than one year	$ 62,170	$ 62,649	$ 55,636
Later than one year but not later than five years	145,180	64,995	81,350
Later than five years	99,121	2,266	6,829
Total	$ 306,471	$ 129,910	$ 143,815

B. Capital commitments

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

	December 31, 2013	December 31, 2012	January 1, 2012
Future payments for plant and equipment	$ 640,892	$ -	$ -

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

In order to safeguard the Group’s ability to adapt to the changes in the industry and to accelerate the new product development, the Group’s objectives when managing capital are to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities and dividends paid to shareholders.

The Group monitors capital through the ratio of total liabilities divided by total assets. The Group's strategy is to maintain the ratio within 50%. As of December 31, 2013, December 31, 2012, and January 1, 2012, the Group's ratios of total liabilities divided by total assets were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	$ 2,118,505	$ 1,287,616	$ 1,365,329
Total assets	$ 11,851,537	$ 5,187,659	$ 2,740,486
Total liabilities/total assets ratio	18%	25%	50%

(2) Financial instruments

A. The carrying amounts of the Group’s financial instruments measured at amortized cost approximate their fair values. These include cash and cash equivalents, notes payable, accounts receivable, other receivables, short-term loans, notes payable, accounts payable and other payables.

B. Financial risk management policies

a) The Group’s activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial position and financial performance.

b) Risk management is carried out by the finance department (the “Group finance”) under policies approved by the Board of Directors. Group finance identifies, evaluates and hedges financial risks in close co-operation with the Group’s operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

Except for the following, there is no significant change in this period.

a) Market risk

Foreign exchange risk

- The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, RMB and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

- Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

- The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, RMB and JPY). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2013		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 213,128	29.805	$ 6,352,280
JPY:NTD	1,730	105.390	$ 51,563
Financial liabilities			
Monetary items			
USD:NTD	$ 14,133	29.805	$ 421,234
USD:JPY	568	105.390	$ 16,929

	December 31, 2012		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 58,829	29.04	$ 1,708,394
JPY:NTD	12,367	0.34	4,155
USD:JPY	4,391	86.58	127,515
Financial liabilities			
Monetary items			
USD:NTD	$ 6,415	29.04	$ 186,292
USD:JPY	9,288	86.58	$ 269,724

	January 1, 2012		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 33,887	30.275	$ 1,025,929
JPY:NTD	812,330	0.391	317,296
Financial liabilities			
Monetary items			
USD:NTD	$ 12,081	30.275	$ 365,752

Analysis of foreign currency market risk arising from significant foreign exchange variation.

	For the year ended, 2013		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 63,523	$ -
JPY:NTD	1%	516	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 4,212	$ -
USD:JPY	1%	169	-

	For the year ended, 2012				
	Sensitivity Analysis				
	Extent of Variation	Effect on Profit or Loss		Effect on other comprehensive income	
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	1%	$	17,084	$	-
JPY:NTD	1%		42		-
USD:JPY	1%		1,275		-
Financial liabilities					
Monetary items					
USD:NTD	1%	$	1,863	$	-
USD:JPY	1%		2,697		-

Price risk

The Group does not hold any equity securities, so no equity price risk is expected. The Group is not exposed to commodity price risk either.

Interest rate risk

At December 31, 2013 and 2012, if interest rates on NTD-denominated time deposits had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2013 and 2012 would have been $14,604 and $3,392 lower/higher, respectively, mainly as a result of higher/lower interest revenue on floating rate time deposits.

b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

iii.The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial asset in Note 6.

c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group’s debt financing plans, covenant compliance, and compliance with internal balance sheet ratio targets.

ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts that are expected to readily generate cash inflows for managing liquidity risk.

iii. The table below analyses the Group’s non-derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:	Less than 1 year
December 31, 2013	
Accounts payable	$ 149,703
Accounts payable- related parties	328
Other payables	678,687
Other payables - related parties	68,731

Non-derivative financial liabilities:	Less than 1 year
December 31, 2012	
Accounts payable	$ 93,112
Other payables	378,101
Other payables - related parties	62,125

Non-derivative financial liabilities:

January 1, 2012	Less than 1 year
Short-term borrowings	$ 662,824
Notes payable	1,080
Accounts payable	59,066
Other payables	168,240
Other payables - related parties	87,590

(e) Fair value estimation

A. The table below analyses financial instruments measured at fair value, by valuation method.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data.

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2013.

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale financial assets	$ -	$ -	$ 4,412	$ 4,412
Equity securities	-	-	-	-
Total	$ -	$ -	$ 4,412	$ 4,412

December 31, 2012 and January 1, 2012:None.

B. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

C. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

D. Specific valuation techniques used to value financial instruments include:

a) Quoted market prices or dealer quotes for similar instruments.

b) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

c) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

d) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments as at December 31, 2013,

	2013
At January 1	$ -
Acquisition	4,412
At December 31	$ 4,412

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

(Information on investee companies is disclosed based on investee companies' financial statements, which were audited by independent auditors. The following transactions had been eliminated in the consolidated financial statements; they are disclosed for reference purpose only.)

(a) Loans granted: None.

(b) Endorsements and guarantees provided by the Company to others: None.

(c) Holding of securities as of December 31, 2013:

				December 31, 2013				
Investor	Types of marketable securities	Relationship of the issuer with the Company	General ledger account	Number of shares /unit	Book value	Percentage	Market value (Note)	Footnote
Hermes Microvision, Inc.	TransPacific Medtech Fund, LP.	Non-related-party	Available-for -sale financial assets-noncurrent	-	$ 4,412	15%	$ 4,412	none

Note: Derived from net equity value.

(d) Aggregate purchase or sales of the same securities reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(e) Acquisition of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(f) Disposal of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(g) Purchases or sales of goods from or to related parties reaching $100,000 or 20% of paid-in capital or more for the year ended December 31, 2013:

			Transactions				Difference in transaction terms compared to third party transactions		Accounts receivable / (payable)	
Purchaser / Seller	Counterparty	Relationship with the counterparty	Purchases / (sales)	Amount	Percentage of purchases/(sales)	Credit term	Unit price	Term	Amount	Percentage of accounts (payable)/ receivable
Hermes Microvision, Inc.	Hermes Microvision, Japan Inc.	Subsidiary	Sales	($ 584,974)	(17%)	30 days after delivery	Approximately the same with third party transactions	Approximately the same with third party transactions	$ 16,918	1%
Hermes Microvision, Inc.	Hermes Microvision Inc. (USA)	Subsidiary	〃	(369,737)	(7%)	〃	〃	〃	320,750	18%
Hermes Microvision, Inc. (USA)	Hermes Microvision, Inc.	Parent company	〃	(751,647)	(44%)	〃	〃	〃	209,867	46%
Hermes Microvision, Co,Ltd(Beijing	Hermes Microvision, Inc.	Parent company	〃	(118,652)	(42%)	〃	〃	〃	11,738	62%
Hermes Microvision, Inc.	Hermes Microvision, Co,Ltd(Beijing	Subsidiary	Purchases	118,652	12%	30 days after acceptance	〃	〃	(11,738)	(4%)
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	Subsidiary	〃	751,647	75%	〃	〃	〃	(209,867)	(63%)
Hermes Microvision, Japan Inc.	Hermes Microvision, Inc.	Ultimate parent company	〃	369,737	42%	〃	〃	〃	(320,750)	(86%)
Hermes Microvision, Inc. (USA)	Hermes Microvision, Inc.	Parent company	〃	584,974	100%	〃	〃	〃	(16,918)	(100%)

(h) Receivables from related parties reaching $100,000 or 20% of paid-in capital or more as of December 31, 2013:

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2013	Turnover rate	Overdue receivables: Amount	Overdue receivables: Action taken	Amount collected subsequent to the balance sheet date	Allowance for bad debts
Hermes Microvision, Inc.(USA)	Hermes Microvision Inc.	Parent company	$ 209,867	3.13	$ -	$ 228,077	$ -	$ -
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA).	Subsidiary	320,750	1.64	-	-	-	-

(i) Derivative financial instruments undertaken during the year ended December 31, 2013: None.

(j) Significant inter-company transactions during the year ended December 31, 2013:

				Transactions			
Number (Note 1)	Company	Counterparty	Relationship (Note 2)	General ledger account	Amount (Note 4)	Terms	Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	(1)	Sales	$ 369,737	The price and terms were based on the ordinary course of business.	6.92%
0	"	"	(1)	Purchases	751,647	The price and terms were based on the ordinary course of business.	14.08%
0	"	"	(1)	Contracted research expense	632,355	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	11.84%
0	"	"	(1)	Other expenses	67,210	"	1.26%
0	"	"	(1)	Accounts receivable	320,750	Net 30 days, after delivery	2.71%
0	"	"	(1)	Accounts payable	209,867	Net 30 days, after acceptance	1.77%
0	"	"	(1)	Other payables	66,155	"	0.56%
0	"	Hermes Microvision Japan Inc.	(1)	Sales	584,974	The price and terms were based on the ordinary course of business.	10.95%
0	"	"	(1)	Contracted service expenses	17,474	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.33%
0	"	"	(1)	Other expenses	(12,512)	"	(0.23%)
0	"	"	(1)	Accounts receivable	16,918	Net 30 days, after delivery	0.14%
0	"	Hermes Microvision Korea Inc.	(1)	Sales	30,304	The price and terms were based on the ordinary course of business.	0.57%
0	"	"	(1)	Other expenses	28,866	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.54%
0	"	"	(1)	Purchases	28,172	The price and terms were based on the ordinary course of business.	0.53%
0	"	"	(1)	Accounts receivable	30,618	Net 30 days, after delivery	0.26%
0	"	Hermes Microvision Co., Ltd. (Beijing)	(1)	Purchases	118,652	The price and terms were based on the ordinary course of business.	2.22%

Number (Note 1)	Company	Counterparty	Relationship (Note 2)	Transactions: General ledger account	Transactions: Amount (Note 4)	Transactions: Terms	Transactions: Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision Co., Ltd. (Beijing)	(1)	Accounts payable	$ 11,738	Net 30 days, after acceptance	0.10%
1	Hermes Microvision, Inc. (USA)	"	(3)	Sales	33,266	The price and terms were based on the ordinary course of business.	0.62%
1	"	"	(3)	Purchases	68,991	The price and terms were based on the ordinary course of business.	1.29%
1	"	"	(3)	Contracted research expense	92,629	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	1.73%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on periods-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the periods to consolidated total operating revenues for income statement accounts.

Note 4: Only transactions with amount equal to or higher than NT$10,000 thousand are disclosed.

Note 5: Transactions between these related parties are not disclosed separately.

(2) Information of investees as of December 31, 2013:

Investor	Investee	Location	Main business activities	Initial investment amount as at December 31, 2013	Initial investment amount as at December 31, 2012	Shares held In Shares	Shares held Percentage	Shares held Book value	Net income (loss) of the investee Company	Income (loss) recognised by the Company
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	USA	Research and development	$ 665,970	$ 665,970	61,785,000	94%	$ 604,950	$ 61,236	$ 57,561
〃	HMI Holdings Inc.	Samoa	Investment holdings	188,452	188,452	5,955,088	100%	211,086	143,341	143,341
HMI Holdings Inc.	Hermes Microvision Korea Inc.	Korea	Marketing of e-Bean inspection equipment and its components and related technical support services	2,140	2,140	500	100%	11,735	2,250	-
〃	Hermes Microvision Japan Inc.	Japan	〃	52,574	52,574	2,980	100%	52,447	132,446	-
〃	Ansing International LLC.	USA	Investment holdings	133,738	133,738	-	100%	146,904	8,645	-

(3) Information on investment in Mainland China:

(a) Basic information

Name of investee in Mainland China	Main business activities	Paid-in capital	Method of investment	Beginning Balance of remittance in 2013	Amount of remittance for the year ended December 31, 2013		Ending balance of remittance as of December 31,2013	Investee net income or loss for current period	Ownerships held by the Company (direct and indirect)	Profit / (loss) recognised during the period (Note 2)	Ending balance of book value on December 31,2013
					Remittance out	Remittance in					
Hermes Microvision Co., Ltd. (Beijing)	Research, development and manufacturing of semiconductor machinery and equipment and related technical support services	$ 116,520	Note 1	$ 133,738	None	None	$ 133,738	$ 8,645	100%	$ 8,645	$ 146,904

Company name	Investment ending balance of remittance as of December 31, 2013	Approved investment amount by Ministry of Economic Affairs (MOEA).	Celling on investments in Mainland china imposed by the Investment commission of MOEA
Hermes Microvision Co., Ltd. (Beijing)	$ 133,738	$ 133,738	$ 5,816,643

Note 1: Reinvesting in Chinese companies through investing in existing companies in third countries.

Note 2: Investment income was recognized based on the investee's financial statement audited by the Company's auditors.

(b)Significant transactions with the direct and indirect investments in Mainland China

(1) Sales of goods:

For the year ended December 31, 2013, the Company's direct sales and indirect sales to investee in Mainland China amounted to $2,437 which was less than 10% of the total amount of net sales.

