Ticker: 3658TT

Hermes Microvision, Inc.

Annual Report 2014

Annual report is available at http://newmops.tse.com.tw
HMI annual report is available at http://www.hermes-microvision.com
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Luxembourg Stock Exchange: http://www.bourse.lu

Hermes Microvision, Inc Website: http://www.hermes-microvision.com/

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I. Letter to Shareholders

Dear Shareholders,

The macro economy recovery in the United States results in strong demand for mobile devices and automotive electronics and furthermore boosted growth for the semiconductor industry 2014. 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. Therefore, we achieved another record-breaking operating revenue and net income in 2014. 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, wafer inspection has become more important for fabs in terms of yield management. While conventional optimal wafer inspection technology has run into a bottleneck due to its limited resolution, e-beam inspection or EBI tools are considered as a more supportive technology 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 2014 operating revenue again hit a record high of NT$7.21 billion, representing an annual growth rate of 35% compared with NT$5.34 billion generated in 2013. With the breakthrough, the Company's 2014 net income became NT$3.24 billion whereas its EPS topped NT$45.60.

HMI has specialized in development and production of E-beam inspection equipments. With our proprietary inspection technology, we had successfully promoted our products to the international market. Currently, HMI has already had a sturdy competition niche in the E-beam inspection market. Other than further profoundly developing its E-beam inspection technology, HMI has also taken customer requirements into account and aggressively diversified our applications of E-beam technology, in the hope of enriching its product offering. We successfully launched our new hot-spot monitoring model of eP4 at the end of 2014. With the launch of the new model, HMI is ahead of its peers to provide our clients with the optimal way for E-beam inspection, and further optimize the value for our clients.

In 2014, we obtained the CG6009 certification from Corporate Governance Association. HMI is committed to establish profound corporate governance system. By nurturing sustainability business practices, we also create values to our employees, our customers, and our shareholders.

Looking ahead to 2015, 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, HMI will continue to enhance our product quality and upgrade our

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 HMI’s new manufacturing plant at the Tainan Science Park is expected to be completed in early 2015. 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 our 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, HMI has put more focus developoing new applications and commitment to carrying out its sustainable corporate operations and becoming a qualified global corporate citizen. We will participate in corporate governance appraisal, and reinforce our 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 Hsu, Chin-Yung

II. Company Profile

1. Hermes Microvision Company Profile

Hermes Microvision, Inc. (HMI) was incorporated on May 19th, 2003 and listed on GreTai Security Stock Exchange in 2012. The company is headquartered in Taiwan, with sales and research subsidiaries in US, China, Korea, and Japan.

Since established, HMI has been committed to the research and development of the most advanced E-beam Inspection (EBI) tools and solutions for the leading semiconductor manufacturing fabs. Today, HMI is the leading supplier of EBI tools for both foundry and memory fabs worldwide. Based on our proprietary electron gun and column technologies and highly effective defect inspection algorithms, we deliver multiple product lines, including eScan® Series / ePTM Series / eXplore® Series, for various R&D and production applications.

HMI has been fully dedicated to the R&D, manufacturing, worldwide sales and service for its own products, presenting tough strength and strong will throughout the process. With our top technical professionals in Taiwan, US, China, and around the world, as well as its professional customer service, HMI has established its name not only for world-class cutting edge semiconductor process equipment, but also in the history of the semiconductor industry.

2. Milestones

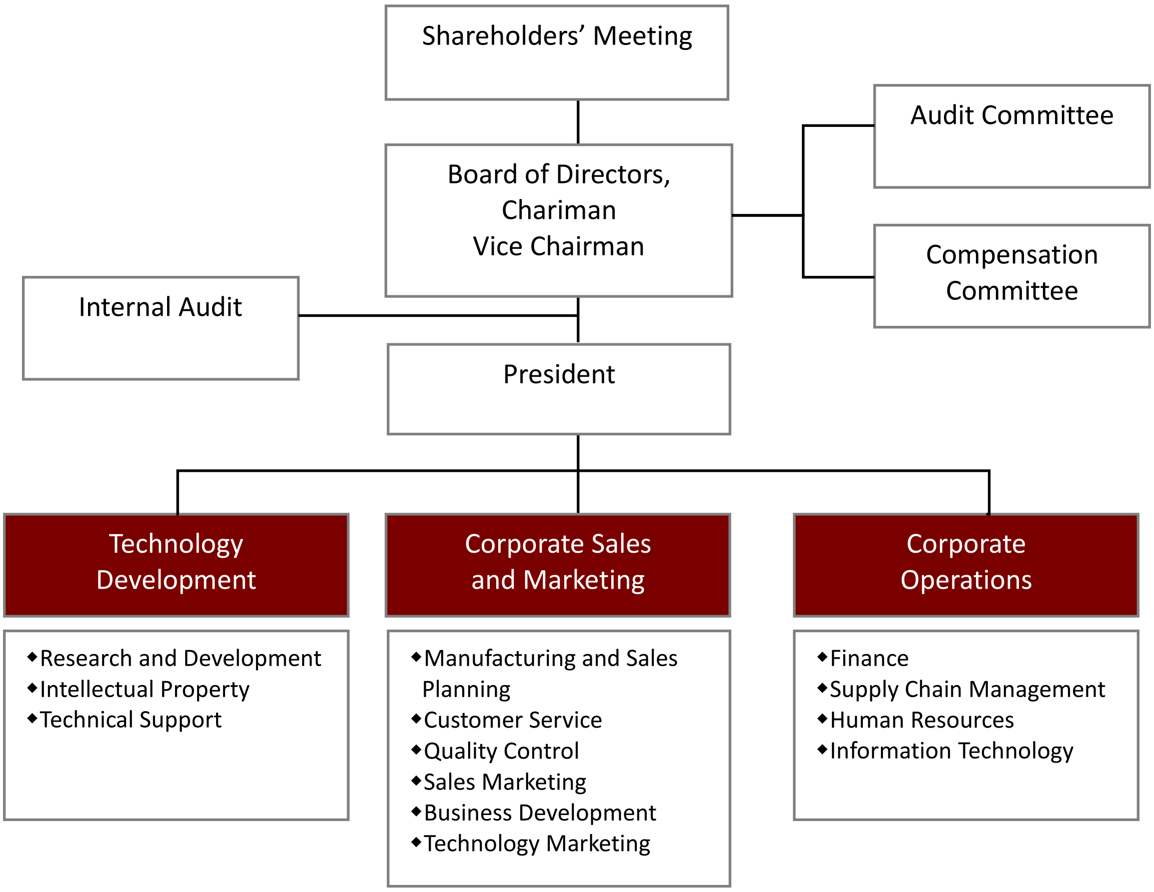
Year	Major milestones
2003	- Established Hermes Microvision Precision Technology Co., Ltd., with a capital of NT$1,000,000 at Hsinchu City, and provided semiconductor wafer manufacturing fabs with more advanced inspection equipment and technology along with geometry migration. - Renamed the original company name to be Hermes Microvision, Inc.
2004	- Acquired 100% of the outstanding shares of Hermes Microvision, Inc., USA in Silicon Valley and obtained the core technology required for EBI equipment. - Sold our first EBI equipment product, penetrating the EBI market which had long been monopolized by U.S. and Japanese companies. - Established a branch in the Hsinchu Science Park. - Established a production foothold at the Tainan Science Park to expand production capacity. - Increased the capital by cash by NT$ 499,000,000. The total paid-in capital after the offering was NT$500,000,000.
2005	- Successfully extend our business to Korean and Japanese clients.
2006	- Set up a branch in Japan to expand the Company's business. - Successfully developed eScan 310 and eScan 380.
2007	- Increased the capital by cash by NT$280,000,000. The total paid-in capital after the offering was 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 capital raising in cash, making the total paid-in capital to be NT$410,000,000.

	- The stock went public.
	- Successfully developed 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 eScan 400.
2010	- Raised the capital in cash by NT$190,000,000, making the total paid-in capital to be NT$600,000,000.
	- Successfully developed 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 eP3.
2012	- Raised the capital in cash by NT$60,000,000, 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, making the total paid-in capital to be NT$710,000,000
	- Successfully developed eScan 500
	- Received Potential Taiwan Mittelstand Award
2014	- Corporate Governance system Certified by CG6009.
	- Successfully developed eP4.

III. Corporate Governance

1. Organization

1.1 Organization Chart



1.2 Functions of Key Divisions

Division	Functions
Internal Audit	◆ Internal audit and operational procedure management
Research and Development	◆ Product development and innovation
Intellectual Property	◆ In charge of accumulation and maintenance of intellectual properties and application for patents.
Technical Support	◆ 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 FCN and CIP service to customers.
Finance	◆ Prepare financial statements, provide management information, plan working capital and long term financial planning.
Human Resource	◆ Execution and planning of human resource related businesses covering personnel recruitment, employment, promotion, educational training and retirement, etc.
Supply Chain Management	◆ Purchase equipment, spare parts, raw materials, and office supplies, etc., and handle export, import and bonding businesses.
Information Technology	◆ Computer management, and information system development and maintenance, etc.
Customer Service	◆ 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.
Technology Marketing	◆ Promotion and marketing of technology and products.
Business Development	◆ Business development, new product applications, and market development management.
Sales Marketing	◆ Sales and client relationship management.
Manufacturing and Sales Planning	◆ Produce and manufacture semiconductor E-beam equipment. ◆ Improve product modules and spare parts as well as components. ◆ Transfer and improve production technology. ◆ Manufacturing and client demand management.
Quality Control	◆ Establish the quality system. ◆ Establish quality policies and execute quality auditing. ◆ Manage technology and intellectual documents.

2. Directors and Independent Directors

2.1. Information Regarding Board Members & Independent Directors

Jan 31, 2015; Unit: 1,000 share; %

Position	Name	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Selected Education & Past Positions	Current Positions at Other Companies
					Shares	%	Shares	%	Shares	%	Shares	%		
Chairman	Shu, Chin-Yung	June 6, 2014	3 years	Apr. 30, 2003	387	0.55	375	0.53	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.
Director	Jack Y. Jau	June 6, 2014	3 years	June 21, 2005	1,620	2.28	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.	CEO and Vice Chairman of Hermes Microvision Inc. Director of Hermes Microvision Korea Inc.
Director	Hermes-Epitek Corp.	June 6, 2014	3 years	June 30, 2011	7,105	10.01	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.
Director	Representative: Hwang, Ming-Chi	June 6, 2014	3 years	June 30, 2011	1,973	2.78	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)
Director	Chen, Zhong-Wei	June 6, 2014	3 years	June 6, 2014	0	0	0	0	0	0	1,600	2.25	Department of Electrical Engineering from Tsinghua University Master Degree of Institute of Electron Beam from Shantong University Doctoral Degree in Philosophy from Cambridge University Cavendish Laboratory, England Senior Scientist of KLA-Tencor Corporation Chief Scientist of Cambridge Equipment Corporation, England Research Scientist of Cambridge University, England	President of Hermes Microvision, Inc.(USA) Chairman of Hermes Microvision Co., Ltd. (Beijing)

Position	Name	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Selected Education & Past Positions	Current Positions at Other Companies
					Shares	%	Shares	%	Shares	%	Shares	%		
Director	Yang, Chyan	June 6, 2014	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.
Independent director	Tu, Huai-Chi	June 6, 2014	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.
Independent director	Hu, Han-Liang	June 6, 2014	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Master Degree of Institute of Accounting, National Taiwan Unversity Taiwan Certified Public Accountant	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.
Independent director	Liang, Kai-Tai	June 6, 2014	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.
Independent director	Kin, Lien-Fang	June 6, 2014	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Department of Nuclear Engineering, National Tsing Hua University Master and Doctoral degree from Nuclear Engineering and Applied Physics, Columbia University Senior VP, Worldwide Sales & Services, TSMC Vice President of Microelectronics Global Business and Services, IBM Vice President of Motorola Computer Business- Asia Pacific	Counselor of Oak Hill Capital Partners Director of MediaTek Inc. Independent Director of eMemory Technology Inc., AzureWave Technologies Inc. and Vanguard International Semiconductor Corp. Vice Dean, College of Technology Management, National Tsing Hua University

2.2. Major Shareholders of Important Institutional Shareholders

Dec. 31, 2014

Institutional Shareholders	Major Shareholders of Important Institutional Shareholders
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%)

2.3. Major Shareholders of Important Institutional Shareholders, which are Corporate Shareholder Representatives:

Dec. 31, 2014

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%)

2.4. Directors and Independent Directors' Professional Qualifications and Independent Analysis

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
Chen, Zhong-Wei			√				√	√		√	√	√	√	None
Yang, Chyan	√		√	√	√	√	√	√	√	√	√	√	√	3
Hu, Han-Liang		√	√	√	√	√	√	√	√	√	√	√	√	None
Tu, Huai-Chi			√	√	√	√	√	√	√	√	√	√	√	None
Liang, Kai-Tai			√	√	√	√	√	√	√	√	√	√	√	None
Kin, Lien-Fang	√		√	√	√	√	√	√	√	√	√	√	√	3

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.