(2) Purchases of goods :

The Company's direct purchases from investee in Mainland China.

	2013	
	Amount	Percentage of net purchases
Hermes Microvision Co., Ltd. (Beijing)	$ 118,652	12%

Note : The purchase price and terms from investee in Mainland China were based on the ordinary course of business. The payment term was 30 days after acceptance.

(3) Accounts receivable:

As of December 31, 2013, the Company's accounts receivable from investee in Mainland China was $269, which was less than 10% of the total amount of accounts receivable.

(4) Accounts payable:

As of December 31, 2013 , the Company's accounts payable to investee in Mainland China was $11,738, which was less than 10% of the total amount of accounts payable.

(5)There were no direct or indirect loans, property transactions, endorsement guarantees or collaterals provided between the Company and the investee in Mainland China as of December 31, 2013, and for the year then ended.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Segment information

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

For the year ended December 31, 2013

	Amount
Revenue from external customers	$ 5,340,043
Inter-segment revenue	$ -
Segment income	$ 2,555,531
Total segment assets	$ 11,851,537

For the year ended December 31, 2012

	Amount
Revenue from external customers	$ 4,179,904
Inter-segment revenue	$ -
Segment income	$ 1,667,069
Total segment assets	$ 5,187,659

(3) Reconciliation for segment income (loss)

None.

(4) Revenue information by category

Revenues from external customers are derived from the sale of e-beam wafer inspection equipment and related components. Breakdown of the revenue from all sources is as follows:

	2013	2012
Revenue from the sale of e-beam wafer inspection equipment	$ 5,035,270	$ 4,040,672
Revenue from the sale of related components	128,196	9,267
Revenue from services	172,348	120,342
Others	4,229	9,623
Total	$ 5,340,043	$ 4,179,904

(5) Revenue information by geographic area

	2013		2012	
	Revenue	Non - current assets	Revenue	Non - current assets
Taiwan	$ 1,869,669	$ 273,758	$ 1,574,856	$ 116,062
U.S.A.	1,791,602	34,826	1,386,036	32,937
Japan	632,314	59	690,916	87
Korea	699,681	79	226,980	164
Mainland china	188,699	36,500	116,802	31,713
Others	158,078	-	184,314	-
Total	$ 5,340,043	$ 345,222	$ 4,179,904	$ 180,963

(6) Information on major customers

Revenues from specific customers that represent over 10% of total revenues of the Company for the years ended December 31, 2013 and 2012 are listed below:

2013

Customers	Sales amount	%	Sales segment
Customer B	$ 1,201,781	23%	The whole company
Customer D	1,080,427	20%	The whole company
Customer C	663,837	12%	The whole company

2012

Customers	Sales amount	%	Sales segment
Customer B	$ 957,947	23%	The whole company
Customer A	584,613	14%	The whole company
Customer C	523,289	13%	The whole company

15. INITIAL APPLICATION OF IFRSs

These consolidated financial statements are the first consolidated financial statements prepared by the Group in accordance with IFRSs. The Group has adjusted the amounts as appropriate that are reported in the previous R.O.C. GAAP consolidated financial statements to those amounts that should be presented under IFRSs in the preparation of the opening IFRS balance sheet. Information about exemptions elected by the Group, exceptions to the retrospective application of IFRSs in relation to initial application of IFRSs, and how it affects the Group’s financial position, operating results and cash flows in transition from R.O.C. GAAP to IFRSs is set out below:

(1) Exemptions elected by the Group

A. Business combinations

The Group has elected not to apply the requirements in IFRS 3, ‘Business Combinations’, retrospectively to business combinations that occurred prior to the date of transition to IFRSs (the “transition date”). This exemption also applies to the Group’s previous acquisitions of investments in associates.

B. Share-based payment transactions

The Group has elected not to apply the requirements in IFRS 2, ‘Share-based Payment’, retrospectively to equity instruments that were vested arising from share-based payment transactions prior to the transition date.

C. Employee benefits

The Group has elected to recognize all cumulative actuarial gains and losses relating to all employee benefit plans in ‘retained earnings’ at the transition date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, ‘Employee Benefits’, based on their prospective amounts for financial periods from the transition date.

D. Cumulative translation differences

The Group has elected to reset the cumulative translation differences arising on the translation of the financial statements of foreign operations under R.O.C. GAAP to zero at the transition date, and to deal with translation differences arising subsequent to the transition date in accordance with IAS 21, ‘The Effects of Changes in Foreign Exchange Rates’.

(2) Except for hedge accounting and non-controlling interest, to which exceptions to the retrospective application of IFRSs specified in IFRS 1 are not applied as they have no relation with the Group, other exceptions to the retrospective application are set out below:

A. Accounting estimates

Accounting estimates made under IFRSs on January 1, 2012 are consistent with those made under R.O.C. GAAP on that day.

B. Derecognition of financial assets and financial liabilities

The derecognition requirements in IAS 39, ‘Financial Instruments: Recognition and Measurement’ shall be applied prospectively to transactions occurring on or after January 1, 2004.

(3) Requirement to reconcile from R.O.C. GAAP to IFRSs at the time of initial application

IFRS 1 requires that an entity should prepare reconciliations for equity, comprehensive income and cash flows for the comparative periods. The Group’s initial application of IFRSs has no significant effect on cash flows from operating activities, investing activities and financing activities. Reconciliations for equity and comprehensive income for the comparative periods as to transition from R.O.C. GAAP to IFRSs is shown below:

A.Reconciliation for equity on January 1, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Current assets				
Cash and cash equivalents	$ 612,326	$ -	$ 612,326	
Accounts receivable	652,622	-	652,622	
Accounts receivable - related parties	7,135	-	7,135	
Other receivables	30,565	-	30,565	
Inventories	1,189,641	-	1,189,641	
Prepayments	30,840	-	30,840	
Other current assets	22	-	22	
Total current assets	2,523,151	-	2,523,151	
Non-current assets				
Property, plant and equipment	168,142	-	168,142	
Intangible assets	27,080	(16,035)	11,045	(1)
Deferred income tax assets	30,595	-	30,595	
Other non - current assets	7,553	-	7,553	
Total non - current assets	233,370	(16,035)	217,335	
Total assets	$ 2,756,521	($ 16,035)	$ 2,740,486	
Current liabilities				
Short-term loans	$ 657,000	$ -	$ 657,000	
Notes payable	1,080	-	1,080	
Accounts payable	59,066	-	59,066	
Other payables	155,803	12,437	168,240	(2)
Other payables - related parties	87,590	-	87,590	
Current income tax liabilities	100,064	-	100,064	
Provisions for liabilities - current	218,576	-	218,576	
Deferred income tax liabilities	3,589	(3,589)	-	(3)
Other current liabilities	8,712	-	8,712	
Total current liabilities	1,291,480	8,848	1,300,328	
Non-current liabilities				
Deferred income tax liabilities	-	3,589	3,589	(3)
Other non - current liabilities	37,123	24,289	61,412	(1)
Total non - current liabilities	37,123	27,878	65,001	
Total Liabilities	1,328,603	36,726	1,365,329	
Equity attributable to owners of the parent company				
Common stocks	$ 600,000	$ -	$ 600,000	
Retained earnings				
Legal reserve	14,962	-	14,962	
Unappropriated retained earnings	782,175	(43,071)	739,104	(1)(2)(4)
Other equity				
-Cumulative translation adjustments	9,690	(9,690)	-	(4)
Equity attributable to owners of the parent company	1,406,827	(52,761)	1,354,066	
Non-controlling interest	21,091	-	21,091	
Total equity	1,427,918	(52,761)	1,375,157	
Total liabilities and equity	$ 2,756,521	($ 16,035)	$ 2,740,486	

Reasons for differences are outlined below:

(1) Pensions

(a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, “Employee Benefits”, requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting periods and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting periods) instead.

(b) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service periods of employees still in service and expected to receive benefits. However, the transition guidance in IAS 19 “Employee Benefits” is not applicable because it is the first-time adoption of IFRSs for the Group. As a result, no transition net benefit obligations were recognized.

(c) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension fund assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet. However, IAS 19, “Employee Benefits”, has no regulation regarding the minimum pension liability.

Therefore, the Group decreased the deferred pension costs by $16,035, increased the accrued pension liabilities by $24,289, and simultaneously decreased retained earnings by $40,324 and deferred pensions cost by $16,035 on the transition date.

(2) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on recognition of the cost of accumulated unused compensated absences. The Group recognized such cost as expense upon actual payment. However, IAS 19, “Employee Benefits”, requires that cost of accumulated unused compensated absences should be accrued as expense at the end of the reporting periods. Therefore, the Group increased accrued expenses by $12,437 and decreased retained earnings by $12,437 on the transition date.

(3) Income tax

In accordance with current accounting standards in the R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected time periods to realize or settle a deferred tax asset or liability. However, under IAS 1, “Presentation of Financial Statements”, an entity should not classify a deferred tax asset or liability as current.
Therefore, the Group decreased deferred tax liability-current by $3,589 and increased deferred tax liability - non - current by $3,589 on the transition date.

(4) Cumulative translation adjustments

The Group elected to use the exemption of the cumulative translation differences relating to the investment in a foreign operation. The subsequent changes in foreign exchange rate are treated in accordance with IAS 21, “Effect of Changes in Foreign Exchange Rates”. Therefore, the Group decreased the cumulative translation differences and increased retained earnings by $9,690, respectively, on the transition date.

B.Reconciliation for equity on December 31, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Current assets				
Cash and cash equivalents	$ 2,776,308	$ -	$ 2,776,308	
Accounts receivable	848,427	-	848,427	
Accounts receivable - related parties	303	-	303	
Other receivables	31,892	-	31,892	
Inventories	1,278,613	-	1,278,613	
Prepayments	32,862	-	32,862	
Other current assets	3,154	-	3,154	
Total current assets	4,971,559	-	4,971,559	
Non-current assets				
Property, plant and equipment	170,246	-	170,246	
Intangible assets	26,926	(16,209)	10,717	(1)
Deferred income tax assets	27,020	-	27,020	
Other non - current assets	8,117	-	8,117	
Total non - current assets	232,309	(16,209)	216,100	
Total assets	$ 5,203,868	($ 16,209)	$ 5,187,659	
Current liabilities				
Accounts payable	$ 93,112	$ -	$ 93,112	
Other payables	364,507	13,594	378,101	(2)
Other payables - related parties	62,125	-	62,125	
Current income tax liabilities	85,194	-	85,194	
Provisions for liabilities - current	577,257	-	577,257	
Other current liabilities	2,887	(14)	2,873	(3)
Total current liabilities	1,185,082	13,580	1,198,662	
Non-current liabilities				
Deferred income tax liabilities	-	14	14	(3)
Other non - current liabilities	45,834	43,106	88,940	(1)
Total non - current liabilities	45,834	43,120	88,954	
Total Liabilities	1,230,916	56,700	1,287,616	
Equity attributable to owners of the parent company				
Common stocks	$ 660,000	$ -	$ 660,000	
Capital reserve	1,234,348	-	1,234,348	
Retained earnings				
Legal reserve	80,186	-	80,186	
Unappropriated retained earnings	1,969,551	(68,917)	1,900,634	(1)(2)(4)
Other equity				
-Cumulative translation adjustments	1,554	(9,690)	(8,136)	(4)
-Unrecognized pension cost	(5,698)	5,698	-	(1)
Equity attributable to owners of the parent company	3,939,941	(72,909)	3,867,032	
Non-controlling interest	33,011	-	33,011	
Total equity	3,972,952	(72,909)	3,900,043	
Total liabilities and equity	$ 5,203,868	($ 16,209)	$ 5,187,659	

Reasons for differences are outlined below:

(1) Pensions

(a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting periods and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting periods) instead.

(b) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service periods of employees still in service and expected to receive benefits. However, the transition guidance in IAS 19 "Employee Benefits", is not applicable because it is the first-time adoption of IFRSs for the Group. As a result, no transition net benefit obligations were recognized.

(c) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension fund assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet. However, IAS 19, "Employee Benefits", has no regulation regarding the minimum pension liability.

(d) In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Group is recognized in net pension cost of current periods using the 'corridor' method. However, in accordance with IAS 19, "Employee Benefits", the Group selects to recognize actuarial pension gain or loss immediately in other comprehensive income.

Therefore, the Group decreased the deferred pension costs by $16,209, increased the accrued pension liabilities by $43,106, and simultaneously reduced retained earnings and unrecognized pension by $40,324 and $5,698, respectively, on December 31, 2012. The Group also decreased the operating expenses by $1,723 and decreased the other comprehensive income by $26,412.

(2) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on recognition of the cost of accumulated unused compensated absences. The Group recognized such cost as expense upon actual payment. However, IAS 19, "Employee Benefits", requires that cost of accumulated unused compensated absences should be accrued as expense at the end of the reporting periods. Therefore, the Group increased accrued expenses and decreased retained earnings by $13,594 and $12,437, respectively, on December 31, 2012. The Group also increased the operating expenses by $1,157 for 2012.

(3) Income tax

In accordance with current accounting standards in the R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected time periods to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of Financial Statements", an entity should not classify a deferred tax asset or liability as current on December 31, 2012.

Therefore, the Group decreased deferred tax liability-current by $14 and increased deferred tax liability – non-current by $14 on the transition date.

(4) Cumulative translation adjustments

The Group elected to use the exemption of the cumulative translation differences relating to the investment in a foreign operation. The subsequent changes in foreign exchange rate are treated in accordance with IAS 21, “Effect of Changes in Foreign Rates”. Therefore, the Group decreased the cumulative translation differences and increased retained earnings both by $9,690 on December 31, 2012.

(5) In order to comply with the presentation of financial statements under the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and the International Financial reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC interpretations as endorsed by the FSC, certain items on the statement of comprehensive income have been reclassified by the Group.

C.Reconciliation for comprehensive income for the year ended December 31, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Operating revenue	$ 4,179,904	$ -	$ 4,179,904	
Operating costs	(1,199,056)	-	(1,199,056)	
Gross profit	2,980,848	-	2,980,848	
Operating expenses				
Selling expenses	(321,188)	-	(321,188)	
General and administrative expenses	(234,650)	566	(234,084)	(1)(2)
Research and development expenses	(718,261)	-	(718,261)	
Other income and expenses - net	(1,274,099)	566	(1,273,533)	
Operating profit	1,706,749	566	1,707,315	
Non - operating revenue and expenses				
Other income	27,062	-	27,062	
Other gains and losses	(68,125)	-	(68,125)	
Finance costs	817	-	817	
Total non-operating revenue and expenses	(40,246)	-	(40,246)	
Profit before income tax	1,666,503	566	1,667,069	
Income tax expense	(146,640)	-	(146,640)	
Profit for the year	$ 1,519,863	$ 566	$ 1,520,429	
Other comprehensive income				
Actuarial gain (loss) on defined benefit plan	$ -	($ 26,412)	($ 26,412)	(1)(5)
Other comprehensive income for the year, net of tax	-	(26,412)	(26,412)	
Total comprehensive income for the year	$ 1,519,863	($ 25,846)	$ 1,494,017	

Reasons for differences are outlined below:

Please refer to Note 15(3)B.

D.Major adjustments for the consolidated statements of cash flows for the year ended December 31, 2012:

(a)The transition from R.O.C. GAAP to IFRSs has no effect on the Group’s cash flows reported.

(b)The reconciliation between R.O.C. GAAP and IFRSs has no net effect on the Group’s cash flows reported.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

Report of Independent Accountants

To Hermes Microvision, Inc.

We have audited the accompanying parent company only balance sheets of Hermes Microvision, Inc. as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2013 and 2012. These parent company only financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of Hermes Microvision, Inc. as of December 31, 2013, December 31, 2012 and January 1, 2012, and their financial performance and cash flows for the years ended December 31, 2013 and 2012 in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

February 25, 2014

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

HERMES MICROVISION, INC.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2013 AMOUNT	%	December 31, 2012 AMOUNT	%	January 1, 2012 AMOUNT	%
	Current assets							
1100	Cash and cash equivalents	6(1)	$ 5,189,811	44	$ 2,417,871	45	$ 510,700	18
1147	Bond investments without active markets - current	6(3)	2,891,085	24	-	-	-	-
1170	Accounts receivable, net	6(4)	1,365,752	12	819,071	15	410,257	14
1180	Accounts receivable - related parties	7	381,922	3	427,975	8	370,666	13
1200	Other receivables		17,355	-	15,685	-	29,325	1
1210	Other receivables - related parties	7	1,085	-	18,539	-	25,912	1
130X	Inventories	6(5)	859,798	7	888,293	17	877,372	31
1410	Prepayments		9,543	-	19,622	1	13,068	-
11XX	**Current Assets**		10,716,351	90	4,607,056	86	2,237,300	78
	Non-current assets							
1523	Available-for-sale financial assets - noncurrent	6(2)	4,412	-	-	-	-	-
1550	Investments accounted for using the equity method	6(6)	816,036	7	584,338	11	474,633	17
1600	Property, plant and equipment	6(7)	268,730	2	110,596	2	119,063	4
1780	Intangible assets	6(8)	5,028	-	5,467	-	6,580	-
1840	Deferred income tax assets	6(24)	48,626	1	27,020	1	30,595	1
1920	Refundable deposits		120	-	247	-	291	-
15XX	**Non-current assets**		1,142,952	10	727,668	14	631,162	22
1XXX	**Total assets**		$ 11,859,303	100	$ 5,334,724	100	$ 2,868,462	100

(Continued)

HERMES MICROVISION, INC.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2013 AMOUNT	%	December 31, 2012 AMOUNT	%	January 1, 2012 AMOUNT	%
	Current liabilities							
2100	Short - term borrowings	6(9)	$ -	-	$ -	-	$ 657,000	23
2150	Notes payable		-	-	-	-	1,080	-
2170	Accounts payable		98,288	1	62,280	1	33,768	1
2180	Accounts payable - related parties	7	235,579	2	215,319	4	105,072	4
2200	Other payables	6(10)	468,320	4	280,955	5	110,640	4
2220	Other payables - related parties	7	148,563	1	158,709	3	224,846	8
2230	Current income tax liabilities	6(24)	152,848	1	84,817	2	98,699	3
2250	Provisions for liabilities - current	6(13)	972,259	8	577,257	11	218,576	8
2300	Other current liabilities		4,940	-	2,873	-	2,107	-
21XX	**Current Liabilities**		2,080,797	17	1,382,210	26	1,451,788	51
	Non-current liabilities							
2570	Deferred income tax liabilities	6(24)	5,042	-	14	-	3,589	-
2600	Other non - current liabilities	6(11)	79,058	1	85,468	2	59,019	2
25XX	**Non - current liabilities**		84,100	1	85,482	2	62,608	2
2XXX	**Total Liabilities**		2,164,897	18	1,467,692	28	1,514,396	53
	Equity							
3110	**Share capital - common stock**	6(14)	710,000	6	660,000	12	600,000	21
3200	**Capital surplus**	6(15)	5,427,023	46	1,234,348	23	-	-
	Retained earnings	6(16)						
3310	Legal reserve		231,846	2	80,186	1	14,962	-
3320	Special reserve		4,144	-	-	-	-	-
3350	Unappropriated retained earnings		3,306,436	28	1,900,634	36	739,104	26
	Other equity interest	6(17)						
3400	Other equity interest		14,957	-	(8,136)	-	-	-
3XXX	**Total equity**		9,694,406	82	3,867,032	72	1,354,066	47
	Total liabilities and equity		$ 11,859,303	100	$ 5,334,724	100	$ 2,868,462	100

The accompanying notes are an integral part of parent company only financial statements.

HERMES MICROVISION, INC.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share)

			For the years ended December 31,			
			2013		2012	
		Notes	AMOUNT	%	AMOUNT	%
4000	**Operating revenue**	6(18) and 7	$ 5,487,228	100	$ 4,174,028	100
5000	**Operating costs**	6(5) and 7	(1,938,362)	(35)	(1,330,571)	(32)
5900	**Net operating margin**		3,548,866	65	2,843,457	68
5950	**Net operating margin**		3,548,866	65	2,843,457	68
	Operating expenses	6(22)(23) and 7				
6100	Selling expenses		(274,437)	(5)	(282,723)	(6)
6200	General and administrative expenses		(158,646)	(3)	(161,774)	(4)
6300	Research and development expenses		(874,497)	(16)	(791,113)	(19)
6000	**Total operating expenses**		(1,307,580)	(24)	(1,235,610)	(29)
6900	**Operating profit**		2,241,286	41	1,607,847	39
	Non-operating income and expenses					
7010	Other income	6(19)	24,205	-	34,230	1
7020	Other gains and losses	6(20)	54,192	1	(68,207)	(2)
7050	Finance costs	6(21)	-	-	(5,824)	-
7070	Share of profit of subsidiaries	4(15)	200,902	4	77,803	2
7000	**Total non-operating revenue and expenses**		279,299	5	38,002	1
7900	**Profit before income tax**		2,520,585	46	1,645,849	40
7950	Income tax expense	6(24)	(176,985)	(3)	(128,683)	(3)
8200	**Profit for the year**		$ 2,343,600	43	$ 1,517,166	37
	Other comprehensive income	4(22)				
8310	Cumulative translation differences of foreign operations		$ 26,157	-	($ 8,136)	-
8360	Actuarial gain (loss) on defined benefit plan		6,645	-	(26,412)	(1)
8399	Income tax relating to the components of other comprehensive income		297	-	-	-
8300	**Other comprehensive income for the year**		$ 33,099	-	($ 34,548)	(1)
8500	**Total comprehensive income for the year**		$ 2,376,699	43	$ 1,482,618	36
	Basic earnings per share	6(25)				
9750	**Basic earnings per share**		$ 35.09		$ 23.34	
	Diluted earnings per share	6(25)				
9850	**Diluted earnings per share**		$ 35.04		$ 23.30	

The accompanying notes are an integral part of parent company only financial statements.

HERMES MICROVISION, INC.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

			Retained earnings				
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Total equity
For the year ended December 31, 2012							
Balance at January 1, 2012	$ 600,000	$ -	$ 14,962	$ -	$ 739,104	$ -	$ 1,354,066
Issuance of common stock for cash	60,000	1,188,000	-	-	-	-	1,248,000
Appropriation of 2011 earnings							
Legal reserve	-	-	65,224	-	(65,224)	-	-
Cash dividends	-	-	-	-	(264,000)	-	(264,000)
Profit for the year	-	-	-	-	1,517,166	-	1,517,166
Other comprehensive income for the year	-	-	-	-	(26,412)	(8,136)	(34,548)
Adjustments arising from changes in percentages of ownership in subsidiary	-	10,517	-	-	-	-	10,517
Compensation cost for newly issued shares reserved for subscription by employees	-	35,831	-	-	-	-	35,831
Balance at December 31, 2012	$ 660,000	$ 1,234,348	$ 80,186	$ -	$ 1,900,634	($ 8,136)	$ 3,867,032
For the year ended December 31, 2013							
Balance at January 1, 2013	$ 660,000	$ 1,234,348	$ 80,186	$ -	$ 1,900,634	($ 8,136)	$ 3,867,032
Issuance of common stock for cash	50,000	4,188,036	-	-	-	-	4,238,036
Appropriation of 2012 earnings							
Legal reserve	-	-	151,660	-	(151,660)	-	-
Special reserve	-	-	-	4,144	(4,144)	-	-
Cash dividends	-	-	-	-	(792,000)	-	(792,000)
Profit for the year	-	-	-	-	2,343,600	-	2,343,600
Adjustments arising from changes in percentages of ownership in subsidiary	-	4,639	-	-	-	-	4,639
Other comprehensive income for the year	-	-	-	-	10,006	23,093	33,099
Balance at December 31, 2013	$ 710,000	$ 5,427,023	$ 231,846	$ 4,144	$ 3,306,436	$ 14,957	$ 9,694,406

The accompanying notes are an integral part of parent company only financial statements.

HERMES MICROVISION, INC.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	For the years ended December 31, 2013	For the years ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax for the year	$ 2,520,585	$ 1,645,849
Adjustments to reconcile profit before tax to net cash provided by operating activities		
Income and expenses having no effect on cash flows		
Provision for doubtful accounts	-	19,820
Depreciation	35,328	38,857
Amortization	4,108	4,195
Compensation cost for newly issued shares reserved for subscription by employees	-	35,831
Compensation cost of stock appreciation right	62,790	-
Interest expense	-	5,824
Share of profits of subsidiaries	(200,902)	(77,803)
Interest income	(23,997)	(6,448)
Changes in assets/liabilities relating to operating activities		
Net changes in assets relating to operating activities		
Accounts receivable	(546,681)	(408,814)
Accounts receivable - related parties	46,053	(57,309)
Other receivables	(1,670)	(6,180)
Other receivables - related parties	17,454	7,373
Inventories	36,268	(31,601)
Prepayments	10,079	4,108
Net changes in liabilities relating to operating activities		
Notes payable	-	(1,080)
Accounts payable	36,008	28,512
Accounts payable - related parties	20,260	110,247
Other payables	47,179	170,315
Other payables - related parties	(10,146)	(66,137)
Provisions for liabilities	395,002	358,681
Other current liabilities	2,068	982
Other non- current liabilities	235	37
Cash provided by operations	2,450,021	1,775,259
Interest received	23,997	6,448
Interest paid	-	(6,040)
Income tax paid	(125,235)	(142,565)
Net cash provided by operating activities	2,348,783	1,633,102
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of bond investments without active markets - current	(2,891,085)	-
Acquisition of available-for-sales financial assets - non - current	(4,412)	-
Acquisition of investments accounted for using the equity method	-	(29,521)
Acquisition of property, plant and equipment	(123,843)	(20,391)
Acquisition of intangible assets	(3,669)	(3,082)
Proceeds from disposal of property, plant, equipment and intangible assets	3	19
Decrease in refundable deposits	127	44
Net cash used in investing activities	(3,022,879)	(52,931)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short - term borrowings	-	(657,000)
Proceeds from issuance of common stock	4,302,575	1,248,000
Cost of acquisition of capital	(64,539)	-
Cash dividends paid	(792,000)	(264,000)
Net cash provided by financing activities	3,446,036	327,000
Increase in cash and cash equivalents	2,771,940	1,907,171
Cash and cash equivalents at beginning of year	2,417,871	510,700
Cash and cash equivalents at end of year	$ 5,189,811	$ 2,417,871

The accompanying notes are an integral part of parent company only financial statements.