1. Not the Company's employee, or employee of the Company's affiliated companies.
2. 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).
3. 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.
4. Not the spouse, or the 2nd level kin or the 3rd level lineal relative of the parties mentioned in the previous 3 paragraphs.
5. 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.
6. Neither a director, supervisor, manager, nor stockholder holds over 5% shares of a company or institution that is financing or doing business with the Corporation.
7. 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.
8. Those who do not have the spouse relationship or are not within the 2nd level of kinship with any other directors.
9. Those who are not subject to any of the conditions listed in Article 30 of the Company Act.
10. 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.

2.5. Compensation paid to Directors

Dec. 31, 2014; Unit: NT$ 1,000; 1,000 shares

<table>
<tr><th rowspan="3">Position</th><th rowspan="3">Name</th><th colspan="8">Compensations paid to Directors</th><th colspan="2" rowspan="2">% of the total amount A, B, C and D to the net profit after tax</th></tr>
<tr><th colspan="2">Salary (A)</th><th colspan="2">Pension (B)</th><th colspan="2">Profit Sharing (C)</th><th colspan="2">Professional fees (D)</th></tr>
<tr><th>HMI</th><th>Consolidated Entities</th><th>HMI</th><th>Consolidated Entities</th><th>HMI</th><th>Consolidated Entities</th><th>HMI</th><th>Consolidated Entities</th><th>HMI</th><th>Consolidated Entities</th></tr>
<tr><td>Chairman</td><td>Shu, Chin-Yung</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">8,000</td><td rowspan="9">8,000</td><td rowspan="9">283</td><td rowspan="9">283</td><td rowspan="9">0.25%</td><td rowspan="9">0.25%</td></tr>
<tr><td>Vice Chairman</td><td>Jack Y. Jau</td></tr>
<tr><td>Director</td><td>Hwang, Ying-Chi</td></tr>
<tr><td>Director</td><td>Chen, Zhong-Wei</td></tr>
<tr><td>Director</td><td>Yang, Chyan</td></tr>
<tr><td>Director</td><td>Hu, Han-Liang</td></tr>
<tr><td>Director</td><td>Tu, Huai-Chi</td></tr>
<tr><td>Director</td><td>Liang, Kai-Tai</td></tr>
<tr><td>Director</td><td>Kin, Lien-Fang</td></tr>
</table>

<table>
<tr><th rowspan="4">Position</th><th rowspan="4">Name</th><th colspan="12">Compensations Earned as Employee of HMI or of HMI Affiliates</th><th colspan="2" rowspan="2">(A+B+C+D+E +F+G) as % of 2014 Net Income</th><th rowspan="4">Other compensations from non- Salary subsidiary affiliates</th></tr>
<tr><th colspan="2">Salary, bonus, etc. (E)</th><th colspan="2">Pension (F)</th><th colspan="4">Employee Profit Sharing (G)</th><th colspan="2">Employee Option (H)</th><th colspan="2">Granted Employee Restricted Stock (I)</th></tr>
<tr><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th colspan="2">HMI</th><th colspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th></tr>
<tr><th>Cash dividend</th><th>Stock dividend</th><th>Cash dividend</th><th>Stock dividend</th></tr>
<tr><td>Chairman</td><td>Shu, Chin-Yung</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">None</td></tr>
<tr><td>Vice Chairman</td><td>Jack Y. Jau</td></tr>
<tr><td>Director</td><td>Hwang, Ying-Chi</td></tr>
<tr><td>Director</td><td>Chen, Zhong-Wei</td></tr>
<tr><td>Director</td><td>Yang, Chyan</td></tr>
<tr><td>Director</td><td>Hu, Han-Liang</td></tr>
<tr><td>Director</td><td>Tu, Huai-Chi</td></tr>
<tr><td>Director</td><td>Liang, Kai-Tai</td></tr>
<tr><td>Director</td><td>Kin, Lien-Fang</td></tr>
</table>

2.6. Table of Range of the Compensations

Range of the Compensations paid to each Director of the Corporation	Name of Directors			
	Sum of the 4 Compensations (A+B+C+D)		Sum of the 7 Compensations (A+B+C+D+E+F+G)	
	HMI	Consolidated Entities of HMI	HMI	Consolidated Entities of HMI
Less than NT$2,000,000	Shu, Chin-Yung, Jack Y. Jau, Hwang, Ming-Chi, Chen, Zhong-Wei Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang	Shu, Chin-Yung, Jack Y. Jau, Hwang, Ming-Chi, Chen, Zhong-Wei Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang	Shu, Chin-Yung, Jack Y. Jau, Hwang, Ming-Chi, Chen, Zhong-Wei Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang	Shu, Chin-Yung, Jack Y. Jau, Hwang, Ming-Chi, Chen, Zhong-Wei Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang
NT$2,000,000 (including)～5,000,000 (excluding)	None	None	None	None
NT$5,000,000 (including)～10,000,000 (excluding)	None	None	None	None
NT$10,000,000 (including)～NT$15,000,000 (excluding)	None	None	None	None
NT$15,000,000 (including)～NT$30,000,000 (excluding)	None	None	None	None
NT$30,000,000 (including)～NT$50,000,000 (excluding)	None	None	None	None
NT$50,000,000 (including)～NT$100,000,000 (excluding)	None	None	None	None
Over NT$100,000,000	None	None	None	None
Total	9	9	9	9

3. Management Team

3.1. Information Regarding Management Team

Jan 31, 2015; Unit: 1,000 shares; %

Position	Name	On-board Date	Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Selected Education & Past Positions	Current Positions at Other Companies
			Shares	%	Shares	%	Shares	%		
President and Administrative Center/RD Director	Jack Y. Jau (Note1)	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.	CEO and Vice Chairman of Hermes Microvision Inc. Director of Hermes Microvision Korea Inc.
President/ Chief Operation Officer	Pan, Chung-Shih (Note2)	Oct 30, 2014	0	0	0	0	1,320	1.86	Doctoral degree in Mechanical Engineering from University of California, Berkeley, USA Senior R&D Engineer of KLA-Tencor Corporation, USA Senior Engineer of Tencor Intruments, USA Engineer of Dastek Corp, US	Supervisor of Hermes Microvision Co., Ltd. (Beijing) Director of HMI Holdings Inc. Director of HMI INVESMTENT CORP.
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
Vice President of global business center	Su, Yung-Hang	Mar. 1, 2013	18	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
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) Director of HMI INVESMTENT CORP.
Vice President of Administration	Liang, Wen-Cheng (Note3)	Jun. 1, 2014	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
Vice President of New Business Development	Hu, Jui-Ching (Note4)	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.

Note 1：Resigned on Oct. 30, 2014.
Note 2：On-board on Oct. 30, 2014.
Note 3：On-board on Jun. 1, 2014.
Note 4：Resigned on Jan. 20, 2014

3.2. Compensation Paid to President and Vice Presidents

Dec. 31, 2014; 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">Pension (B)</th><th colspan="2">Bonus and Allowances(C)</th><th colspan="4">Employee Profit Sharing (D)</th><th colspan="2">(A+B+C+D) as % of 2014 Net Income</th><th colspan="2">Employee Option</th><th colspan="2">Granted Employee Restricted Stock</th><th rowspan="3">Compensation Received from Non-consolidated Affiliates</th></tr>
<tr><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th colspan="2">HMI</th><th colspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</th><th rowspan="2">HMI</th><th rowspan="2">Consolidated Entities</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 (Note1)</td><td rowspan="7">16,444</td><td rowspan="7">39,750</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">15,208</td><td rowspan="7">52,491</td><td rowspan="7">3,074</td><td rowspan="7">0</td><td rowspan="7">3,074</td><td rowspan="7">0</td><td rowspan="7">1%</td><td rowspan="7">3%</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">None</td></tr>
<tr><td>President</td><td>Pan, Chung-Shih (Note2)</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>Liang, Wen-Cheng (Note3)</td></tr>
<tr><td>Vice President</td><td>Hu, Jui-Ching (Note4)</td></tr>
</table>

Note 1：Resigned on Oct. 30, 2014.
Note 2：On-board on Oct. 30, 2014.
Note 3：On-board on Jun. 1, 2014.
Note 4：Resigned on Jan. 20, 2014

3.3. Table of Range of the Compensations

Remuneration scale for individual President and Vice Presidents	Name of President and Vice Presidents	
	HMI	Consolidated Entities
Less than NT$2,000,000	Hu, Jui-Ching	Hu, Jui-Ching
NT$2,000,000 (including)～NT$5,000,000 (excluding)	Shen, Hsiao-Lien Liang, Wen-Cheng	Shen, Hsiao-Lien Liang, Wen-Cheng
NT$5,000,000 (including)～NT$10,000,000 (excluding)	Pan, Chung-Shih Jack Y. Jau Lin, Wen-Sheng, Su, Yung-Hang,	Pan, Chung-Shih Jack Y. Jau Lin, Wen-Sheng, Su, Yung-Hang,
NT$10,000,000 (including)～NT$15,000,000 (excluding)	None	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	7	7

3.4. Employees' bonus paid to President and Vice Presidents

Dec. 31, 2014; Unit: NT$ 1,000; 1,000 shares

Position	Name	Stock dividend	Cash dividend	Total	Total amount as % of 2014 Net Income
President	Jack Y. Jau (Note 1)	0	3,074	3,074	0.095
President	Pan, Chung-Shih (Note 2)				
Vice President	Lin, Wen-Sheng				
Vice President	Su, Yung-Hang				
Vice President	Shen, Hsiao-Lien				
Vice President	Liang, Wen-Cheng (Note 3)				
Vice President	Hu, Jui-Ching (Note 4)				

Note 1：Resigned on Oct. 30, 2014.

Note 2：On-board on Oct. 30, 2014.

Note 3：On-board on Jun. 1, 2014.

Note 4：Resigned on Jan. 20, 2014

4. Corporate Governance

4.1. Operation of the Board of Directors

4.1.1. HMI's shareholders elected the 5th Board of Directors and Supervisors in Annual General Meeting on June 6, 2014, effective immediately. (Tenor: June 6, 2014 to June 5, 2017)

The Board of Directors held 7 sessions in 2014. The attendance of the Directors and Independent Directors is shown in the following table:

Position	Name	Number of times of actual attendance	Number of times of attendance by authorized	Ratio of actual attendance (%)	Remarks
Chairman	Shu, Chin-Yung	7	0	100.00	Re-elected
Vice Chairman	Jack Y. Jau	7	0	100.00	Re-elected
Director	Hermes-Epitek Corp. Representative: Hwang, Ming-Chi	7	0	100.00	Re-elected
Director	Chen, Zhong-Wei	3	1	75.00	Newly-elected
Director	Yang, Chyan	6	1	85.71	Re-elected
Independent Director	Hu, Han-Liang	7	0	100.00	Re-elected
Independent Director	Tu, Huai-Chi	7	0	100.00	Re-elected
Independent Director	Liang, Kai-Tai	7	0	100.00	Re-elected
Independent Director	Kin, Lien-Fang	4	0	100.00	Newly-elected

4.1.2. Other matters required to be recorded:

A. Items listed in Article 14-3 in Securities and Exchange Act or Board resolutions Independent Directors have dissenting opinions or qualified opinions with notes in minutes of the Directors meetings: None.