HERMES MICROVISION, INC.

NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,

EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Hermes Microvision, Inc. (the “Company”) was incorporated on May 19, 2003. The Company engages in the research, development, design, manufacturing and sale of precision instruments and machinery (electronic inspection equipment.) The Company’s stock was listed on the GreTai Securities Market, effective from May 21, 2012.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These parent company only financial statements were authorized for issuance by the Board of Directors on February 25, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

Not applicable as it is the first - time adoption of IFRSs by the Company this year.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

IFRS 9, ‘Financial Instruments’: Classification and measurement of financial instruments

A. The International Accounting Standards Board (“IASB”) published IFRS 9, ‘Financial Instruments’, in November 2009, which will take effect on January 1, 2013 with early application permitted (Through the amendments to IFRS 9 published on November 19, 2013, the IASB has removed the previous mandatory effective date, but the standard is available for immediate application). Although the FSC has endorsed IFRS 9, FSC does not permit early application of IFRS 9 when IFRSs are adopted in R.O.C. in 2013. Instead, enterprises should apply International Accounting Standard No. 39 (“IAS 39”), ‘Financial Instruments: Recognition and Measurement’ reissued in 2009.

B. IFRS 9 was issued as the first step to replace IAS 39. IFRS 9 outlines the new classification and measurement requirements for financial instruments, which might affect the accounting treatments for financial instruments of the Company.

C. The Company has not evaluated the overall effect of the IFRS 9 adoption. However, based on preliminary evaluation, it was noted that the IFRS 9 adoption might have an impact on those instruments classified as “available - for - sale financial assets’ held by the Company, as IFRS 9 specifies that the fair value changes in the equity instruments that meet certain criteria may be reported in other comprehensive income, and such amount that has been recognized in other comprehensive income should not be reclassified to profit or loss when such assets are derecognized.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

The following are the assessment of new standards, interpretations and amendments issued by IASB but not yet endorsed by the FSC (application of the new standards and amendments should follow the regulations of the FSC):

Improvements to IFRSs 2010 cycle

Amendments to IFRS 7, ‘Financial instruments: Disclosures’

The amendment requires providing qualitative disclosures in the context of quantitative disclosures to enable users to link related disclosures and hence, form an overall picture of the nature and extent of risks arising from financial instruments. The amendment is effective for annual periods beginning on or after January 1, 2011.

Based on the Company’s assessment, the adoption of the amendment requires the Company to provide qualitative disclosures in the context of quantitative disclosures.

IFRS 9, ‘Financial instruments: Classification and measurement of financial liabilities’

IFRS 9 requires gains and losses on financial liabilities designated at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and cannot be reclassified to profit or loss when recognized the liabilities; and all other changes in fair value are recognized in profit or loss. The new guidance allows the full amount of change in fair value recognized in profit or loss only if there is reasonable evidence showing on initial recognition that the recognition of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch (inconsistency). (That determination is made at initial recognition and is not reassessed subsequently.) The previous mandatory effective date has been removed, and the standard is available for immediate application.

Based on the Company’s assessment, the adoption of the standard has no significant impact on the parent company only financial statements of the Company.

IFRS 10, 'Consolidated financial statements' and IAS 27, 'Separate financial statements' (as amended in 2011)

IAS 27 'Consolidated and separate financial statements' removes the guidance for consolidated financial statements and is renamed 'Separate financial statements'. The guidance is now addressed in IFRS 10, 'Consolidated financial statements'. IFRS 10 replaced all guidance on determination of control in IAS 27, 'Consolidated and separate financial statements' and SIC-12, 'Consolidation-special purpose entities' to solve the diversity in practice. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. These standards are effective for annual periods beginning on or after January 1, 2013.

Based on the Company's assessment, the adoption of the standard has no significant impact on the parent company only financial statements of the Company.

IFRS 12, 'Disclosure of interests in other entities'

The standard requires the disclosure of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after January 1, 2013.

Based on the Company's assessment, the adoption of the standard requires the Company to disclose additional information associated with its subsidiaries.

IFRS 13, 'Fair value measurement'

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The standard is effective for annual periods beginning on or after January 1, 2013.

Based on the Company's assessment, the adoption of the standard has no significant impact on the parent company only financial statements of the Company.

IAS 19 (revised), 'Employee benefits' (as amended in 2011)

The revised standard eliminates corridor approach and requires actuarial gains and losses to be recognized immediately in other comprehensive income. Past service costs will be recognized immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expense, is recognized in other comprehensive income. Additional disclosures are required to present how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows. The standard

(revised) is effective for annual periods beginning on or after January 1, 2013.
Based on the Company's assessment, the adoption of the amendment require the Company to recognize the past service costs in profit and loss when incurred. It is also required to categorize components of defined benefit costs in accordance with the revised standard. The Company expects the amendment will have impact to the Company's accrued pension liabilities and comprehensive income. Furthermore, the amendment will require the Company to increase the disclosure for the defined benefit plan.

Presentation of items of other comprehensive income ("OCI") (amendment to IAS 1)
The amendment changes the title used for the statement of comprehensive income to 'statement of profit or loss and other comprehensive income'. However, IAS 1 still permits entities to use 'statement of comprehensive income' as title. The amendment requires profit or loss and OCI to be presented separately. Also, the amendment requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss when meeting specific criteria subsequently. This amendment is effective for annual periods beginning on or after July 1, 2012.
This amendment mainly affects presentation of the financial statements. There is no significant impact to the Company based on the assessment.

Improvements to IFRSs 2009-2011 cycle
Amendment to IAS 32, 'Financial instruments: Presentation'
The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12,'Income tax'. Hence, income tax related to distributions is recognized in profit or loss, and income tax related to the costs of equity transactions is recognized in equity. The amendment is effective for annual periods beginning on or after 1 January 2013.
Based on the Company's assessment, the adoption of the amendments has no significant impact on the parent company only financial statements of the Company.

IFRIC 21, 'Levies'
The interpretation addresses the accounting for levies imposed by governments in accordance with legislation (other than income tax). A liability to pay a levy shall be recognized in accordance with IAS 37, 'Provisions, contingent liabilities and contingent assets'. An entity shall recognize a liability when an obligating event that gives rise to a liability to pay a levy and the timing and amount is certain. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future. The interpretation also requires that an obligation to pay a levy triggered by a minimum threshold is recognized when the threshold is reached. The interpretation is effective for annual periods beginning on or after January

1, 2014.

Based on the Company's assessment, the adoption of the interpretation has no significant impact on the parent company only financial statements of the Company.

<u>Improvements to IFRSs 2010-2012 cycle</u>

1. IFRS 2, 'Share-based payment'

   The amendment clarifies that the definition of a vesting condition only includes performance condition and service condition and revises or adds definition of performance condition, service condition and market condition.

   The amendment is effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

2. IFRS 13, 'Fair value measurement'

   When IFRS 13 'Fair value measurement' was published, paragraphs in relation to measuring those short-term receivables and payables with no stated interest rate at invoice amounts without discounting when the effect of not discounting is immaterial were deleted as consequential amendments. The amendment clarifies that the IASB did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases, noting that paragraph 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial.

Based on the Company's assessment, the amendments have no significant impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these parent company only statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) <u>Compliance statement</u>

A. These parent company only financial statements are the first consolidated financial statements prepared by the Company in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

B. In the preparation of the balance sheet of January 1, 2012 (the Company's date of transition to IFRSs) ("the opening IFRS balance sheet"), the Company has adjusted the amounts that were reported in the parent company only financial statements in accordance with previous R.O.C. GAAP. Please refer to Note 15 for the impact of transitioning from R.O.C. GAAP to IFRSs on the Company's financial position, operating results and cash flows.

(2) <u>Basis of preparation</u>

A. Except for the following items, these parent company only financial statements have been prepared under the historical cost convention:

(a)Available-for-sale financial assets measured at fair value.

(b)Liabilities on cash-settled share-based payment arrangement measured at fair value.

(c)Defined benefit liabilities recognized based on the net amount of pension fund assets plus unrecognized past service cost and unrecognized actuarial losses, and less unrecognized actuarial gains and present value of defined benefit obligation.

B.The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The parent company only financial statements are presented in New Taiwan Dollars, which is the Company's functional and presentation currency.

A.Foreign currency transactions and balances

(a)Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b)Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c)Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d)All foreign exchange gains and losses are all presented in the statement of comprehensive income within "other gains and losses".

B.Translation of foreign operations

(a)The operating results and financial position of all the Company entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and

iii. All resulting exchange differences are recognized in other comprehensive income.

(b)When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation.

(4) Classification of current and non-current items

A. Assets that meets one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a)Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b)Assets held mainly for trading purposes;

(c)Assets that are expected to be realized within twelve months from the balance sheet date;

(d)Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B.Liabilities that meets one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a)Liabilities that are expected to be paid off within the normal operating cycle;

(b)Liabilities arising mainly from trading activities;

(c)Liabilities that are to be paid off within twelve months from the balance sheet date;

(d)Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(6) Loans and receivables

A.Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, since short-term accounts receivable bear no interest, and considering that the effects of discounting would not be significant, the Company subsequently measures those receivables at the invoice amount.

B.Bond investments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognized in profit or loss.

(7) Available-for-sale financial assets

A.Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B.On a regular way purchase or sale basis, available-for-sale financial assets is recognized and derecognized using trade date accounting.

C.Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(8) Impairment of financial assets

A.The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B.The criteria that the Company uses to determine whether there is objective evidence of impairment loss is as follows:

(a)Significant financial difficulty of the issuer or debtor;

(b)A breach of contract, such as a default or delinquency in interest or principal payments;

(c)The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d)It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(e)The disappearance of an active market for that financial asset because of financial difficulties;

(f)Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(g)Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(h)A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C.When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows:

(a)Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b)Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss and is reclassified from "other comprehensive income" to "profit or loss". If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of and investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(9) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to receive cash flows expire.

(10) Lease receivables/ leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted - average method. The cost of finished goods and work - in - process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). The item - by - item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Property, plant and equipment

A.Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction periods are capitalized.

B.Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial periods in which they are incurred.

C.Property, plant and equipment cost are measured at cost, and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Significant components are depreciated separately.

D.The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Machinery and equipment	3 ~ 8 years
Transportation equipment	5 years
Furniture and fixtures	3~ 5 years
Leasehold improvements	3~ 4 years
Other equipment	6 years

(13) Leased assets/ leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(14) Intangible assets

Computer software is stated at cost and amortised on a straight - line basis over its estimated useful life of 3 to 5 years.

(15) Investments accounted for using the equity method

A.Subsidiaries are all entities over which the Company has control and governs the financial and operating policies of the entity under a statute or an agreement (including Special Purpose Entities). In general, it is presumed that the investor has control, if an investor holds, directly or indirectly 50 percent or more of the voting rights of the entity. Investment in subsidiaries are accounted for using the equity method in the parent company only financial statements.

B.When the Company transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Company's parent company only financial statements only to the extent of interests in the subsidiaries that are not owned by the Company. Accounting policies of subsidiaries have been adjustment where necessary to ensure consistency with the policies adopted by the Company.

C.Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the subsidiary as well as the distribution received. The Company also recognized its share in the changes in the equity of subsidiaries.

D.Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amount of the subsidiary and the fair value of the consideration paid or received is recognized directly in equity.

E.When the Company loses control of a subsidiary, any retained investment of the former subsidiary is measured at the fair value at that date. A gain or loss is recognized in profit or loss and calculated as the difference between (a) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and (b) the previous carrying amount of the investments in such subsidiary. In addition, the Company shall account for all amounts previously recognized in other comprehensive income in relation to the subsidiary on the same basis as would be required if the Company had directly disposed of the related assets and liabilities.

F. In accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”, profit and other comprehensive income in the parent company only financial statements are the same with the profit and other comprehensive income which are attributable to equity holders of the parent company in the consolidated financial statements . And the equity in the parent company only financial statements is equal to equity attributable to owners of the parent company in the consolidated financial statements.

(16) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

(17) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the periods of the borrowings using the effective interest method.

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured amortised cost using the effective interest method. However, since short-term accounts payable bear no interest, and considering that the effects of discounting would not be significant, the Company subsequently measures those payables at the invoice amount.

(19) Provisions

Provisions (including warranties, etc.) are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognized for future operating losses.

(20) Employee benefits

A.Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B.Pensions

(a)Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b)Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the periods in which they arise.

C.Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates. The Company calculates the number of shares of employees' stock bonus based on the fair value per share at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(21) Employee share-based payment

A.For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting periods, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B.For the cash-settled share-based payment arrangements, the employee services received and the liability incurred are measured at the fair value of the liability to pay for those services, and are recognized as compensation cost and liability over the vesting period. The fair value of the liability shall be remeasured at each balance sheet date until settled at the settlement date, with any changes in fair value recognized in profit or loss.