B. Execution status for Article 206 of the Company Act regarding matters bearing on the personal interests of directors:

i. Director Jack Y. Jau didn't involve in the discussion and resolution of "the Investment companies restructuring" in Oct 30, 2014 BoD meeting to avoid conflict of interest.

ii. Director Jack Y. Jau didn't involve in the discussion and resolution of "To elect Vice Chairman" in Oct 30, 2014 BoD meeting to avoid conflict of interest.

iii. Director Chen, Zhong-Wei didn't involve in the discussion and resolution of "To appoint the Company's Presidents of major subsidiary companies" in Oct 30, 2014 BoD meeting to avoid conflict of interest.

iv. Director Jack Y. Jau and Chen, Zhong-Wei didn't involve in the discussion and resolution of "Periodic review of the company's salary structure" in Oct 30, 2014 BoD meeting to avoid conflict of interest.

v. Director Jack Y. Jau and Chen, Zhong-Wei didn't involve in the discussion and resolution of "To examine the salary basis and salary structure of the Management" in Oct 30, 2014 BoD meeting to avoid conflict of interest.

vi. Director Jack Y. Jau and Chen, Zhong-Wei didn't involve in the discussion and resolution of " IV. To decide 2014 employees and managers' annual bonus payment" in Dec 17, 2014 BoD meeting to avoid conflict of interest.

C. Goals to enhance the Board's operations:

a. Establishment of the audit committee and compensation committee

i. HMI 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. HMI 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.

b. 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.

4.2. Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Reason for Non-implementation
1. Shareholding Structure & Shareholders' Rights (1)Method of handling shareholder suggestions or complaints (2)The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders (3)Risk management mechanism and the "firewall" between the Company and its affiliates	HMI has designated relevant departments, such as Investor Relations, Legal, etc. to handle shareholder suggestions or disputes. HMI tracks the shareholdings of Directors, Independent Directors, key managers, and shareholders holding more than 10% of the outstanding HMI shares. When designing the structure of its subsidiaries, HMI has implemented a firewall mechanism. HMI and its subsidiaries have established appropriate internal control systems.	None
2. Organization & Responsibilities of the Board: (1)Independent Directors (2)Regular evaluation of external auditors' independence	Hu, Han-Liang; Tu, Huai-Chi; Liang, Kai-Tai and Kin, Lien-Fang are the Independent Directors of HMI. The approval of the Board is required for employment or replacement of independent auditors. The board conduct evaluations of auditor independence regularly.	None
3. Communication Channels with Stakeholders	HMI designates relevant departments to communicate with stakeholders on a case-by-case basis. HMI also lists contact information of the spokesperson and relevant departments on HMI's website.	None
4. Information Disclosure: (1)Establishment of a corporate website to disclose information regarding the Company's financials, business, and corporate governance status (2)Other information disclosure (e.g. maintaining an Englishlanguage website, appointing responsible persons to handle information collection and disclosure, appointing spokesperson policy, video recordings of investor conferences)	1. HMI discloses information through its website: http://www.hermes-microvision.com/ 2. HMI has designated appropriate persons to handle information collection and disclosure. 3. HMI has established a spokesperson policy. Spokesperson: Leo Shen; Deputy Spokesperson: David Liang. 4. HMI provides investor conferences webcasts and presentation materials on its website 5. HMI discloses all information to shareholders and stakeholders through HMI's website and the MOPS.	None
5. Operations of the Company's Nomination Committee, Remuneration Committee, or other committees of the Board of Directors	HMI's Board of Directors has established an Audit Committee and a Compensation Committee. Please refer to the "Corporate Governance" section in this annual report.	None
6. If the Company Has Established Corporate Governance Policies based on TSE Corporate Governance Best Practice Principles, Please Describe Any Discrepancies between the Policies and Their Implementation. HMI has already set up its corporate governance best-practice principles, and complied with the spirit of the principles in its practical corporate governance operation.		

7. Other important information to Facilitate Better Understanding of the Company's Corporate Governance Practices: (1) Employee's rights and interests: HMI 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: HMI 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, HMI 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: HMI has kept a good relationship with its suppliers. (5) Status of Director and Independent Director's advanced studies: HMI's Directors and Independent Directors all have professional background and practical operating and management experience in the industry, and they have taken six hours of corporate governance related courses every year. (6) Execution of the risk management policy, risk measurement standard: HMI'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: HMI 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 Independent Directors: As prescribed by its Articles of Incorporation, HMI shall purchase liability insurance for its directors which shall be literally executed. Also, HMI 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 Performed a Corporate Governance Self-Assessment report or Has Authorized Any Other Professional Organization to Conduct Such an Evaluation, the Evaluation Results, Major Deficiencies or Suggestions, and Improvements are Stated as Follows: HMI's Corporate Governance System has been certified by CG6009 in the 3rd quarter of 2013, and will be reported in 2015 AGM.

4.3. Continued Education/Training of Directors in 2014

In order to fulfill the corporate governance system, HMI has taken initiative to pass its governance related information on advanced study opportunities to our Directors. HMI's 4th and 5th 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".

Position	Name	Host by	Training Title	Hours of study
Chairman	Shu, Chin-Yung	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Vice Chairman	Jack Y. Jau	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Representative of juristic person Director	Hwang, Ming-Chi	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Director	Chen, Zhong-Wei	Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Director	Yang, Chyan	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Independent Directors	Hu, Han-Liang; Tu, Huai-Chi; Liang, Kai-Tai; Kin, Lien-Fang	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3

4.4. Continued Education/Training of Management in 2014

Position	Name	Host by	Training Title	Hours of study
President	Pan, Chung-Shih	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Vice President	Shen, Hsiao-Lien	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Accounting Research and Development Foundation	Advanced studies for Accounting Managers of a public company	12
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Vice President	Lin, Wen-Sheng	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Vice President	Liang, Wen-Cheng	Taiwan Securities and Future Institute	Practice of Compensation Committee	3
Vice President	Su, Yung-Hang	Taiwan Corporate Governance Association	How to implement corporate governance system and further enhance corporate sustainability.	3
		Taiwan Securities and Future Institute	Practice of Compensation Committee	3

4.5. Operations of HMI's Compensation Committee

4.5.1. Responsibilities of HMI's Compensation Committee

The compensation committee aims at establishing and regularly reviewing the performance reviewmechanism for directors, supervisors and managers. Establish and set up the policy, system, standard and structure of compensation and regularly review the compensation of Directors, Independent Directors and Management.

4.5.2. Composition of HMI's Compensation Committee

Criteria / Title / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)								Number of other public companies concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	
Hu, Han-Liang		√	√	√	√	√	√	√	√	√	√	0
Liang, Kai-Tai			√	√	√	√	√	√	√	√	√	0
Tu, Huai-Chi			√	√	√	√	√	√	√	√	√	0
Kin, Lien-Fang	√		√	√	√	√	√	√	√	√	√	3

Note : Directors or Supervisors with a "✓" sign meet the following criteria:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the company or ranking in the top 10 in holdings;
4. Not a spouse, relative within the second degree of kinship, or direct relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the company or that holds shares ranking in the top five in holdings;
6. Not a director, supervisor, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the company;

7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultations to the company or to any affiliate of the company, or a spouse thereof; and
8. Not been a person of any conditions defined in Article 30 of the Company Act.

4.5.3. Operation status of the Compensation Committee

The tenure of HMI's 2nd term compensation committee is from June 6, 2014 to June 5, 2017. The convener, Mr. Hu. Han-Liang held 7(A) sessions in 2014 and the attendance of members is shown in the following table:

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	7	0	100%	Re-Elected
Member	Tu, Huai-Chi	7	0	100%	Re-Elected
Member	Liang, Kai-Tai	7	0	100%	Re-Elected
Member	Kin, Lien-Fang	4	0	100%	Newly-Elected

4.5.4. Other Required Notes for Remuneration Committee:

A. In cases the Board doesn't adopt or revise remuneration committee's proposals, the Company shall list date/number of the Board meeting, agenda, the Board's resolution and the Company's response to remuneration committee's proposal: None.

B. In cases remuneration committee members have dissenting opinions or qualified opinions against the resolution and recorded with notes in paper, the Company shall list date/number of the remuneration committee meeting and agenda: None.

4.6. Operation of Audit Committee

The tenure of HMI's 2nd term Audit Committee is from June 6, 2014 to June 5, 2017. The convener, Mr. Hu. Han-Liang held 8(A) sessions in 2014 and the attendance of members is shown in the following table:

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	8	0	100%	Re-Elected
Member	Tu, Huai-Chi	8	0	100%	Re-Elected
Member	Liang, Kai-Tai	8	0	100%	Re-Elected
Member	Kin, Lien-Fang	4	0	100%	Newly-Elected

4.6.1. Other Required Notes for Remuneration Committee:

A. 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: None.
B. 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: None.
C. 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. HMI'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. HMI'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.

4.7. Status of Fulfilling Corporate Social Responsibility

Item	Implementation Status	Reason for Non-implementation
1. Implementation of Corporate Governance		
(1) Corporate social responsibility policy and performance evaluation	HMI has already set up its corporate social responsibility best practice principles. HMI's Management reviews the social responsibility policy and evaluates the performance regularly.	None
(2) Dedicated organization for the promotion and execution of corporate social responsibility	HMI's administration department is in charge of the promotion and execution of corporate social responsibility, and reports to the Board periodically.	
(3) Regular training and promotion of corporate ethics among employees and the Board of Directors, and integration with the employee performance appraisal system	The training and promotion of corporate ethics is commenced regularly. Relevent Corporate Social Responsibility details is disclosed on HMI's website at http://www.hermes-microvision.com/CSR/	
2. Sustainable Environment Development		
(1) Commitment to improving resources utilization and the use of renewable materials	HMI 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.	None
(2) Environmental management system designed to industry characteristics.	HMI specializes in semiconductor equipment manufacturing so the pollution or negative impact on the environment is minimal. We are dedicated in continued improvement of environmental mangament throught our P-D-C-A methodology while manage production costs. Besides providing recycle bins for classification of resources, we also entrusted qualified firms for waste recycling.	
(3) Dedicated environmental management unit or personnel	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.	
(4) Company strategy for climate change, energy conservation and greenhouse gas reduction	HMI controls its air-conditioning temperatures in summer, in an attempt to effectively use energy and head for the goal of energy efficiency and carbon reduction.	
3. Promotion of social welfare		
(1) Compliance with labor regulations, protection of employee rights, and appropriate management measures and procedures	HMI 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 HMI's policies and understanding of employees' opinions, HMI has taken an open attitude for mutual communication.	None
(2) Safety and health in working environment	HMI 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, HMI also has an emergency action team, which has routinely practiced every year.	

Item	Implementation Status	Reason for Non-implementation
(3) Regular employee internal communication channels establishment to ensure efficient communication for major company events	HMI 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.	
(4) Disclosure of consumer rights policy, and official channel for consumer complaints	HMI 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.	
(5) Collaboration with suppliers	HMI'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, HMI 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 HMI and its suppliers shall be maintained, so, both sides can protect their deserved and reasonable rights and interests under reciprocation.	
(6) Participation in community development and charities through commercial activities, donations or volunteers	HMI has actively participated in charity activities. It has set up "donation boxes" and periodically held charity activities to help underprivileged children. In addition, HMI 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. HMI 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 Technology and Soochow University. It is hoped that, by combining practice and theory, the Company will cultivate prominent professional talents required by the industry.	
4. Enhancement of Information Disclosure (1) Disclosure of corporate social responsibility related information with significance and reliability. (2) Published corporate social responsibility report and disclosure of implementation of corporate social responsibility	HMI discloses social responsibility related information in the annual report. HMI has also published its 2014 Corporate Social Responsibility Report. The report is available for download at http://www.hermes-microvision.com/CSR/report.php	None
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: HMI has already set up its corporate social responsibility best practice principles and is committed to 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, HMI 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.		
7. Other information regarding products or "Corporate Social Responsibility Report" which are verified by certification bodies: None		

4.8. Status of fulfilling operational integrity:

Item	Implementation Status	Reason for Non-implementation
1. Set up operational integrity policy and programs (1) Operational integrity policy (2) Plans and procedures to prevent anti-integrity behaviors (3) Measures to avoid operational activities with higher anti-integrity risks such as bribery , illegal political donations	HM has the following corporate governance guidelines and regulations in place: (1) Rules and Procedures of Shareholders' Meeting (2) Rules and Procedures of Board of Directors' Meeting (3) Rules for Election of Directors (4) Procedures Governing the Acquisition or Disposition of Assets (5) Procedures of Endorsement and Guarantee (6) Procedures of Outward Loans to Others (7) Corporate Governance Best-Practice Principles (8) Audit Committee Charter Available on the HMI's website http://www.hermes-microvision.com/ Integrity is highly-valued and is the major principle for HMI's Board of Directors and management. The Board of Directors and management will not vote in cases where they have a conflict of interest.	None
2. Fulfill operational integrity (1) The company shall prevent doing business with whomever has unethical records and include business conduct and ethics related clauses in the business contracts. (2) The company sets up dedicated unit in charge of promotion and execution of the company's corporate conduct and ethics. The Board of Directors supervises such execution and compliance of the policies. (3) The company establishes policies to prevent conflicts of interest and provides appropriate communication and complaint channels. (4) The company establishes effective accounting and internal control systems for the implementation of policies, and the internal auditors audit such execution and compliance.	In their employment period and after their departing from HMI, HMI'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. HMI's personnel in its administrative management division are responsible for promoting corporate integrity operating related issues. HMI's internal audit division also reports the status of promotion and execution of HMI's corporate conduct and ethics to the Board of Directors periodically. In order to enhance operation efficiency and effects and reinforce interactions among the HMI's employees, investors and other interested parties, in addition to adding a shareholder inbox to HMI's website, the HMI has also set up a "communication" area on its internal website to offer a proper channel for opinion expression. In order to ensure its operating effects and efficiency, reliability of its financial reports and compliance with related laws and regulations, HMI has set up its accounting system and internal control system, so as to carry out its integrity operating spirit.	None
3. Channels to report anti-integrity behaviors and reprimand rules.	HMI 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.	None

4. Enhancement of information disclosure (1) To set up a corporate website that publishesinformation relating to company's corporate conduct and ethics. (2) Other information disclosure channels (e.g. maintaining an English website, designating personnel to handle information collection and disclosure)	HMI's website discloses operational integrity matters under the corporate governance section. HMI's website also discloses relevancy and reliability of operational integrity in this annual report.	None
5. If the Company hasn't established internal policy based on the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", please disclose the discrepancy between its operation and the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies": HMI has already set up its integrity operating principles and has continued to aggressively abide by the principles.		
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., promote and demonstrate the company's commitment to ethical standard and provide training to its business partners; review the company's corporate conduct and ethics policy). HMI 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. HMI'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 conducting ensuing revisions, HMI will notify all of its employees by e-mail, and place the details on HMI's internal website for managers and employees to review at any time. In addition, when giving new entrants orientation training, HMI will provide the courses regarding handling of material information and prevention of insider trading for promoting the issue. Furthermore, HMI will also non-periodically offer the related information to HMI internal personnel.		

4.9. Corporate Governance Guidelines and Regulations

HMI 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 examine 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, HMI'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, HMI also discloses the status of its execution of social responsibility in its annual report and its corporate social responsibility report.

4.10. Status of the Internal Control System Implementation

4.10.1. Declaration of Internal Control

Hermes Microvision, Inc.
Statement of Internal Control System

Date: Mar. 4th, 2015

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 2014:

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. 31st, 2014, 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 Mar. 4th, 2015. Of the 9 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: Chung-Shih Pan

4.10.2. Disclose the review report of independent auditors if they are retained for reviewing the internal control system: None.

4.11. Reprimands on the Company and its staff

Reprimand on the Company and its Staff in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

4.12. Major resolutions of Shareholders' Meeting and Board Meetings

4.12.1. Major Resolutions of Shareholders' Meeting

Meeting date	Major resolutions	Implementation Status
June 6, 2014	Acknowledgements: (1) Adoption of the 2013 Business Report and Financial Statements (2) Adoption of the proposal for distribution of 2013 Profits Resolutions: (1) Revision of the company's "Article of Incorporation." (2) Revision of the company's "Procedures Governing Asset Acquisition and Disposal." (3) Election of nine Directors (including four independent directors) (4) Release of the prohibition on Directors from participation in competitive business	All of the resolutions of the Shareholders' Meeting had been fully implemented in accordance with the resolutions.

4.12.2 Major resolutions adopted by Board Meetings:

Meeting date	Major resolutions
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. 5, 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
Apr 18, 2014	1. The appointment of Chief Operating Officer. 2. Application to the Hsinchu Branch of E.Sun Bank for short-term credit facilities and outward documentary bills.

June 6, 2014	1. The election of the Chairman of the Company's 5th Board of Directors. 2. Modification of the plan to retain key talent. 3. To discuss the compensation structure of the newly elected management team. 4. To designate the member of Compensation Committee. 5. Application to the Dongmen Branch of First Bank for short-term composite credit facilities. 6. Application to the Dongqiao Branch of Tai Hsin Bank for short-term composite credit facilities. 7. Application to the Hsinchu Science Park Zhucun Branch of Mega Bank for short-term composite credit facilities. 8. Application to the Hsinchu Branch of Chang Hwa Bank for short-term composite credit facilities. 9. Application to the Hsinchu Branch of Chinatrust Bank for short-term composite credit facilities.
July 29, 2014	1. Modification of the plan to retain key talent. 2. Discussion of Director compensation. 3. Recommendation for 2014 managers' salary raise and bonus release. 4. Establishment of "The procedures performance evaluation of the Board of Directors". 5. Establishment of" The procedures of performance evaluation of Independent Auditors". 6. Application to six branches of Bank of Taiwan for short-term composite credit facilities. 7. Application to the Hsinchu Branch of E.Sun Bank for short-term credit facilities and outward documentary bills.
Oct. 30, 2014	1. Incorporation of a subsidiary of a subsidiary company in Samoa. 2. Investment companies restructuring. 3. To elect Vice Chairman. 4. To appoint the Company's President. 5. To appoint the Company's Presidents of major subsidiary companies. 6. Periodic review of the company's salary structure. 7. To examine the salary basis and salary structure of the Management. 8. To establish "Corporate Social Responsibility Policies." 9. To establish "Procedure of Verification and Disclosure of Occasional Material Information (including natural disaster)". 10. The Company planned to start its business relationship with Citibank and apply to it for composite credit facilities. 11. Application to the Hsinchu Science Park Branch of Shin Kong Bank for short-term credit facilities. 12. Application to the Hsinchu Science Park Branch of Taiwan Cooperative Bank for or short-term credit facilities.
Dec. 17, 2014	1. 2015 budget and business plan. 2. The purchase of real estate and the increase of capital investment in Hermes-Microvision, Inc., a subsidiary of HMI. 3. To decide 2014 employees and managers' annual bonus payment. 4. Institution of the Company's 2015 audit plan. 5. To abandon and reestablish 12 internal control procedures including "Internal Control System Principles". 6. To revise "Rules Governing Authorization and Deputy Systems" of the Company. 7. To revise "Procedures Governing Asset Acquisition and Disposal" of the Company. 8. To revise "Procedures of Authorization and Deputy Systems" of the Company. 9. To revise "Procedures Governing Subsidiaries Supervision and Management" of the Company. 10. To revise "Regulations Governing the Preparation of Financial Reports" of the Company. 11. To establish "Regulations Governing Personal Information Protection" of the Company.

4.13. Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors: None.

4.14. 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	On-board Date	Discharge Date	Reason of Resignation or Discharge
President	Jack Y. Jau	Oct. 15, 2010	Oct. 30, 2014	To fulfill the increasing demand for HMI's high resolution EBI tools along with semiconductor geometry migration, HMI is fully dedicated to developing EBI applications and diversifying our product offering. The former President Mr. Jau thus will dedicate the majority of his time in R&D. The discharge is approved by the Board of Directors on Oct. 30, 2014.

4.15. Certification details of employees whose jobs are related to the release of the Company's financial information

Out of the personnel in the HMI's financial division, one of them is a certificated public accountant (CPA) of the Republic of China, and one is an AICPA.

5. Information Regarding HMI's Independent Auditors

5.1. Auditor Information

The Name of the CPA firm	The Name of the CPA		Audit Period	Remarks
PwC Taiwan	Lee, Tien-Yi	Cheng, Ya-Huei	Jan. 1, 2014~ Dec. 31, 2014	-

5.2. Audit fee information

Range of fee	Fee Item	Audit Fee	Non-Audit Fee	Total
1	Less than NT$2 million		V	
2	NT$2 million~NT$4 million			
3	NT$4 million~NT$6 million	V		V
4	NT$6 million~NT$8 million			
5	NT$8 million~NT$10 million			
6	Above NT$10 million			

5.2.1. 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: None

5.2.2. 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: None

5.2.3. 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:

2013 audit fee was NT$ 10,480 higher than 2014 audit fee due to issuance of Global Depositary Shares in November 2013.

5.2. Replacement of independent auditors in the last two years and thereafter

Due to accounting firm's job rotation in accordance to relevant regulations, the Board approved to replace the certified public accountants on Nov 1st, 2013.

5.3. The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2014: None.

6. Net Changes in Shareholding

Net change in shareholding and net change in shares pledged by Directors, Independent Directors, Managent and Shareholders with 10% shareholding or more

Unit: shares

Position	Name	2014		Jan. 1 to Jan 31, 2015	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	Shu, Chin-Yung	(27,000)	—	(15,000)	—
Vice Chairman	Jack Y. Jau (Note 1)	—	—	—	—
Director	Hermes-Epitek Corp.	—	—	—	—
Representative of Director	Hwang, Ming-Chi	—	—	—	—
Director	Chen, Zhong-Wei	—	—	—	—
Director	Yang, Chyan	—	—	—	—
Independent Director	Tu, Huai-Chi	—	—	—	—
Independent Director	Hu, Han-Liang	—	—	—	—
Independent Director	Liang, Kai-Tai	—	—	—	—
Independent Director	Kin, Lien-Fang	—	—	—	—
President/ Chief Operation Officer	Pan, Chung-Shih (Note2)	—	—	—	—
Vice President of Research and Development	Lin, Wen-Sheng	—	—	—	—
Vice President of global business center	Su, Yung-Hang	(2,000)	—	—	—
Vice President of Finance Center	Shen, Hsiao-Lien	—	—	—	—
Vice President of Administration	Liang, Wen-Cheng (Note3)	—	—	—	—
Vice President of New Business Development	Hu, Jui-Ching (Note4)	—	—	—	—

Note 1: Resigned on Oct. 30, 2014.
Note 2: Promoted on Oct. 30, 2014.
Note 3: Promoted on June 1, 2014.
Note 4: Resigned on Jan. 20, 2014.

Stock Trade with Related Party: None.

Stock Pledge with Related Party: None.