(22) Income tax

A.The tax expense for the periods comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B.The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C.Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(24) Dividends

Dividends are recorded in the Company's financial statements in the periods in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(25) Revenue recognition

The Company manufactures and sells precision instruments and machinery. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Judgements and estimates are continually evaluated and adjusted based on historical experience and other factors.

(1) Critical judgements in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

The Company makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting periods. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A.Valuation of inventories

As inventories are stated at the lower of cost and net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technological innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such a valuation of inventories is principally based on the demand for the products within the specified periods in the future. Therefore, there might be material changes to the valuation.

As of December 31, 2013, the carrying amount of inventories was $859,798.

B.Realisability of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realisability of deferred income tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

As of December 31, 2013, the Company recognized deferred income tax assets amounting to $48,626.

C.Provision for warranty liability

Warranty liabilities are primarily arising from sales of equipment. The amount of the obligation is estimated based on the sufficient objective evidences, including the historical warranty records.

As of December 31, 2013, the carrying amount of accrued warranty liabilities was $972,259.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

	December 31, 2013	December 31, 2012	January 31, 2012
Cash on hand	$ 261	$ 478	$ 375
Checking accounts and demand deposits	2,238,877	1,060,273	510,325
Time deposits	2,950,673	1,357,120	-
	$ 5,189,811	$ 2,417,871	$ 510,700

A.The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Company's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B.The Company has no cash pledged to others.

(2)Available-for-sale financial assets

Item	December 31, 2013	December 31, 2012	January 1, 2012
Noncurrent			
Non-listed and emerging stocks	$ 4,412	$ -	$ -
Valuation adjustment of available-for-sale financial assets	-	-	-
Total	$ 4,412	$ -	$ -

The Company did not recognize any other comprehensive income for fair value change for the year ended December 31, 2013.

(3) Investments in bonds without active markets

Item	December 31, 2013	December 31, 2012	January 1, 2012
Deposit	$ 2,891,085	$ -	$ -

A.The Company listed the time deposits with maturities exceeding 90 days in this account.

B.The Company recognized interest of $1,595 in profit for the year ended December 31, 2013.

C.The counterparties of the Company's investments have good credit quality. The maximum exposure to credit risk at balance sheet date is the carrying amount of investments in bonds without active markets.

(4) Accounts receivable

	December 31, 2013	December 31, 2012	January 1, 2012
Accounts receivable	$ 1,365,752	$ 819,071	$ 410,257
Less: allowance for bad debts	-	-	-
	$ 1,365,752	$ 819,071	$ 410,257

A.The credit rating of accounts receivable that were neither past due nor impaired had good credit quality.

B.As of December 31, 2013, December 31, 2012, and January 1, 2012, the maximum exposure to credit risk was the carrying amount of accounts receivable.

C.The Company does not hold any collateral as security.

(5) Inventories

	December 31, 2013		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 456,285	($ 120,711)	$ 335,574
Work - in - process	413,306	-	413,306
Finished goods	217,171	(106,253)	110,918
Total	$ 1,086,762	($ 226,964)	$ 859,798

	December 31, 2012		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 509,467	($ 94,320)	$ 415,147
Work - in - process	374,853	-	374,853
Finished goods	192,414	(94,121)	98,293
Total	$ 1,076,734	($ 188,441)	$ 888,293

	January 1, 2012		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 427,924	($ 77,797)	$ 350,127
Work - in - process	327,207	-	327,207
Finished goods	240,868	(40,830)	200,038
Total	$ 995,999	($ 118,627)	$ 877,372

For the years ended December 31, 2013 and 2012, the cost of inventories recognized as expense were $1,938,362 and $1,330,571, respectively, including the amounts of $38,523 and $69,814, respectively, that the Company wrote down from cost to net realizable value accounted for as ‘cost of goods sold’.

(6) Investment accounted for using the equity method

A.Investments in subsidiaries:

(a)The information of the subsidiaries: please refer to Note 4(3) of the consolidated financial statements for the year ended December 31, 2013.

	December 31, 2013	December 31, 2012	January 1, 2012
Hermes Microvsion,Inc.	$ 604,950	$ 528,598	$ 479,107
HMI Holding Inc.	211,086	55,740	(4,474)
	$ 816,036	$ 584,338	$ 474,633

(b) Investments in associates : None.

(7) Property, plant and equipment

	Machinery	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment and construction in progress	Total
At January 1, 2013							
Cost	$ 168,798	$ 3,300	$ 16,915	$ 14,018	$ 43,094	$ 9,094	$ 255,219
Accumulated depreciation and impairment	(96,941)	(1,045)	(8,497)	(5,587)	(32,553)	-	(144,623)
	$ 71,857	$ 2,255	$ 8,418	$ 8,431	$ 10,541	$ 9,094	$ 110,596
2013							
Opening net book amount	$ 71,857	$ 2,255	$ 8,418	$ 8,431	$ 10,541	$ 9,094	$ 110,596
Additions	7,963	-	3,607	9,734	2,544	177,390	201,238
Disposals	-	-	(3)	-	-	-	(3)
Reclassifications	-	-	-	-	(7,773)	-	(7,773)
Depreciation charge	(23,998)	(660)	(3,989)	(4,776)	(1,905)	-	(35,328)
Net exchange differences	-	-	-	-	-	-	-
Closing net book amount	$ 55,822	$ 1,595	$ 8,033	$ 13,389	$ 3,407	$ 186,484	$ 268,730
At December 31, 2013							
Cost	$ 176,333	$ 3,300	$ 18,084	$ 23,021	$ 4,088	$ 186,484	$ 411,310
Accumulated depreciation and impairment	(120,511)	(1,705)	(10,051)	(9,632)	(681)	-	($ 142,580)
	$ 55,822	$ 1,595	$ 8,033	$ 13,389	$ 3,407	$ 186,484	$ 268,730

	Machinery	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment	Leased assets	Total
At January 1, 2012								
Cost	$ 122,029	$ 3,300	$ 12,826	$ 13,386	$ 41,549	$ 804	$ 23,448	$ 217,342
Accumulated depreciation and impairment	(59,023)	(385)	(4,811)	(2,429)	(26,327)	-	(5,304)	(98,279)
	$ 63,006	$ 2,915	$ 8,015	$ 10,957	$ 15,222	$ 804	$ 18,144	$ 119,063
2012								
Opening net book amount	$ 63,006	$ 2,915	$ 8,015	$ 10,957	$ 15,222	$ 804	$ 18,144	$ 119,063
Additions	6,530		3,375	1,392	-	9,094	-	20,391
Disposals	-		(19)	-	-	-	-	(19)
Reclassifications	24,616	-	475	(475)	1,838	(804)	(15,632)	10,018
Depreciation charge	(22,295)	(660)	(3,428)	(3,443)	(6,519)	-	(2,512)	(38,857)
Net exchange differences	-	-	-	-	-	-	-	-
Closing net book amount	$ 71,857	$ 2,255	$ 8,418	$ 8,431	$ 10,541	$ 9,094	$ -	$ 110,596
At December 31, 2012								
Cost	$ 168,798	$ 3,300	$ 16,915	$ 14,018	$ 43,094	$ 9,094	$ -	$ 255,219
Accumulated depreciation and impairment	(96,941)	(1,045)	(8,497)	(5,587)	(32,553)	-	-	(144,623)
	$ 71,857	$ 2,255	$ 8,418	$ 8,431	$ 10,541	$ 9,094	$ -	$ 110,596

(8) Intangible assets

	Computer Software
At January 1, 2013	
Cost	$ 13,325
Accumulated amortization and impairment	(7,858)
	$ 5,467
2013	
Opening net book amount	$ 5,467
Additions-acquired separately	3,669
Amortization charge	(4,108)
Closing net book amount	$ 5,028
At December 31, 2013	
Cost	$ 13,376
Accumulated amortization and impairment	(8,348)
	$ 5,028

	Computer Software
At January 1, 2012	
Cost	$ 11,570
Accumulated amortization and impairment	(4,990)
	$ 6,580
2012	
Opening net book amount	$ 6,580
Additions-acquired separately	3,082
Amortization charge	(4,195)
Closing net book amount	$ 5,467
At December 31, 2012	
Cost	$ 13,325
Accumulated amortization and impairment	(7,858)
	$ 5,467

Details of amortization on intangible assets are as follows :

	2013	2012
Operating costs	$ -	$ 45
Operating expenses	4,108	4,150
	$ 4,108	$ 4,195

(9) Short-term loans

December 31, 2013：None.

December 31, 2012：None.

Type of loans	January 1, 2012	Interest rate range	Collateral
Bank loans			
Unsecured loans	$ 657,000	1.2%~1.26%	None

(10) Other payables

	December 31, 2013	December 31, 2012	January 1, 2012
Accrued salaries and bonuses	$ 229,652	$ 133,931	$ 29,346
Accrued employees' bonuses and directors' and supervisors' remuneration	100,245	77,982	40,454
Accrued commission	17,770	6,968	6,200
Payables on equipment	77,395	–	–
Others	43,258	62,074	34,640
	$ 468,320	$ 280,955	$ 110,640

(11) Pension

A.a)The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of a retirement fund monitoring committee.

b)The amounts recognized in the balance sheet are determined as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded obligations	($ 79,967)	($ 85,065)	($ 57,429)
Fair value of plan assets	12,500	11,188	10,001
Net liability in the balance sheet (show in other non-current liabilities)	($ 67,467)	($ 73,877)	($ 47,428)

c)Changes in present value of funded are as follows:

	2013	2012
Present value of funded obligation at January 1	$ 85,065	$ 57,430
Current service cost	330	327
Interest expense	1,273	1,003
Actuarial profit and loss	(6,701)	26,305
At December 31	$ 79,967	$ 85,065

d)Changes in fair value of plan assets are as follows:

	2013	2012
Fair value of plan assets at January 1	$ 11,188	$ 10,001
Expected return on plan assets	203	208
Actuarial profit and loss	(56)	(107)
Employer contributions	1,165	1,086
At December 31	$ 12,500	$ 11,188

e)Amounts of expenses recognized in comprehensive income

	2013	2012
Current service cost	$ 330	$ 327
Interest cost	1,273	1,003
Expected return on plan assets	(203)	(208)
Current service cost	$ 1,400	$ 1,122

Detail of cost and expenses recognized in statement of comprehensive income are as follows:

	2013	2012
Cost of sales	$ 505	$ 815
Selling expenses	224	61
General and administration expenses	264	93
Research and development expenses	407	153
	$ 1,400	$ 1,122

f)Amounts recognized under other comprehensive income are as follows:

	2013	2012
Recognition for current period	($ 6,645)	$ 26,412
Accumulated amount	$ 19,767	$ 26,412

g)The Bank of Taiwan was commissioned to manage the Fund of the Company’s defined benefit pension plan in accordance with the Fund’s annual investment and utilization plan and the “Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund” (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of 2013 and 2012 is given in the Annual Labor Retirement Fund Utilisation Report published by the government. Expected return on plan assets was a projection of overall return for the obligation period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilisation by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund’s minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by Taiwan local banks.

h)The principal actuarial assumptions used were as follows:

	2013	2012	2011
Discount rate	2%	1.5%	1.75%
Future salary increases	4%	4%	3%
Expected return on plan assets	1.75%	1.75%	2%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

i)Historical information of experience adjustments was as follows:

	December 31, 2013	December 31, 2012
Present value of defined benefit obligation	($ 79,967)	($ 85,065)
Fair value of plan assets	12,500	11,188
Deficit in the plan	($ 67,467)	($ 73,877)
Experience adjustments on plan liabilities	-	-
Experience adjustments on plan assets	-	-

j)Expected contributions to the defined benefit pension plans of the Company within one year from December 31, 2013 amounts to $1,184.

B.Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. For the years ended December 31, 2013 and 2012, the Company recognized pension expenses based on the above pension plan amounting to $11,923 and $10,244, respectively.

(12) Share-based payment

A.For the years ended December 31, 2013 and 2012, the Company's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Cash capital increase reserved for employee preemption	March 15, 2012	900,000	NA	Vested immediately
Stock appreciation rights plan	December 31, 2013	1,014,000 (Note)	3 years	2 years' service

Note: Including 399,500 units for the subsidiaries' employees.

B.The fair value of share-based payment transactions granted measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Share price (in NT dollars)	Exercise price (in NT dollars)	Expected price volatility	Expected term	Expected dividends yield rate	Risk - free interest rate	Fair value per unit (in NT dollars)
Cash capital increase reserved for employee preemption	March 15, 2012	$ 238.30	$ 200	26.23%	2 months	-	0.7274%	$ 39.812
Stock appreciation rights plan	December 31,2013	N/A	N/A	38.29%~45.94%	3 Years	-	0.4309%~ 0.6795%	$216.63~ 352.26

Stock appreciation right plan that is settled by cash.