7. Top 10 Shareholders Who are Related Parties to Each Other

As of June 30, 2014; Unit: Shares; %

Name	Shareholding		Shareholding under spouse and minor		Shareholding under 3rd party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	%	Shares	%	Shares	%	Name	Relationship
Hermes-Epitek Corp. Responsible person: Hwang, Ming-Chi	7,105,000	10.01	—	—	—	—	Hwang, Ming-Chi	Responsible person of Hermes-Epitek Corp.
Shan Chun Investment Co., Ltd. Responsible person: Juan, Ping-Chung	4,410,000	6.21	—	—	—	—	Hung Te Investment Co., Ltd. Sheng Hsi Investment Co., Ltd.	Spouse of responsible person of Shan Chun Investment Co., Ltd.
Han Hsin Investment Co., Ltd. Responsible person: Wu, Ying-Lin	2,965,000	4.18	—	—	—	—	—	—
Sheng Hsi Investment Co., Ltd. Responsible person: Chen, Li-Kuei	2,937,000	4.14	— —	— —	— —	— —	Hung Te Investment Co., Ltd. Shan Chun Investment Co., Ltd.	The same responsible person Spouse of the responsible person, Shen Hsi Investment Co., Ltd.
Hung Te Investment Co., Ltd. Responsible person: Chen, Li-Kuei	2,894,000	4.08	—	—	—	—	Sheng Hsi Investment Co., Ltd. Shan Chun Investment Co., Ltd.	The same responsible person 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	1,878,000	2.65	—	—	—	—	—	—
B.V.I. Chin Tsai Co., Ltd. Director:Gary Wong	1,729,000	2.44	—	—	—	—	—	—
Jack Y. Jau	1,620,000	2.28	—	—	—	—	—	—
Chendu Investments, LLC Responsible person: Chen, Zhong-Wei	1,600,000	2.25	—	—	—	—	—	—
Elephantech, LLC Responsible person: Weijia Shang	1,600,000	2.25	—	—	—	—	—	—

8. Long-Term Investment Ownership

As of Dec. 31, 2014; Unit: Shares; %

Long-Term Investments	Investments by HMI (1)		Investments Directly or Indirectly Controlled by Directors, Independent Directors, and Managers of HMI (2)		Total Investment (1)+(2)	
	Shares	%	Shares	%	Shares	%
Hermes Microvision, Inc.(USA)	61,785,000	93.77%	62,500	0.09%	61,847,500	93.86%
HMI Holdings Inc.	27,546,821	100.00%	—	—	27,546,821	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%
HMI Investment Corp.	21,546,822	100.00%	(Note)	—	21,546,822	100.00%

Note: Refers to a limited company, number of Shares held unavailable.

IV. Capital and Shares

1. Capital and Shares

1.1. Capitalization

Unit: 1,000 Shares: NT$ 1,000

Month/ Year	Issue Price (Per Share)	Authorized capital		Paid in capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital Stock	Capital Increase by Assets Other than Cash	Other
May 2003	10	100	1,000	100	1,000	Initial capital of NT$1,000,000	—	Note 1
May 2004	10	50,000	500,000	50,000	500,000	Stock Offering: NT$ 499,000	—	Note 2
Oct. 2007	10	120,000	1,200,000	78,000	780,000	Stock Offering: NT$280,000	—	Note 3
July 2008	10	120,000	1,200,000	41,000	410,000	Capital reduction to cover accumulated deficits: NT$650,000 ; Stock Offering: NT$280,000	—	Note 4
Nov. 2010	40	120,000	1,200,000	60,000	600,000	Stock Offering: NT$190,000	—	Note 5
May 2012	208	120,000	1,200,000	66,000	660,000	Stock Offering: NT$60,000	—	Note 6
Nov. 2013	860	120,000	1,200,000	71,000	710,000	Stock Offering: NT$50,000	—	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.

1.2. Capital and shares

As of June 30, 2014; Unit: Shares

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

Shelf Registration: None.

1.3. Composition of shareholder

As of June 30, 2014; Unit: Shares; %

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	5	79	1,594	505	2,183
Shareholding	0	1,333,000	25,051,735	7,943,269	36,671,996	71,000,000
Holding Percentage(%)	0.00	1.88	35.28	11.19	51.65	100.00

1.4. Distribution of shareholding

Common Share

As of June 30, 2014

Common Share Shareholder Ownership (Unit: Share)	Number of shareholders	Ownership (Shares)	Ownership (%)
1 ~ 999	337	20,946	0.03
1,000 ~ 5,000	1,352	2,242,403	3.16
5,001 ~10,000	109	839,427	1.18
10,001 ~15,000	64	814,628	1.15
15,001 ~20,000	36	629,058	0.89
20,001 ~30,000	50	1,242,328	1.75
30,001 ~40,000	47	1,683,529	2.37
40,001 ~50,000	31	1,395,591	1.97
50,001 ~100,000	65	4,789,716	6.75

Common Share Shareholder Ownership (Unit: Share)	Number of shareholders	Ownership (Shares)	Ownership (%)
100,001 ~200,000	40	5,798,504	8.17
200,001 ~400,000	26	7,480,974	10.53
400,001 ~600,000	4	1,841,979	2.59
600,001 ~800,000	4	2,626,109	3.70
800,001 ~1,000,000	1	972,191	1.37
Over 1,000,001	17	38,622,617	54.39
Total	2183	71,000,000	100.00

Preferred Share: None.

1.5. Major Shareholders

As of June 30, 2014

Major shareholders	Total Shares Owned	Ownership (%)
Hermes-Epitek Corp.	7,105,000	10.01
Shan Chun Investment Co., Ltd.	4,410,000	6.21
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 Co., Ltd.	1,878,000	2.65
B.V.I. Chin Tsai Co., Ltd.	1,729,000	2.44
Jack Y. Jau	1,620,000	2.28
Chendu Investments, LLC	1,600,000	2.25
Elephantech, LLC	1,600,000	2.25

1.6. Market Price, Net Worth, Earnings, Dividends per Common Share

Unit: NT$; 1,000 shares:

Item			2013	2014	Jan. 31, 2015
Market price per share (Note 1)	Highest		1,040	1,615	1,575
	Lowest		505	860	1,420
	Average		798.48	1,280.80	1,486.25
Book value per share	Before distribution		136.54	166.59	**
	After distribution		120.54	144.59	*
EPS	Weighted average shares		66,780	71,000	71,000
	EPS	Not-adjusted	35.09	45.60	**
		Adjusted	35.09	*	**
Dividends per share	Cash dividend		16.00	*	**
	Stock dividend	From retained earnings	—	*	**
		From capital surplus	—	*	**
	Accumulated undistributed dividend		—	—	**
Return on Investment	Price/Earnings Ratio (Note 2)		22.76	28.09	**
	Price/Dividend Ratio (Note 3)		49.905	*	**
	Cash Dividend Yield (Note 4)		0.02	*	**

* : Pending shareholders' approval in Annual General Shareholders' Meeting.

** : Not applicable.

Note 1: Referred to TWSE website

Note 2: Price/Earnings Ratio = Average Market Price / Earnings Per Share

Note 3: Price/Dividend Ratio = Average Market Price / Cash Dividends Per Share

Note 4: Cash Dividend Yield = Cash Dividends Per Share / Average Market Price

1.7. Dividend policy and its execution status:

1.7.1. Dividend policy under the Article of Incorporation

Considering that HMI is in a growth phase, the purpose of matching the overall environment and characteristics of the industry, and for the goal of achieving sustainable operation and long-term interests of shareholders, the dividend policy shall take into consideration factors such as the Company's current operating conditions and the capital budgeting plans of the subsequent year. In principle, dividends to shareholders shall be distributed in a combination of cash and shares, whereas the cash dividends shall not be less than 10% of the total dividends distributed to shareholders.

1.7.2. Proposal to distribute 2014 profits (approved by the Board and subject to Shareholders' approval)

The Board adopted a proposal for 2014 profit distribution at its meeting on Mar. 4th, 2015 as follows:

	2014	
	Amount (NT$)	
10% Legal reserve	$	323,792,834
Cash dividends		1,562,000,000
Compensation of directors and supervisors		8,000,000
Employee cash bonus and profit sharing		79,995,433
Total	$	1,973,788,267

The proposal is subject to shareholders' approval at the Annual Shareholders' Meeting. The Board will then determine a cash dividend record date.

1.8. Impact of Share Dividends to Operating Performance and EPS: Not applicable.

1.9. Employee Bonus & Compensation of Directors and Supervisors

1.9.1. The percentages or range of the employee bonus and compensation of Directors and Supervisors stated in the Article of Incorporation:

According to HMI's Articles of Incorporation, If there is profit in the preceding fiscal year, HMI shall provide for and pay taxes, offset its losses in previous years, set aside a legal reserve at 10% of the profits, and then, pay not more than 1% of the remaining profits as the remuneration to directors and not less than 1% of the remaining profits as the bonus to employees. HMI may issue stock bonuses to employees, including employees of an affiliated company, meeting the conditions set by the Board of Directors. As for the dividends distribution, a plan of distribution of dividends shall be proposed by the Board of Directors set forth in Paragraph 2 of Article 20 of the Article of Incorporation, and submitted to Shareholders' Meeting for approval.

1.9.2. Proposed 2014 employee profit sharing plan and compensation to Directors and Supervisors

The Board adopted a proposal on Mar. 4th, 2015 for 2014 employee cash bonus and profit sharing of NT$79,995,433 and compensation to Directors and Supervisors of NT$8,000,000. In accordance with accounting principles, employee cash bonus and profit sharing and compensation to Directors and Supervisors shall be fully expensed. HMI's net profit is after expensing employee profit shares and compensation to Directors and Supervisors

Compensation to Directors and Supervisors was NT$8,000,000. There is a difference of NT$458 with the estimated Directors' compensation of NT$7,999,542. The difference shall be accounted as "changes in accounting estimations" and be booked in the next fiscal year's financial report, after approved by the annual shareholders' meeting.

1.9.3. Earnings retained in previous period (2013) allocated as employee bonus and Directors and Supervisors Compensation

Unit: NT$

Item of distribution	AGM resolution	Estimate	Difference	Reason for the difference
Employee cash bonus	91,131,950	91,131,950	-	-
Compensation of Directors and Supersivors	4,800,000	9,113,196	4,313,196	The difference was mainly because the actual payment was less than the estimated amount, and the difference shall be accounted as "changes in accounting estimations" and be booked in 2014 fiscal year's financial report, after approved in the annual shareholders' meeting

1.10. Buyback of Commom Share: None.

2. **Corporate Bond:** None.

3. **Preferred Stock:** None.

4. Issuance of Global Depositary Shares

Issuing date			Nov. 12, 2013
Issuance and listing			Luxembourg Stock Exchange
Total amount (US$)			291,700,000
Offering price per GDS (US$)			29.17
Units issued			10,000,000
Underlying securities			Cash offering and HMI common shares from selling shareholders
Common shares represented			10,000,000
Rights and obligations of the GDS holders			The same as those of common share holders
Trustee			None
Depository bank			BNY Mellon, U.S.A.
Custodian bank			Mega International Commercial Bank
GDSs outstanding (As of Jan. 31, 2015)			731,308 units
Appointment of expenses for issuance and maintenance			All fees and expenses such as underwriting fees, legal fees, listing fees and other expensed related to issuance of GDSs were borne by the selling shareholders, while maintenance expenses such as annual listing fees and accounting fees was borne by HMI.
Terms and conditions in the deposi agreement and custody agreement			See depository agreement and custody agreement for details.
Closing price per GDS (US$)	2014	Highest	51.39
		Lowest	28.47
		Average	41.32
	As of Jan. 31, 2015	Highest	50.63
		Lowest	44.60
		Average	47.15

4.1. Use of Proceeds

4.1.1. Date approved by the industry competent authorities and doc. ref. No.:
The GDR offering was approved by the Financial Supervisory Commission on Sep. 3, 2013 with the doc. ref. Chin-Kuan-Cheng-Fa-Tzu No. 1020034994.

4.1.2. Total amount of the capital required: NT$ 4,500,000 thousand.

4.1.3. Capital sources:
Issuance of 5,000,000 units of the overseas depositary receipt (representing 5,000,000 shares of common stock) for a total of US$ 145,850 thousand which is equivalent to NT$ 4,300,000 thousand with exchange rate of US$ 1 = NT$ 29.48. The deficiency of the capital required by the plan will be made up by the HMI's owned funds or other ways.

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

4.1.5. Plan for use of proceeds

Unit: US$ 1,000; NT$ 1,000

Objective	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
Develop new products and technologies	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)

4.1.6. Expected impact on business

HMI's EBI tools are designed to help semiconductor manufacturers manage their yeld rate, and are majorly used in the front end wafer manufacturing processs. By integrating the components of precision machinery, elelctrical engineering, electronic optical imaging, IPC, etc. from the up-stream suppliers, HMI has developed high performance EBI tools and is dedicated to increase the total addressable market by diversifying product offerings and applications. The use of proceeds in R&D is expected to increase of the annual sales value, gross profit margin and operating profit as the table below:

Unit: NT$1,000

Objective	Year	Sales value	Gross profit margin	Operating profit
Develop new products and technologies	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

4.2. Execution status

4.2.1. Execution schedule

Unit: USD1,000; NT$1,000

Plan's items	Execution status		Q4 of 2014		As of Q4 of 2014		Reasons for ahead of or behind schedule and improvement plan
			US$	NT$ equivalent (Note)	US$	NT$ equivalent (Note)	
Develop new products and technologies	Disbursement amount	Expected	11,100	333,000	61,300	1,839,000	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	13,785	413,546	73,157	2,194,721	
	Execution schedule (%)	Expected	7.40%	7.40%	40.86%	40.86%	
		Actual	9.19%	9.19%	48.77%	48.77%	
Total	Disbursement amount	Expected	11,100	333,000	61,300	1,839,000	
		Actual	13,785	413,546	73,157	2,194,721	
	Execution schedule (%)	Expected	7.40%	7.40%	40.87%	40.87%	
		Actual	9.19%	9.19%	48.77%	48.77%	

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

HMI issued GDS shares by cash offering and secondary offering in 2013. The placement was finished on Nov. 12, 2013, and raised the amount of US$ 143,662 thousand, which is equivalent to NT$ 4,309,860 thousand. As of December 31, 2014, the actual disbursement amount was US$ 73,157 thousand, which is equivalent to NT$ 2,194,721 thousand, representing a completion rate of 48.77%. It was slightly ahead of original schedule as a result of adjustment of the overall product offering schedule driven by customer demand. In general, the adjustment in schedule does not have significant difference from the estimated schedule.

4.2.2. 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. After the delivery of Beta tool and mass production ramp up, it is expected that the positive impact on business shall still be achieved as originally scheduled. The effects shown as of Dec. 31, 2014 are as follows:

Unit: NT$1,000

Objective	Year		Sales value	Gross profit margin	Operating profit
Develop new products and technologies	2013	Expected	–	–	–
		Actual	187,036	121,573	74,814
	Q4 of 2014	Expected	6,150,000	3,997,500	2,460,000
		Actual	3,889,022	2,527,864	1,555,609
	Total	Expected	6,150,000	3,997,500	2,460,000
		Actual	4,076,058	2,649,437	1,630,423
		Effectiveness	66.28%	66.28%	66.28%

4.2.3. 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.

5. Employee Stock Option: None.

6. Employee Restricted Stock: None.

7. New share issuance in Connection with Mergers and Acquisitions: None.

V. Operational Highlights

1. Business Activities

1.1. Business scope

1.1.1. The main business activities of HMI

HMI's the world's leading provider of e-beam inspection, or EBI, tools and solutions for defect control and yield management in advanced semiconductor manufacturing process R&D and volume production. Since 1998, we have been committed to the research and design, manufacturing and sale of EBI tools and solutions. Today, we offer a wide range of EBI products based on our proprietary electron gun and column technologies and highly effective defect inspection algorithms to meet the various needs of our customers.

Our customers include many of the world's largest semiconductor manufacturers, including top IDMs (both logic and memory IC companies) and top foundries. Our EBI tools are used both by our customers' R&D divisions in troubleshooting their advanced manufacturing processes under development and by their production divisions in defect control and yield improvement to achieve fast and profitable production volume ramp up.

Against the backdrop of increased architectural, manufacturing and material complexities at the leading edge technology, it is increasingly difficult for manufacturers to achieve profitable yield rates timely to meet the demand and requirements of their customers. Manufacturers rely on high quality process control and yield management tools to overcome these challenges. We further expect EBI tools to gain market share from the mainstream optical inspection systems at the leading edge technology nodes, given their superior technical performance in resolution and sensitivity despite lower throughout.We believe the increasing adoption of EBI tools would help our customers save costs associated with yield loss and accelerate the learning curve of new processes by reducing setup and review time.

1.1.2. Revenue Split

Unit: NT$1,000; %

Main products	2013		2014	
	Revenue	%	Revenue	%
E-beam Inspection Tool	5,035,270	94	6,905,683	96
Other	304,773	6	303,967	4
Total	5,340,043	100	7,209,650	100

1.1.3. Current Product Offering

A. eScan 300/310/315/320/500
B. eScan 380/Lite/400
C. Hot spot inspection series
D. eXplore
E. Supernova

1.1.4. New products planned to develop

A. Multi-column
B.Jupiter
C.Saturn

1.2. Inductry Outlook

1.2.1. The current industry status and development

Increasing demand for smaller form factor, high-performance and energy efficient consumer electronics worldwide is expected to drive the continued migration of semiconductor manufacturing processes to more advanced and finer geometry technology nodes. Recently, the advanced logic manufacturers started its geometry migration to 14/16 nm Fin Field Effect Transistors (FinFET) process; while DRAM (Dynamic Random Access Memory) migrating to 20nm process, and flash memory going three-dimensional (3D). The capital intensity of the advanced technologies are expected to increase coupled with technological difficulties and stronge end market demand. According to Gartner, Inc., Worldwide semiconductor capital equipment spending reached a total US$38.9 billion in 2014, an increase of 16.4 percent from 2013 spending of US$33.5 billion. Wafer fab equipment spending will increase 6 percent in 2015 and outgrow other sectors. Taiwan, Korea, and United States remained the top three in global regional semiconductor manufacturing equipment spending and largely will continue to expand the spending in 2015. According to SEMI, Taiwan regional spending on semiconductor equipment is expected to reach US$12.34 billion in 2015, a annual growth of 28% comparing to US$9.63 in 2014.

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 migration 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 inspection equipment to first detect any wafer defects and then use back end equipments such as review SEM (scanning electron microscope) to do the defect review and classification. Currently, there are two main types of wafer inspection equipment: Optical (including darkfield and brightfield) and e-beam. Before the nanometer technology generation, optical technology was used to perform defect inspection. With the adoption of new semiconductor materials, new process technologies and the migration of semiconductor geometry to 90 nm and below, the traditional optical inspection technologies (darkfield, brightfield) started experiencing bottlenecks due to resolution limit. Therefore, fab users started to adopt e-beam inspection tools to control their manufacturing yield rate. Currently, optical inspection equipment still dominates the wafer inspection market. However, along with technology migration, we believe that e-beam inspection tools provide more supportive solution to trouble shooting defects due high sensitivity and resolution.

Comparison of wafer inspection tools

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

To maintain HMI’s leading position in the e-beam inspection market, our strategies are as follow.

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

As the semiconductor front-end inspection tools are ciritical for fab yield management, rapid response to customer needs, close cooperation with customers, and designing equipment that meets the needs of customers to meet the various needs of each customer are very important. In order to provide timely service, HMI has set up 100% wholly owned subsidiary companies in Japan and Korea known respectively as HMI Japan and HMI Korea. Aside from its functions of selling and distributing our inspection equipments, those subsidiaries are also involved in after-sales maintenance services.

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

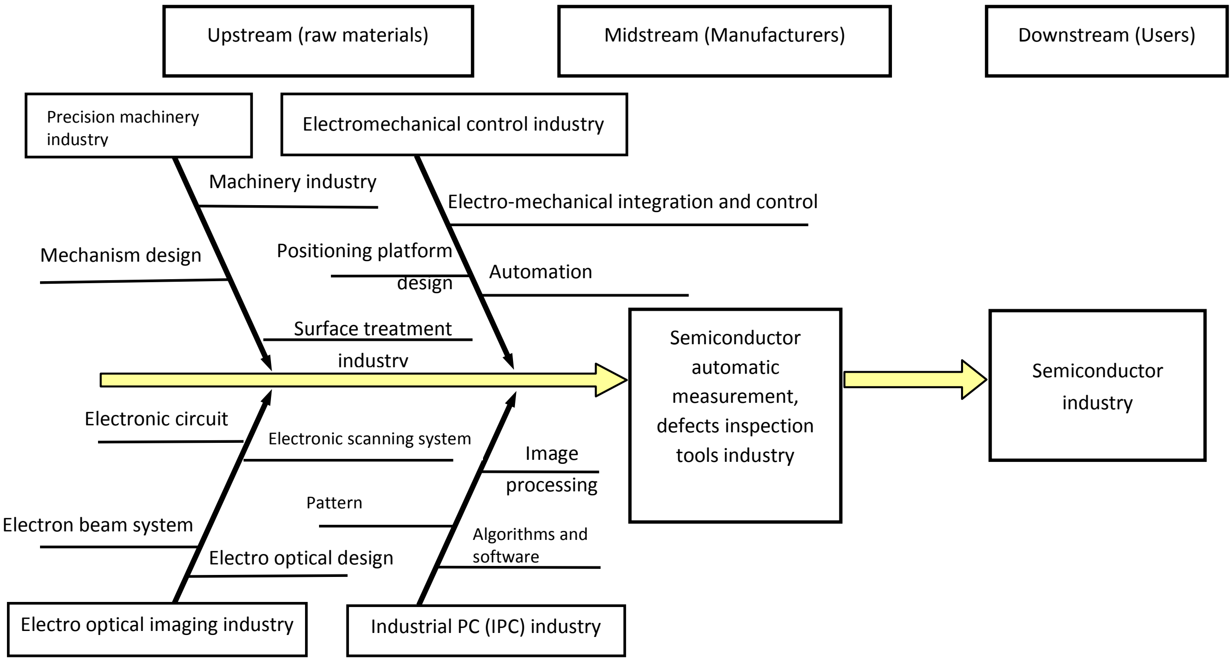
The manufacturing processes of the semiconductor industry are progressing rapidly, the fabrication technologies are also continuously improving and diversifying, and it is only by continuous innovation in technology that HMI cannot be eliminated or be left behind by the market. HMI's technical team has a deep knowledge of the semiconductor industry, highly skilled and experienced, and has successfully developed more than one hundred patents in Taiwan and other countries in the world. We were also verified and accredited by numerous world-class semiconductor manufacturers and we continue to receive direct inquiries from our sales customers to cooperate and help develop their related e-beam inspection systems. HMI has good key components and developed technologies, and together with our foresight to grasp keen insight into the future development of the industry, and continuing research, development and innovative technologies, we are able to introduce new products with better performance. We are commited to develpong more applications and advanced technologies to provide better solution to our clients.

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 fabs reduce their manufacturing cost, shorten the delivery lead time, and improve the market share of the Taiwan branded equipment suppliers. HMI'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 HMI. HMI 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, the increase in process complexity, it is expected that there will be a continued and increased demand for more effective and more sensitive process control and yield management equipment. Yield improvement has been the key issue for semiconductor manufacturers in migration to more advanced technology nodes, and poor yields and delay in yield improvement could directly impact profitability and ability to maintain or gain market share. In the near-term, optical inspection is expected to remain as the mainstream inspection tool while E-beam inspection will provide a complementary approach. However, with the development of nano-technology and the evolution of the semiconductor industry to smaller geometries, it is also expected that the adoption of E-beam will accelerate.

1.2.2. The industry upstream, midstream, and downstream relationship



HMI manufacturers fron-end wafer inspection tools and is positioned in the upstream in the semiconductor manufacturing cycle. We supply our equipments to the midstream wafer foundries for them to improve manufacturing yield rate.