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

	2013	2012
Equity settled-cash capital increase reserved for employee preemption	$ -	$ 35,831
Cash settled-stock appreciation rights plan	62,790	-
	$ 62,790	$ 35,831

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

	December 31, 2013	December 31, 2012	January 1, 2012
Liabilities on cash-settled-Stock appreciation rights	$ 62,790	$ -	$ -

(13) Provisions

	Warranty
At January 1, 2013	$ 577,257
Additional provisions	395,002
At December 31, 2013	$ 972,259

(14) Share capital

A. As of December 31, 2013, the Company's authorized capital was $1,200,000, consisting of 120,000 thousand shares of ordinary stock, and the paid-in capital was $710,000 with a par value of $10 (in NT dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	2013	2012
At January 1	66,000,000	60,000,000
Issuance of common stock for cash	5,000,000	6,000,000
At December 31	71,000,000	66,000,000

B. As authorized during the shareholders' meeting on June 4, 2013, the Board of Directors adopted a resolution in the July 31, 2013 meeting to increase capital by issuance of Global Deposit Receipts ("GDRs"). The offering was completed in November 2013 with the issuance of 5,000 thousand new shares and 5,000 thousand existing outstanding shares, totalling 10,000 thousand units to be listed in Luxembourg Stock Exchange. Each unit of GDRs represents 1 common share. The issue price was US$29.17 per unit, which is equivalent to NT$860 per unit. Total proceeds raised were $4,238,036 after deducting the issuance costs.

(15) Capital surplus

Pursuant to the R.O.C. Company Law, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized as mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	Share premium		Adjustments arising from changes in ownership percentage in subsidiary	
At January 1, 2013	$	1,223,831	$	10,517
Issuance of common stock for cash		4,188,036		-
Adjustments arising from changes in ownership percentage in subsidiary		-		4,639
At December 31, 2013	$	5,411,867	$	15,156

	Share premium		Adjustments arising from changes in ownership percentage in subsidiary	
At January 1, 2012	$	-	$	-
Issuance of common stock for cash		1,188,000		-
Adjustments arising from changes in ownership percentage in subsidiary		-		10,517
Compensation cost for newly issued shares reserved for subscription by employees		35,831		-
At December 31, 2012	$	1,223,831	$	10,517

(16) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Bonus distributed to the employees and remuneration paid to the directors and supervisors should account for higher than 1% and less than 1%, respectively, of the total remaining distributable earnings. The individuals who are entitled to employee stock dividends may include the employees of the Company’s affiliates who meet certain criteria. Such criteria are determined by the Board of Directors. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.

B. As the Company’s industry is in the growth stage, in order to be in line with the industry’s overall environment and its characteristics and pursue the goals of the Company’s sustainable operations and shareholders’ long-term interests, the dividend policy is adopted taking into consideration the Company’s actual operating results of the dividend distribution year and the capital budget planning of the following year. Dividends are distributed in the form of stock or cash. According to the Company’s dividend policy, cash dividends shall account for at least 10% of the total dividends distributed.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the amount of the associated special reserve could be released and included in the distributable earnings.

E. For the years ended December 31, 2013 and 2012, employees' bonus was accrued at $91,132 and $59,774, respectively; directors' and supervisors' remuneration were accrued at $9,113 and $5,977, respectively. The difference of $2,777 between the amount resolved by the stockholders and the amount recognized in the 2012 financial statements regarding employees' bonus and directors' and supervisors' remuneration was adjusted in the current statement of comprehensive income. The proposed directors' and supervisors' remuneration is $4,800 and the proposed employees' cash bonus is $91,132. As of February 25, 2014, the above mentioned 2013 earnings appropriation had not been approved at the stockholders' meeting.

   Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. Dividends distributed to owners amounted to $792,000 ($12 (in dollars) per share) and $264,000 ($4 (in dollars) per share) for the years ended December 31, 2013 and 2012, respectively. The dividend distribution proposal for 2013 was proposed by the Board of Directors on February 25, 2014 and amounted to $1,136,000 ($16 (in dollars) per share). The above mentioned 2013 earnings appropriation had not been approved at the stockholders' meeting.

(17) Other equity

	Currency translation
At January 1, 2013	($ 8,136)
Cumulative translation difference of foreign operations	26,157
Tax on cumulative translation difference of foreign operations	(3,064)
At December 31, 2013	$ 14,957

	Currency translation
At January 1, 2012	$ -
Cumulative translation difference of foreign operations	(8,136)
Tax on cumulative translation difference of foreign operations	-
At December 31, 2012	($ 8,136)

(18) Other income

	2013	2012
Interest income from bank deposits	$ 23,997	$ 6,448
Rental revenue	-	27,062
Others	208	720
Total	$ 24,205	$ 34,230

(19) Other gains and losses

	2013	2012
Net currency exchange gain (loss)	$ 54,192	($ 63,551)
Other losses	-	(4,656)
Total	$ 54,192	($ 68,207)

(20) Finance costs

	2013	2012
Interest expense:		
Bank loans	$ -	$ 5,824
Finance costs	$ -	$ 5,824

(21) Expenses by nature

	2013	2012
Employee benefit expense	$ 523,622	$ 474,344
Depreciation charges on property, plant and equipment	35,328	38,857
Amortization charges on intangible assets	4,108	4,195

(22) Employee benefit expense

	2013	2012
Wages and salaries	$ 409,706	$ 401,119
Compensation cost of employee stock options	62,790	35,831
Labor and health insurance fees	23,042	18,060
Pension costs	13,323	11,366
Other personnel expenses	14,761	7,968
	$ 523,622	$ 474,344

(23) Income tax

A.Income tax expense

a)Components of income tax expense:

	2013	2012
Current tax:		
Current tax on profits for the period	$ 166,270	$ 129,096
Adjustments in respect of prior years	(5,566)	(413)
Total current tax	160,704	128,683
Deferred tax:		
Origination and reversal of temporary differences	16,281	-
Income tax expense	$ 176,985	$ 128,683

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

	2013	2012
Cumulative translation differences of foreign operations	($ 3,064)	$ -
Actuarial gain / loss on defined benefit obligations	3,361	

B.As of December 31, 2013, the Company’s income tax returns have been assessed and approved by the Tax Authority through 2011.

C.The relationship between income tax expense and accounting profit is as follows:

	2013	2012
Tax on pretax income at statutory tax rate	$ 428,500	$ 279,698
Tax effect of non pretax income items	(10,576)	–
Estimated 10% corporate income tax on unappropriated earnings	56,880	32,302
Adjustment of prior years' income tax	(5,566)	(413)
Tax effect of income tax exemption	(322,106)	(254,229)
Tax effect of deferred tax assets realized	29,853	71,325
Income tax expense	$ 176,985	$ 128,683

D.Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	2013				
	January 1,	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31,
Temporary differences					
-Deferred tax assets					
Unrealized loss on inventory	$ -	$ 9,580	$ -	$ -	$ 9,580
Provision for warranty	-	29,562	-	-	29,562
Unrealized investment loss on long-term equity investments	27,020	(26,184)	-	-	836
Accrued pension liabilities	-	2,009	-	-	2,009
Accrued employee bonus	-	3,278	-	-	3,278
defined benefit plan	-	-	3,361	-	3,361
Subtotal	27,020	18,245	3,361	-	48,626
-Deferred tax liabilities					
Unrealized foreign exchange gain	(14)	(1,964)	-	-	(1,978)
Currency translation differences	-	-	(3,064)	-	(3,064)
Subtotal	(14)	(1,964)	(3,064)	-	(5,042)
Total	$ 27,006	$ 16,281	$ 297	$ -	$ 43,584

	2012				
	January 1,	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31,
Temporary differences					
-Deferred tax assets					
Unrealized investment loss on long-term equity investments	$ 30,595	($ 3,575)	$ -	$ -	$ 27,020
-Deferred tax liabilities					
Unrealized foreign exchange gain	(3,589)	3,575	-	-	(14)
Total	$ 27,006	$ -	$ -	$ -	$ 27,006

E.The amounts of deductible temporary difference that are not recognized are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Deductible temporary differences	$ 1,097,851	$ 922,600	$ 503,047

F.The Company's products are qualified to a five-year exemption on income tax under the "Incentives for Emerging Important Strategic Industries in Manufacturing and Technology Services". The income tax exemption is valid from January 1, 2012 to December 31, 2016.

G.Unappropriated retained earnings:

	December 31, 2013	December 31, 2012	January 1, 2012
Earnings generated in and before 1997	$ -	$ -	$ -
Earnings generated in and after 1998	3,306,436	1,900,634	739,104
	$ 3,306,436	$ 1,900,634	$ 739,104

H.As of December 31, 2013, December 31, 2012, and January 1, 2012, the balance of the imputation tax credit account was $137,913, $102,306, and $1,893, respectively. The creditable tax rate was 9.46% for 2012 and was estimated to be 4.17 % for the year ended December 31, 2013.

(24) Earnings per share

	For the year ended December 31, 2013		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands of shares)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 2,343,600	66,780	$ 35.09
Diluted earnings per share			
Profit attributable to equity holders of the parent company	$ 2,343,600	66,780	
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	95	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 2,343,600	66,875	$ 35.04

	For the year ended December 31, 2012		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands of shares)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 1,517,166	64,989	$ 23.34
Diluted earnings per share			
Profit attributable to equity holders of the parent company	$ 1,517,166	64,989	
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	112	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 1,517,166	65,101	$ 23.30

(25) Non-cash transactions

	December 31, 2013	December 31, 2012
Purchase of fixed assets	$ 201,238	$ 20,391
Add: opening balance of payable on equipment	-	-
Less: ending balance of payable on equipment	(77,395)	-
Cash paid during the year	$ 123,843	$ 20,391

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A.Operating revenue:

	2013	2012
Sales of goods:		
-The entity with significant influence over the Company	$ 15,494	$ 8,998
-Subsidiaries	987,451	452,493
	$ 1,002,945	$ 461,491

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

B.Purchases

	2013	2012
Purchases of goods:		
-Subsidiaries	$ 898,712	$ 473,929

There are no significant differences in purchase prices and payment terms between related parties and third parties.

C.Purchases of services:

	2013	2012
Technology service charge		
-The entity with significant influence over the Company	$ 19,751	$ 5,963
-Subsidiaries	21,694	28,080
	$ 41,445	$ 34,043
Contracted research expense		
-Subsidiaries	$ 632,355	$ 552,999
Commission expense		
-The entity with significant influence over the Company	$ 21,213	$ 61,867
Other expenses		
-The entity with significant influence over the Company	$ 29	$ 2,492
-Subsidiaries	83,564	95,863
	$ 83,593	$ 98,355

The above transactions are under normal commercial terms and conditions.

D.Period-end balances arising from sales of goods:

	December 31, 2013	December 31, 2012	January 1, 2012
Receivables from the entity with significant influence over the Company	$ 13,367	$ 303	$ 7,135
Receivables from the subsidiaries	368,555	427,672	363,531
	$ 381,922	$ 427,975	$ 370,666

The receivables from the entity with significant influence over the Company arise mainly from sale transactions. The receivables are due from one to two months after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions accrued against receivables from related parties.

E.Account payable

	December 31, 2013	December 31, 2012	January 1, 2012
Payable to the subsidiaries	$ 235,579	$ 215,319	$ 105,072

F.Period-end balances arising from purchases of services:

	December 31, 2013	December 31, 2012	January 1, 2012
Receivables from the entity with significant influence over the Company	$ 68,708	$ 62,125	$ 87,210
Receivables from the subsidiaries	79,855	96,584	137,636
	$ 148,563	$ 158,709	$ 224,846

G.Leases

	2013	2012
Rental expense- The entity has significant influence over the Company	$ 21,891	$ 15,091

(2) Key management compensation

	2013	2012
Salaries and other short-term employee benefits	$ 27,897	$ 24,900
Share-based payment	5,932	-
	$ 33,829	$ 24,900

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A.Operating leases commitments

The Company leases offices and plant assets under non-cancellable operating lease agreements. Rental expense of $23,733 were recognized for both of the years ended December 31, 2013 and 2012.

The majority of lease agreements are renewable at the end of the lease periods at market rates.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Not later than one year	$ 26,395	$ 23,294	$ 17,156
Later than one year but not later than five years	12,413	16,911	-
Later than five years	44,470	-	-
Total	$ 83,278	$ 40,205	$ 17,156

B. Capital commitments

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

	December 31, 2013	December 31, 2012	January 1, 2012
Future payments for plant and equipment	$ 640,892	$ -	$ -

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

In order to safeguard the Company’s ability to adapt to the changes in the industry and to accelerate the new product development, the Company’s objectives when managing capital are to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities and dividends paid to shareholders.

The Company monitors capital through the ratio of total liabilities divided by total assets. The Company's strategy is to maintain the ratio within 50%. As of December 31, 2013, December 31, 2012, and January 1, 2012, the Company's ratios of total liabilities divided by total assets were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	$ 2,164,897	$ 1,467,692	$ 1,514,396
Total assets	$ 11,859,303	$ 5,334,724	$ 2,868,462
Total liabilities/total assets ratio	18%	28%	53%

<u>Financial instruments</u>

A. The carrying amounts of the Company's financial instruments measured at amortized cost approximate their fair values. These include cash and cash equivalents, notes payable, accounts receivable, other receivables, short-term loans, notes payable, accounts payable and other payables.