1.2.3. Current product development

In the near-term, optical inspection is expected to remain as the mainstream inspection tool while E-beam inspection will provide a complementary approach. In 28 nanometer technology, the optical system is already experiencing a significant bottleneck of. 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. The lack of ability for optical inspection tools to clearly identify circuits and defects narrows its application in advanced nodes wafer inspection.

From cost of ownership perspective, e-beam inspection tools are with higher resolution and smaller pixel sizes, so it is currently not possible to achieve the same scanning speed as the optical system. However, the performance of an inspection tool is not merely measured by scanning speed. HMI’s proprietary LeapNScan technology allows users to scan only the areas with defects and to switch from one spot to the next directly. Not needing to run through the whole wafer as under the traditional continuous mode scan, the LeapNScan mode can increase the throughput and accelerate new product ramp-ups of our customers. The introduction of e-beam inspection in the new generation of technology provides cost effective solution in the market. We will use the eScan500 and eP4 to further illustrate:

eScan500 is the latest generation model evolving from eScan320 and eScan400. To better capture defects along with geometry migration, the image resolution of the eScan500 is enhanced by more than 30% compared to the eScan320. At the same time, it combines our leap scan technology and together with the continuous scan and hot spot inspection system, it allows our clients to have more flexibility and efficiency when doing wafer inspection, and eventually increase productivity. eScan500 plays a very important role in the 14/16 nm technology development. In response to the continuing improvement in the semiconductor technology, the direction of HMI'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.

HMI also successfully developed eP4 in 2014. Aside from upgrading the image processing system, eP4 is equipped with the highest sensitivity of our e-beam products. The resolution of eP4 is 2nm, which is around 30% improvement comparing to its previous version product eP3. The mainstream application of eP4 will be in hotspot monitoring. The improvement in resolution opens the door for more application opportunities such as CDU (critical dimension monitoring) and OVL (Overlay) monitoring. As geometry migrates to 1X nm technology, the shrink in linewidth and process complexity pose even higher difficulties in in-line monitoring of hotspot, CDU, and OVL.

Moore's Law states that processor speeds, or overall processing power for computers will double about every 18 month's. During the cadence, the semiconductor manufacturing companies invest related human resources and materials to research and develop the next generation of techonology and compete with each other. HMI designs the product roadmap to be in line with our clients' technology roadmap to provide timely support and service to our clients. The product roadmap is as follow.

	2013	2014	2015		2016
Machine model	eScan500	eP4	In-line monitoring	Multi-column	Multi-column
Technology node	14/10 nm	10nm	14/10nm	10nm	14/10nm
Scan mode	Combo LS, CS, HS	HS	VS/HS	CS	CS

HMI 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 HMI are in line with the evolution of the semiconductor manufacturing processes. In the future, we shall continue to develop faster scanning 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 nm and 10 nm geometry, the demands for wafer and mask inspection will increase substantially. Besides the current wafer inspection products, we also have a mask inspection system especially designed for EUV (Extreme Ultraviolet) mask inspection. HMI's 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.

1.2.4. Competition

At the beginning, wafer inspection tools suppliers were such as Applied Materials, KLA-Tencor and the Hitachi High Tech, etc. all invested in R&D and production of e-beam inspection tools. 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 HMI. HMI's global market share in e-beam inspection segment is more than 85%.

1.3. Technology and R&D Status

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

The conventional optical defect inspection technology is encountering a great challenge with new semiconductor materials, the use of new manufacturing process technologies, and the trend of migration of the semiconductor geometry. In order to improve the manufacturing yield rate timely, the new generation defect inspection technology must be able to capture and automatically classify various defects with faster throughput and higher sensitivity. The main defect inspection methods optical (including dark field and bright field) and electron beam (E-beam).

A. Dark Field

Dark Field inspection tools usually use laser as the light source. The sensitivity is limited while 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

Bright Field inspection tools use visible light or laser as the light source. The sensitivity is decent, but the inspection speed is slower than Dark Field and the cost is higher. 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 electron beam as the inspection source. The sensitivity is the highest, but the inspection speed is the slowest and the cost is between cheaper than Bright Field but more expensive than Dark Field. When using an e-beam for inspection, the incident e-beam excites secondary electrons, and then through the collection of the secondary electrons signals and image processing, we can see a clear image of wafer. The scanned image presented by the machine is used to analyze and capture the defects that an optical inspection tool is unable to inspect. 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 inspecting small physical defects such as gate etching residue, etc.

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 inspection methodologys to inspect these defects is a very difficult challenge. However, the general voltage contrast defects inspection, oftentimes, can only be carried out after the manufacturing

processes 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 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.

1.3.2. R&D expense overview

Unit: NT$1,000; %

Item	2014	As of Jan. 31, 2015
R&D espense (A)	961,186	103,501
Revenue (B)	7,209,650	535,974
Percentage (A)/(B)	13.33%	19.31%

1.3.3. Successfully developed products

Year	Product	Description
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.
	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 equipment and effectively reduce the cost of the semiconductor manufacturing companies.
2008	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.

Year	Product	Description
	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.
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.
2014	eP4	Aside from upgrading the image processing system, eP4 is equipped with the highest sensitivity of our e-beam products. The resolution of eP4 is 2nm, which is around 30% improvement comparing to its previous version product eP3. The mainstream application of eP4 will be in hotspot monitoring. The improvement in resolution opens the door for more application opportunities such as CDU (critical dimension monitoring) and OVL (Overlay) monitoring. As geometry migrates to 1X nm technology, the shrink in linewidth and process complexity pose even higher difficulties in in-line monitoring of hotspot, CDU, and OVL.

As of Dec. 31, 2014, the summary of HMI's approved and licensed patents and patent under applications are as follows:

Region / Status	Taiwan	USA	China	Japan	Korea	Singapore	Israel	PCT	Total
Approved & Licensed	45	95	4	6	2	1	1	0	154
Under Application	12	51	0	1	0	0	2	3	69
Total	57	146	4	7	2	1	3	3	223

The above table shows that HMI's patent application strategy is to prioritize our applications in the United States and this was due to the fact that HMI's main competitor, KLA-Tencor, is based 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 competitor as a priority consideration for applying a patent. In order to avoid the advance patents owned by HMI be subjected to the infringement by the KLA-Tencor and other competitors and to keep abreast with the patent information on the related products of our competitors, HMI considered the most efficient and convenient place of law enforcement to apply for patent 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.

1.4. HMI’s Long and Short Term Business Development Plans

1.4.1. 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

1.4.2. 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 Status

2.1. Market Analysis

2.1.1. Sales by Region

Unit: NT$1,000; %

		2012		2013		2014	
		Sales	%	Sales	%	Sales	%
Export	Asia	1,219,012	29.16	1,678,772	31.44	1,682,441	23.34
	America	1,386,036	33.16	1,791,602	33.55	3,136,454	43.50
	Europe	–	–	–	–	2,224	0.03
	Sub-total	2,605,048	62.32	3,470,374	64.99	4,821,119	66.87
Domestic Sales		1,574,856	37.68	1,869,669	35.01	2,388,531	33.13
Total		4,179,904	100.00	5,340,043	100.00	7,209,650	100.00

2.1.2. Market Share

In the early years, optical inspection tools were the major inspection equipment used in production line while the e-beam inspection tools were used mainly in the research and development and ramp up processes. E-beam market share accounted for less than 5% of the entire wafer fab equipment market. However, in the 90 nm and below manufacturing process, the optical inspection tools started encountering bottlenecks. While in the 28 nm, it is very difficult for optical inspection tools to generate a clear image of the wafer and e-beam inpection tools are considered as a more supportive technology due to higher resolution and sensitivity. Therefore, the market for the e-beam inspection tools is increasing along with technology migration. HMI not only had successfully introduced advanced tools into the market, but also gained the recognition of a lot of world-class semiconductor manufacturers.

Due to the difficulty of obtaining the statistical information of our competitors, we therefore made our own estimation of our market share. In 2014, based on the total e-beam inspection tools installed, we estimated that HMI’s market share for the overall e-beam inspection tools is about 85%.

2.1.3. 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.

2.1.4. Competitive strength

A. Experienced management team

HMI's management team members used to work with well-known 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 industry, IC equipment industry and related knowledge of software development and the development of international customers.

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 processing. 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 Asian semiconductor equipment 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 ciritical for fab yield management, rapid response to customer needs, close cooperation with customers, and designing equipment that meets the needs of customers to meet the various needs of each customer are very important. In order to provide timely service, HMI has set up 100% wholly owned subsidiary companies in Japan and Korea known respectively as HMI Japan and HMI Korea. Aside from its functions of selling and distributing our inspection equipments, those subsidiaries are also involved in after-sales maintenance services.

2.1.5. Advantages and Risks

2.1.5.1. Advantage factor

A. Inspection tool demands continued to expand

The flourishing global consumption for electronic devices results in a significant increase in the demands for IC products. With the application of new semiconductor materials, new manufacturing process and the miniaturization trend of semiconductor components, the conventional optical inspection technology will start experiencing bottlenecks. Both logic and memory semiconductor manufactureres will continue to invest in advanced technology nodes 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, Taiwan government has also actively promoted the localization of the semiconductor equipment. In order encourage the localization of semiconductor wafer front-end manufacturing equipment and allow the domestic semiconductor industry supply chain to be more robust and complete, the Council for Economic Planning and Development (CEPD) plans to provide a NT$ 330 million subsidy 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 heavily in R&D. Therefore creates high entry barrier for the new comers.

C. Strong R&D team and command the ability to research and develop key technologies

HMI has already successfully filed of hundreds of patentes domestically and internationally. We were also verified and accredited by numerous world-class semiconductor manufacturers and we continue to receive direct inquiries from our 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.

2.1.5.2. Disadvantage factor & Countermeasures

A. Competition of foreign manufacturers

Compared to other foreign semiconductor capital equipment providers who were involved in the development of relative technology, HMI started late and cannot compare in scale of operations with these large foreign companies as our financial resources are likewise relatively weaker.

Countermeasures:

a. Take the advantage of flexible operations as the small-medium size 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 resolution, the industry development is likely to encounter a structural change.

Countermeasures:

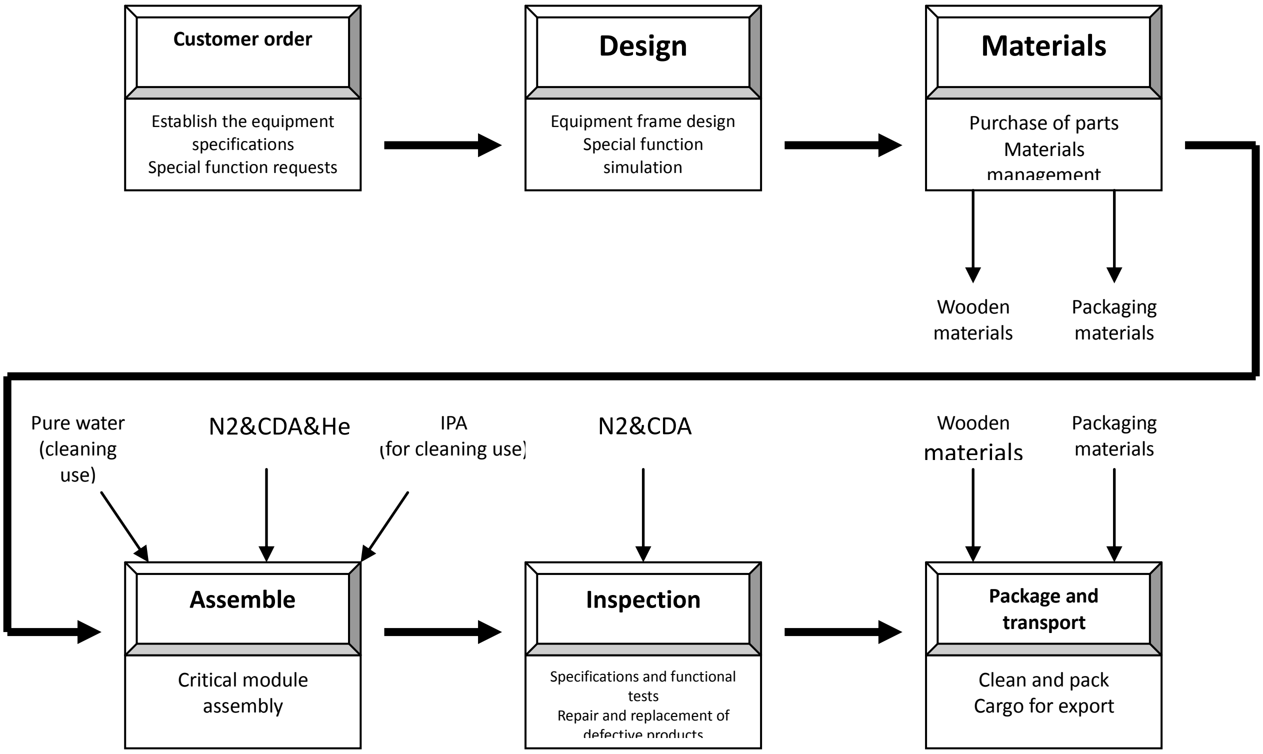
With the existing successful e-beam inspection technology, develop usage in different other industries such as the medical industry. Increase the types of applications in different industries and proceed to expand the sales of the products in the market.