B. Financial risk management policies

   a) The Company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance.

   b) Risk management is carried out by the finance department (the "Company finance") under policies approved by the Board of Directors. Company finance identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

   Except for the following, there is no significant change in this period.

   a) Market risk

      Foreign exchange risk

      - The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, RMB and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
      - Management has set up a policy to require Company companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
      - The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
      - The Company's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2013		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 213,128	29.805	$ 6,352,280
Financial liabilities			
Monetary items			
USD:NTD	$ 14,133	29.805	$ 421,234

	December 31, 2012		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 58,829	29.04	$ 1,708,394
JPY:NTD	12,367	Hermes Microvision, Co,	4,155
Financial liabilities			
Monetary items			
USD:NTD	$ 6,415	29.04	$ 186,292

	January 1, 2012		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 33,887	30.275	$ 1,025,929
JPY:NTD	812,330	0.391	317,296
Financial liabilities			
Monetary items			
USD:NTD	$ 12,081	30.275	$ 365,752

Analysis of foreign currency market risk arising from significant foreign exchange variation.

	For the year ended December 31, 2013		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 63,523	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 4,212	$ -

	For the year ended December 31, 2012		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 17,084	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,863	$ -

Price risk

The Company does not hold any equity securities, so no equity price risk is expected. The Company is not exposed to commodity price risk either.

Interest rate risk

At December 31, 2013 and 2012, if interest rates on NTD-denominated time deposits had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2013 and 2012 would have been $14,604 and $3,392 lower/higher, respectively, mainly as a result of higher/lower interest revenue on floating rate time deposits.

b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company’s credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

ii.No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

iii.The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial asset in Note 6.

c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company finance. Company finance monitors rolling forecasts of the Company’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Company’s debt financing plans, covenant compliance, and compliance with internal balance sheet ratio targets.

ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company finance. Company finance invests surplus cash in interest bearing current accounts that are expected to readily generate cash inflows for managing liquidity risk.

iii.The table below analyses the Company’s non-derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2013	Less than 1 year
Accounts payable	$ 98,288
Accounts payable- related parties	235,579
Other payables	468,320
Other payables - related parties	148,563

Non-derivative financial liabilities:

December 31, 2012	Less than 1 year
Accounts payable	$ 62,280
Accounts payable- related parties	215,319
Other payables	280,955
Other payables - related parties	158,709

Non-derivative financial liabilities:

January 1, 2012	Less than 1 year
Short-term borrowings	$ 657,000
Notes payable	1,080
Accounts payable	33,768
Accounts payable- related parties	105,072
Other payables	110,640
Other payables - related parties	224,846

(2) Fair value estimation

A. The table below analyses financial instruments measured at fair value, by valuation method.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data.

The following table presents the Company's financial assets and liabilities that are measured at fair value at December 31, 2013.

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale financial assets	$ -	$ -	$ 4,412	$ 4,412
Equity securities	-	-	-	-
Total	$ -	$ -	$ 4,412	$ 4,412

December 31, 2012 and January 1, 2012:None.

B. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price or the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments and debt instruments classified as financial assets/financial liabilities at fair value through profit or loss or available-for-sale financial assets.

C. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

D. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

E. Specific valuation techniques used to value financial instruments include:

   a) Quoted market prices or dealer quotes for similar instruments.
   b) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
   c) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
   d) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments as at December 31, 2013.

	2013	
At January 1	$	-
Acquisition		4,412
At December 31	$	4,412

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

(Information on investee companies is disclosed based on investee companies' financial statements, which were audited by independent auditors. The following transactions had been eliminated in the consolidated financial statements; they are disclosed for reference purpose only.)

(a) Loans granted: None.

(b) Endorsements and guarantees provided by the Company to others: None.

(c) Holding of securities as of December 31, 2013:

				December 31, 2013				
Investor	Types of marketable securities	Relationship of the issuer with the Company	General ledger account	Number of shares /unit	Book value	Percentage	Market value (Note)	Footnote
Hermes Microvision, Inc.	TransPacific Medtech Fund, LP.	Non-related-party	Available-for -sale financial assets-noncurrent	-	$ 4,412	15%	$ 4,412	none

Note: Derived from net equity value.

(d) Aggregate purchase or sales of the same securities reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(e) Acquisition of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(f) Disposal of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(g) Purchases or sales of goods from or to related parties reaching $100,000 or 20% of paid-in capital or more for the year ended December 31, 2013:

			Transactions				Difference in transaction terms compared to third party transactions		Accounts receivable / (payable)	
Purchaser / Seller	Counterparty	Relationship with the counterparty	Purchases / (sales)	Amount	Percentage of purchases/(sales)	Credit term	Unit price	Term	Amount	Percentage of accounts (payable)/ receivable
Hermes Microvision, Inc.	Hermes Microvision, Japan Inc.	Subsidiary	Sales	($ 584,974)	(11%)	30 days after delivery	Approximately the same with third party transactions	Approximately the same with third party transactions	$ 16,918	1%
Hermes Microvision, Inc.	Hermes Microvision Inc. (USA)	Subsidiary	〃	(369,737)	(7%)	〃	〃	〃	320,750	18%
Hermes Microvision, Inc. (USA)	Hermes Microvision, Inc.	Parent company	〃	(751,647)	(44%)	〃	〃	〃	209,867	46%
Hermes Microvision, Co,Ltd.(Beijing)	Hermes Microvision, Inc.	Parent company	〃	(118,652)	(42%)	〃	〃	〃	11,738	62%
Hermes Microvision, Inc.	Hermes Microvision, Co,Ltd.(Beijing)	Subsidiary	Purchases	118,652	12%	30 days after acceptance	〃	〃	(11,738)	(4%)
Hermes Microvision, Inc.	Hermes Microvision, Inc.(USA)	Subsidiary	〃	751,647	75%	〃	〃	〃	(209,867)	(63%)
Hermes Microvision, Inc. (USA)	Hermes Microvision, Inc.	Parent company	〃	369,737	42%	〃	〃	〃	(320,750)	(86%)
Hermes Microvision, Japan Inc.	Hermes Microvision, Inc.	Ultimate parent company	〃	584,974	100%	〃	〃	〃	(16,918)	(100%)

(h) Receivables from related parties reaching $100,000 or 20% of paid-in capital or more as of December 31, 2013:

					Overdue receivables			
Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2013	Turnover rate	Amount	Action taken	Amount collected subsequent to the balance sheet date	Allowance for bad debts
Hermes Microvision, Inc.(USA)	Hermes Microvision Inc.	Parent company	$ 209,867	3.13	$ -	$ -	$ 228,077	$ -
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA).	Subsidiary	320,750	1.64	-	-	-	-

(i)Derivative financial instruments undertaken during the year ended December 31, 2013: None.

(j) Significant inter-company transactions during the year ended December 31, 2013:

				Transactions			
Number (Note 1)	Company	Counterparty	Relationship (Note 2)	General ledger account	Amount (Note 4)	Terms	Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	(1)	Sales	$ 369,737	The price and terms were based on the ordinary course of business.	6.92%
0	"	"	(1)	Purchases	751,647	The price and terms were based on the ordinary course of business.	14.08%
0	"	"	(1)	Contracted research expense	632,355	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	11.84%
0	"	"	(1)	Other expenses	67,210	"	1.26%
0	"	"	(1)	Accounts receivable	320,750	Net 30 days, after delivery	2.71%
0	"	"	(1)	Accounts payable	209,867	Net 30 days, after acceptance	1.77%
0	"	"	(1)	Other payables	66,155	"	0.56%
0	"	Hermes Microvision Japan Inc.	(1)	Sales	584,974	The price and terms were based on the ordinary course of business.	10.95%
0	"	"	(1)	Contracted service expenses	17,474	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.33%
0	"	"	(1)	Other expenses	(12,512)	"	(0.23%)
0	"	"	(1)	Accounts receivable	16,918	Net 30 days, after delivery	0.14%
0	"	Hermes Microvision Korea Inc.	(1)	Sales	30,304	The price and terms were based on the ordinary course of business.	0.57%
0	"	"	(1)	Other expenses	28,866	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.54%
0	"	"	(1)	Purchases	28,172	The price and terms were based on the ordinary course of business.	0.53%
0	"	"	(1)	Accounts receivable	30,618	Net 30 days, after delivery	0.26%
0	"	Hermes Microvision Co., Ltd. (Beijing)	(1)	Purchases	118,652	The price and terms were based on the ordinary course of business.	2.22%

				Transactions			
Number (Note 1)	Company	Counterparty	Relationship (Note 2)	General ledger account	Amount (Note 4)	Terms	Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision Co., Ltd. (Beijing)	(1)	Accounts payable	$ 11,738	Net 30 days, after acceptance	0.10%
1	Hermes Microvision, Inc. (USA)	"	(3)	Sales	33,266	The price and terms were based on the ordinary course of business.	0.62%
1	"	"	(3)	Purchases	68,991	The price and terms were based on the ordinary course of business.	1.29%
1	"	"	(3)	Contracted research expense	92,629	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	1.73%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on periods-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the periods to consolidated total operating revenues for income statement accounts.

Note 4: Only transactions with amount equal to or higher than NT$10,000 thousand are disclosed.

Note 5: Transactions between these related parties are not disclosed separately.

(2) Information of investees as of December 31, 2013:

				Initial investment amount as at		Shares held				
Investor	Investee	Location	Main business activities	December 31, 2013	December 31, 2012	In Shares	Percentage	Book value	Net income (loss) of the investee Company	Income (loss) recognised by the Company
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	USA	Research and development	$ 665,970	$ 665,970	61,785,000	94%	$ 604,950	$ 61,236	$ 57,561
〃	HMI Holdings Inc.	Samoa	Investment holdings	188,452	188,452	5,955,088	100%	211,086	143,341	143,341
HMI Holdings Inc.	Hermes Microvision Korea Inc.	Korea	Marketing of e-Bean inspection equipment and its components and related technical support services	2,140	2,140	500	100%	11,735	2,250	-
〃	Hermes Microvision Japan Inc.	Japan	〃	52,574	52,574	2,980	100%	52,447	132,446	-
〃	Ansing International LLC	USA	Investment holdings	133,738	133,738	-	100%	146,904	8,645	-

(3) Information on investment in Mainland China:

(a) Basic information

Name of investee in Mainland China	Main business activities	Paid-in capital	Method of investment	Beginning Balance of remittance in 2013	Amount of remittance for the year ended December 31, 2013: Remittance out	Amount of remittance for the year ended December 31, 2013: Remittance in	Ending balance of remittance as of December 31,2013	Investee net income or loss for current period	Ownerships held by the Company (direct and indirect)	Profit / (loss) recognised during the period (Note 2)	Ending balance of book value on December 31,2013
Hermes Microvision Co., Ltd. (Beijing)	Research, development and manufacturing of semiconductor machinery and equipment and related technical support services	$ 116,520	Note 1	$ 133,738	None	None	$ 133,738	$ 8,645	100%	$ 8,645	$ 146,904

Company name	Investment ending balance of remittance as of December 31, 2013	Approved investment amount by Ministry of Economic Affairs (MOEA).	Celling on investments in Mainland china imposed by the Investment commission of MOEA
Hermes Microvision Co., Ltd. (Beijing)	$ 133,738	$ 133,738	$ 5,816,643

Note 1: Reinvesting in Chinese companies through investing in existing companies in third countries.

Note 2: Investment income was recognized based on the investee’s financial statement audited by the Company’s auditors.

(b)Significant transactions with the direct and indirect investments in Mainland China

(1) Sales of goods:

For the year ended December 31, 2013, the Company's direct sales and indirect sales to investee in Mainland China amounted to $2,437 which was less than 10% of the total amount of net sales.

(2) Purchases of goods :

The Company's direct purchases from investee in Mainland China.

	2013	
	Amount	Percentage of net purchases
Hermes Microvision Co., Ltd. (Beijing)	$ 118,652	12%

Note : The purchase price and terms from investee in Mainland China were based on the ordinary course of business. The payment term was 30 days after acceptance.

(3) Accounts receivable:

As of December 31, 2013, the Company's accounts receivable from investee in Mainland China was $269, which was less than 10% of the total amount of accounts receivable.

(4) Accounts payable:

As of December 31, 2013 , the Company's accounts payable to investee in Mainland China was $ 11,738, which was less than 10% of the total amount of accounts payable.

(5) There were no direct or indirect loans, property transactions, endorsement guarantees or collaterals provided between the Company and the investee in Mainland China as of December 31, 2013, and for the year then ended.

14. SEGMENT INFORMATION: Not applicable.

15. INITIAL APPLICATION OF IFRSs

These parent company only financial statements are the first parent company only financial statements prepared by the Company in accordance with IFRSs. The Company has adjusted the amounts as appropriate that are reported in the previous R.O.C. GAAP parent company only financial statements to those amounts that should be presented under IFRSs in the preparation of the opening IFRS balance sheet. Information about exemptions elected by the Company, exceptions to the retrospective application of IFRSs in relation to initial application of IFRSs, and how it affects the Company's financial position, operating results and cash flows in transition from R.O.C. GAAP to IFRSs is set out below:

(1) Exemptions elected by the Company

A. Business combinations

The Company has elected not to apply the requirements in IFRS 3, 'Business Combinations', retrospectively to business combinations that occurred prior to the date of transition to IFRSs (the "transition date"). This exemption also applies to the Company's previous acquisitions of investments in associates.

B. Share-based payment transactions

The Company has elected not to apply the requirements in IFRS 2, ‘Share-based Payment’, retrospectively to equity instruments that were vested arising from share-based payment transactions prior to the transition date.

C. Employee benefits

The Company has elected to recognize all cumulative actuarial gains and losses relating to all employee benefit plans in ‘retained earnings’ at the transition date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, ‘Employee Benefits’, based on their prospective amounts for financial periods from the transition date.

D. Cumulative translation differences

The Company has elected to reset the cumulative translation differences arising on the translation of the financial statements of foreign operations under R.O.C. GAAP to zero at the transition date, and to deal with translation differences arising subsequent to the transition date in accordance with IAS 21, ‘The Effects of Changes in Foreign Exchange Rates’.

(2) Except for hedge accounting and non-controlling interest, to which exceptions to the retrospective application of IFRSs specified in IFRS 1 are not applied as they have no relation with the Company, other exceptions to the retrospective application are set out below:

A. Accounting estimates

Accounting estimates made under IFRSs on January 1, 2012 are consistent with those made under R.O.C. GAAP on that day.

B. Derecognition of financial assets and financial liabilities

The derecognition requirements in IAS 39, ‘Financial Instruments: Recognition and Measurement’ shall be applied prospectively to transactions occurring on or after January 1, 2004.

(3) Requirement to reconcile from R.O.C. GAAP to IFRSs at the time of initial application

IFRS 1 requires that an entity should prepare reconciliations for equity, comprehensive income and cash flows for the comparative periods. The Company’s initial application of IFRSs has no significant effect on cash flows from operating activities, investing activities and financing activities. Reconciliations for equity and comprehensive income for the comparative periods as to transition from R.O.C. GAAP to IFRSs is shown below:

A.Reconciliation for equity on January 1, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Current assets				
Cash and cash equivalents	$ 510,700	$ -	$ 510,700	
Accounts receivable	410,257	-	410,257	
Accounts receivable - related parties	370,666	-	370,666	
Other receivables	29,325	-	29,325	
Other receivables - related parties	25,912		25,912	
Inventories	877,372	-	877,372	
Prepayments	13,068	-	13,068	
Total current assets	2,237,300	-	2,237,300	
Non-current assets				
Investment accounted for using the equity method	479,107	(4,474)	474,633	(2)
Property, plant and equipment	119,063	-	119,063	
Intangible assets	22,615	(16,035)	6,580	(1)
Deferred income tax assets	30,595	-	30,595	
Refundable deposits	291	-	291	
Total non - current assets	651,671	(20,509)	631,162	
Total assets	$ 2,888,971	($ 20,509)	$ 2,868,462	
Current liabilities				
Short-term loans	$ 657,000	$ -	$ 657,000	
Notes payable	1,080	-	1,080	
Accounts payable	33,768	-	33,768	
Accounts payable- related parties	105,072		105,072	
Other payables	101,411	9,229	110,640	(2)
Other payables - related parties	224,846	-	224,846	
Current income tax liabilities	98,699	-	98,699	
Provisions for liabilities - current	218,576	-	218,576	
Deferred income tax liabilities	3,589	(3,589)	-	(3)
Other current liabilities	2,107	-	2,107	
Total current liabilities	1,446,148	5,640	1,451,788	
Non-current liabilities				
Deferred income tax liabilities	-	3,589	3,589	(3)
Other non - current liabilities	35,996	23,023	59,019	(2)(4)
Total non - current liabilities	35,996	26,612	62,608	
Total Liabilities	1,482,144	32,252	1,514,396	
Equity attributable to owners of the parent company				
Common stocks	$ 600,000	$ -	$ 600,000	
Retained earnings				
Legal reserve	14,962	-	14,962	
Unappropriated retained earnings	782,175	(43,071)	739,104	(1)(2)(4)
Other equity				
Cumulative translation adjustments	9,690	(9,690)	-	(4)
Total equity	1,406,827	(52,761)	1,354,066	
Total liabilities and equity	$ 2,888,971	($ 20,509)	$ 2,868,462	

Reasons for differences are outlined below:

(1) Pensions

(a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, “Employee Benefits”, requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting periods and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting periods) instead.

(b) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service periods of employees still in service and expected to receive benefits. However, the transition guidance in IAS 19 “Employee Benefits” is not applicable because it is the first-time adoption of IFRSs for the Company. As a result, no transition net benefit obligations were recognized.

(c) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension fund assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet. However, IAS 19, “Employee Benefits”, has no regulation regarding the minimum pension liability.

Therefore, the Company decreased the deferred pension costs by $16,035, increased the accrued pension liabilities by $24,289, and simultaneously decreased retained earnings by $40,324 and deferred pensions cost by $16,035 on the transition date.

(2) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on recognition of the cost of accumulated unused compensated absences. The Company recognized such cost as expense upon actual payment. However, IAS 19, “Employee Benefits”, requires that cost of accumulated unused compensated absences should be accrued as expense at the end of the reporting periods. Therefore, the Company increased accrued expenses by $9,229 and decreased retained earnings by $9,229, and as the differences mentioned above, investment accounted for using the equity method was adjusted for a decrease by $4,774, credit in investment accounted for using the equity method by $1,226 and retained earnings by $3,208 on the transition date.

(3) Income tax

In accordance with current accounting standards in the R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected time periods to realize or settle a deferred tax asset or liability. However, under IAS 1, “Presentation of Financial Statements”, an entity should not classify a deferred tax asset or liability as current.

Therefore, the Company decreased deferred tax liability-current by $3,589 and increased deferred tax liability – non – current by $3,589 on the transition date.

(4) Cumulative translation adjustments

The Company elected to use the exemption of the cumulative translation differences relating to the investment in a foreign operation. The subsequent changes in foreign exchange rate are treated in accordance with IAS 21, “Effect of Changes in Foreign Exchange Rates”. Therefore, the Company decreased the cumulative translation differences and increased retained earnings both by $9,690 on the transition date.

B.Reconciliation for equity on December 31, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Current assets				
Cash and cash equivalents	$ 2,417,871	$ -	$ 2,417,871	
Accounts receivable	819,071	-	819,071	
Accounts receivable - related parties	427,975	-	427,975	
Other receivables	15,685	-	15,685	
Other receivables - related parties	18,539		18,539	
Inventories	888,293	-	888,293	
Prepayments	19,622	-	19,622	
Total current assets	4,607,056	-	4,607,056	
Non-current assets				
Investment accounted for using the equity method	585,271	(933)	584,338	(2)
Property, plant and equipment	110,596	-	110,596	
Intangible assets	21,676	(16,209)	5,467	(1)
Deferred income tax assets	27,020	-	27,020	
Other non - current assets	247	-	247	
Total non - current assets	744,810	(17,142)	727,668	
Total assets	$ 5,351,866	($ 17,142)	$ 5,334,724	
Current liabilities				
Accounts payable	$ 62,280	$ -	$ 62,280	
Accounts payable - related parties	215,319		215,319	
Other payables	268,294	12,661	280,955	(2)
Other payables - related parties	158,709	-	158,709	
Current income tax liabilities	84,817	-	84,817	
Provisions for liabilities - current	577,257	-	577,257	
Deferred income tax liabilities	14	(14)	-	(3)
Other current liabilities	2,873	-	2,873	
Total current liabilities	1,369,563	12,647	1,382,210	
Non-current liabilities				
Deferred income tax liabilities	-	14	14	(3)
Other non - current liabilities	42,362	43,106	85,468	(1)
Total non - current liabilities	42,362	43,120	85,482	
Total Liabilities	1,411,925	55,767	1,467,692	
Equity attributable to owners of the parent company				
Common stocks	$ 660,000	$ -	$ 660,000	
Capital reserve	1,234,348	-	1,234,348	
Retained earnings				
Legal reserve	80,186	-	80,186	
Unappropriated retained earnings	1,969,551	(68,917)	1,900,634	(1)(2)(4)
Other equity				
Cumulative translation adjustments	1,554	(9,690)	(8,136)	(4)
Unrecognized pension cost	(5,698)	5,698	-	(1)
Total equity	3,939,941	(72,909)	3,867,032	
Total liabilities and equity	$ 5,351,866	($ 17,142)	$ 5,334,724	

Reasons for differences are outlined below:

(1) Pensions

(a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting periods and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting periods) instead.

(b) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service periods of employees still in service and expected to receive benefits. However, the transition guidance in IAS 19 "Employee Benefits", is not applicable because it is the first-time adoption of IFRSs for the Company. As a result, no transition net benefit obligations were recognized.

(c) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension fund assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet. However, IAS 19, "Employee Benefits", has no regulation regarding the minimum pension liability.

(d) In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Company is recognized in net pension cost of current periods using the 'corridor' method. However, in accordance with IAS 19, "Employee Benefits", the Company selects to recognize actuarial pension gain or loss immediately in other comprehensive income.

Therefore, the Company decreased the deferred pension costs by $16,209, increased the accrued pension liabilities by $43,106, and simultaneously reduced retained earnings and unrecognized pension by $40,324 and $5,698, respectively, on December 31, 2012. The Company also decreased the operating expenses by $1,723 and decreased the other comprehensive income by $26,412.

(2) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on recognition of the cost of accumulated unused compensated absences. The Company recognized such cost as expense upon actual payment. However, IAS 19, "Employee Benefits", requires that cost of accumulated unused compensated absences should be accrued as expense at the end of the year. Therefore, the Company increased accrued expenses and decreased retained earnings by $12,661 and $9,229, respectively, on December 31, 2012. The Company also increased the operating expenses by $3,432 and as the differences mentioned above, investment accounted for using the equity method decreased by $933 and $3,208, respectively on December 31, 2012, and increased share of profit of subsidiaries by$2,275 for the year ended December 2012.

(3) Income tax

In accordance with current accounting standards in the R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for

financial reporting should be classified as current or noncurrent according to the expected time periods to realize or settle a deferred tax asset or liability. However, under IAS 1, “Presentation of Financial Statements”, an entity should not classify a deferred tax asset or liability as current on December 31, 2012.

Therefore, the Company decreased deferred tax liability-current by $14 and increased deferred tax liability – non-current by $14 on the transition date.

(4) Cumulative translation adjustments

The Company elected to use the exemption of the cumulative translation differences relating to the investment in a foreign operation. The subsequent changes in foreign exchange rate are treated in accordance with IAS 21, “Effect of Changes in Foreign Rates”. Therefore, the Company decreased the cumulative translation differences and increased retained earnings both by $9,690 on December 31, 2012.

(5) In order to comply with the presentation of financial statements under the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and the International Financial reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC interpretations as endorsed by the FSC, certain items on the statement of comprehensive income have been reclassified by the Company.

C.Reconciliation for comprehensive income for the year ended December 31, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Operating revenue	$ 4,174,028	$ -	$ 4,174,028	
Operating costs	(1,330,571)	-	(1,330,571)	
Gross profit	2,843,457	-	2,843,457	
Operating expenses				
Selling expenses	(282,278)	(445)	(282,723)	(1)(2)
General and administrative expenses	(161,846)	72	(161,774)	(1)(2)
Research and development expenses	(789,777)	(1,336)	(791,113)	(1)(2)
Other income and expenses - net	(1,233,901)	(1,709)	(1,235,610)	
Operating profit	1,609,556	(1,709)	1,607,847	
Non - operating revenue and expenses				
Other income	34,230	-	34,230	
Other gains and losses	(68,207)	-	(68,207)	
Finance costs	(5,824)	-	(5,824)	
Share of profit subsidiaries	75,528	2,275	77,803	(2)
Total non-operating revenue and expenses	35,727	2,275	38,002	
Profit before income tax	1,645,283	566	1,645,849	
Income tax expense	(128,683)	-	(128,683)	
Profit for the year	$ 1,516,600	$ 566	$ 1,517,166	
Other comprehensive income				
Cumulative translation differences of foreign operations	$ 1,554	($ 9,690)	($ 8,136)	(4)(5)
Actuarial gain (loss) on defined benefit plan	-	(26,412)	(26,412)	(1)
Other comprehensive income for the year, net of tax	1,554	(36,102)	(34,548)	
Total comprehensive income for the year	$ 1,518,154	($ 35,536)	$ 1,482,618	

Reasons for differences are outlined below:

Please refer to Note 15(3)B.

D.Major adjustments for the consolidated statements of cash flows for the year ended December 31, 2012:

(a)The transition from R.O.C. GAAP to IFRSs has no effect on the Company’s cash flows reported.

(b)The reconciliation between R.O.C. GAAP and IFRSs has no net effect on the Company’s cash flows reported.