2.2. Application of HMI's main products and production process

2.2.1. Application of HMI's main products

HMI mainly produces e-beam inspection tools. Our product 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.

2.2.2. The manufacturing process of main products:



2.2.3. Supply for main materials

HMI specializes in e-beam inspection tools and they are mainly used in the inspection of defects through scanning of the wafer. The e-beam related modules are the key modules of HMI. It mainly consists of the power supply and the electron gun module. We proprietary design 100% of our e-beam inspection system and manufacture 80% of our key components in-house. The main items of materials purchased are the wafer transfer mechanics module, e-beam assembly components, and the vacuum system components.

HMI owns 94% and 100% of the 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 coordinate HMI USA and HMI Beijing to produce the electron gun module and power supply module respectively. And upon receiving the orders from HMI, HMI USA and HMI Beijing will proceed on its own to plan and schedule the production. Since HMI 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 have a backup facility in our Tainan factory for the maintenance and production capability of power supply device and electron gun modules. This is in case HMI USA and HMI Beijing encountered any kind of production issue, we shall have back up plan and reduce the risk of supply shortage of these related modules.

HMI's purchases plan of materials and components based primarily on the sales forecasts, R&D production plan, 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, HMI also always observes the changes in the market enviornmnet to observe reasonable 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 HMI 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.

2.2.4. Key suppliers and Customers

2.2.4.1. Key suppliers

Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years:

2013				2014			
Supplier	Amount Purchased (NT$ 1,000)	% of total purchase	Relation	Supplier	Amount Purchased (NT$ 1,000)	% of total purchase	Relation
Rorze Automation Inc.	94,824	10.59	*	—	—	—	*
Other	800,419	89.41	—	Other	1,126,957	100.00	—
Total	895,243	100.00	—	Total	1,126,957	100.00	—

*Not related parties

Reasons for change:

HMI's purchases from Rorze Automation Inc. are mainly wafer transmission modules, components and spare parts. Due to the strong market demand for HMI's E-beam inspection equipment in the 4th quarter of 2013, HMI purchased more materials from Rorze Automation Inc. in the period. The annual purchase amount in 2014 was higher than 2013 due to robust sales growth. But there was no single supplier with the amount of purchase over 10% of the total purchase in credits to stable supply of materials and better control of inventory level.

2.2.4.2. Key customers

Names of customers accounting for more than 10% of the total sales in any of the previous two years:

2013				2014			
Name	Sales (NT$ 1,000)	% of total Revenue	Relation	Name	Sales (NT$ 1,000)	% of total Revenue	Relation
B company	1,201,781	22.51	*	S company	1,397,914	19.39	*
E company	1,080,427	20.23	*	B company	1,343,920	18.64	*
F company	663,837	12.43	*	—	—	—	—
Other	2,393,998	44.83	—	Other	4,467,816	61.97	—
Net sale	5,340,043	100.00	—	Net sale	7,209,650	100.00	—

*Not related parties

Reasons for change:

HMI's e-beam inspection tools are majorly used in R&D and ramp up stage of new technology nodes. Since every semiconductor manufacturers with advance technologies (28nm and below) is our client, the change in key clients on a year basis is majorly driven by each of our client's unique R&D and ramp up schedule and different product mix for differenct technology nodes.

2.2.5. Production Volume and value in the past 2 years

Unit: set; NT$1,000

Main product	2013			2014		
	Production capacity	Production volume	Production amount	Production capacity	Production volume	Production amount
e-Beam inspection equipment	—	1,460	5,035,270	—	2,320	6,849,168
Total	—	1,460	5,035,270	—	2,320	6,849,168

Note: Given that HMI manufacturers 80% of the key component in-house, the production capacity is more subject to clean room size and human resource capability in stead of production line capacity. Therefore the production capacity is not applicable.

2.2.6. Sales Volume and value in the past 2 years

Unit: set; NT$1,000

	2013				2014			
	Domestic sales		Export sales		Domestic sales		Export sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
e-Beam inspection equipment	500	1,742,775	960	3,292,495	480	2,256,333	1,840	4,649,349
Other	—	126,894	—	177,879	—	132,198	—	171,770
Total	500	1,869,669	960	3,470,374	480	2,388,531	1,840	4,821,119

Note: The aforesaid "others" are mainly the income of sales of parts and components, and services for maintenance. Due to varying characteristics of the sales items, quantification of the volume is not applicable.

3. Personnel Information in the latest 2 years

		2013	2014	As of Jan. 31, 2015
Number of employees	Manufacturing personnel	168	199	203
	Management & sales personnel	173	199	200
	R &D personnel	206	237	236
	Total	547	635	639
Average age		36.10	37.00	37.02
Average year of service		6.14	5.31	5.35
Education (%)	Doctoral	8.59%	8.98%	8.92%
	Master	34.92%	35.59%	35.52%
	University / College	47.71%	47.09%	47.10%
	High School	8.78%	7.56%	7.51%
	Below high school	—	0.79%	0.94%
	Total	100%	100%	100%

4. Important Contracts

Type	Counterparty	Term	Summary	Restriction
Technical Cooperation Agreement	Hermes Microvision, Inc. (USA)	Jan. 1, 2015~ Dec. 31, 2016	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, 2015~ Dec. 31, 2016	Leasing of Tainan Plant	None
Tenancy Agreement	Wei Shan Investment Co., Ltd.	Jan. 1, 2015~ Dec. 31, 2015	Leasing of HMI headquarter 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
Product Agency Agreement	Yarbrough Southwest	Jan. 1, 2012~ Dec. 31, 2014	Product distribution agreement	None

VI. Corporate Social Responsibilities

As the leader in providing advanced e-beam defect inspection tools to leading-edge semiconductor manufacturing processes, HMI have renewed our commitment to sustainability and global corporate citizenship. As our customers using HMI's advanced e-beam systems to further improve the yield in their production lines, we are helping our customers to reduce their wastes in chip production and to improve the sustainability of the semiconductor industry as a whole. Furthermore, we are continuously driving the energy efficiency of our products through engineering improvements and design innovations. As a result, our new generation tools have achieved more than 70% higher energy efficiency.

At HMI, we recognize our social responsibility as a corporate citizen, and we believe in being proactive to contribute back to the society. We value innovation, quality and continuous improvement in our products to be sustainable and environmentally responsible to the industry we served. We are committed to ethical business practices to cultivate a productive, safe, supportive working environment to our employees. By nurturing sustainability business practices, we also create values to our employees, our customers, and our shareholders.

1. Employee Relations

HMI establish all systems in accordance with laws and regulations. HMI also established the EICC (Electronic Industry Citizenship Coalition) management system in accordance with the Electronic Industry Code of Conduct. HMI is committed to offering our employees an environment to develop their capabilities. Our employee welfare measures, advanced studies, training, retirement system and other measures to protect employees' rights and interests as as follows.

1.1. Welfare system

HMI 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 HMI is providing sound compensation to return hard-working employees' contribution. In addition, HMI has also set up its employee welfare committee, and has monthly contributed the welfare fund and taken care of related welfare issues. HMI'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. Continuing educaton and training system

In order to elevate HMI's employees' capability and enhance their working efficiency and quality, HMI has provided orientation training for its new entrants. Also, during the employment period, HMI has also non-periodically provided our employees with professional education training (including internal training and external training) or the opportunity for advanced studies. In addition, HMI 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.

<table>
<tr><th></th><th>Genre</th><th>Class</th><th>No. of attendance</th><th>No. of trained personnel</th><th>Training hours</th><th>Training expense</th><th>Rate of trained personnel</th><th>Average training hour/ppl</th><th>Average training expense/ppl</th></tr>
<tr><td rowspan="3">Internal training</td><td>Professional</td><td>49</td><td>288</td><td>285</td><td>7,728</td><td>297,864</td><td>99%</td><td rowspan="8">69.5</td><td rowspan="8">1,865</td></tr>
<tr><td>Occupational</td><td>35</td><td>579</td><td>575</td><td>2,077</td><td>0</td><td>99%</td></tr>
<tr><td>Language</td><td>7</td><td>9</td><td>6</td><td>255</td><td>28,800</td><td>67%</td></tr>
<tr><td colspan="2">Sub Total</td><td>91</td><td>876</td><td>866</td><td>10,060</td><td>326,664</td><td>99%</td></tr>
<tr><td rowspan="2">External training</td><td>Professional</td><td>54</td><td>82</td><td>65</td><td>12,079</td><td>254,925</td><td>79%</td></tr>
<tr><td>Occupational</td><td>12</td><td>17</td><td>15</td><td>100</td><td>14,240</td><td>88%</td></tr>
<tr><td colspan="2">Sub Total</td><td>66</td><td>99</td><td>80</td><td>12,179</td><td>269,165</td><td>81%</td></tr>
<tr><td colspan="2">Total</td><td>157</td><td>975</td><td>946</td><td>22,238</td><td>595,829</td><td>97%</td></tr>
</table>

3. Retirement System

In order to protect employees' rights and interests, care for their retirement lives, and enhance labor relations, HMI 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, HMI 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 HMI's establishment.

4. Labor Agreements & Employees' Right Protection

HMI 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 HMI and our employees. In addition, HMI has also non-periodically held meetings to have opinion exchanges with its employees. As such, HMI 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

Item	Content
	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.

2. Environmental Conservation Expense

2.1. 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: None.

2.2. 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.

3. Code of Conduct

HMI 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.

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.

VII. Financial Status, Operating Results and Status of Risk Management

1. Financial Status

1.1. Consolidate Report

Unit: NT$1,000

Item	2013	2014	Change	% of Change
Current assets	11,444,474	14,297,574	2,853,100	25%
Funds and investments	4,412	7,450	3038	69%
Property, plant and equipment	334,590	749,531	414,941	124%
Intangible assets	10,632	12,357	1,725	16%
Other assets	57,429	59,564	2,135	4%
Total assets	11,851,537	15,126,476	3,274,939	28%
Current liabilities	2,034,405	3,162,439	1,128,034	55%
Non-current liabilities	84,100	89,073	4,973	6%
Total liabilities	2,118,505	3,251,512	1,133,007	53%
Capital stock	710,000	710,000	0	0%
Capital surplus	5,427,023	5,431,196	4,173	0%
Retained earnings	3,542,426	5,637,015	2,094,589	59%
Other equity	14,957	49,650	34,693	232%
Minority interest	38,626	47,103	8,477	22%
Total equity	9,733,032	11,874,964	2,141,932	22%

Analysis of deviation over 20%:

(1) Increase in current assets: Mainly due to increase in cash and cash equivalents.
(2) Increase in funds and investments: Mainly due to increase in available for sale financial asset- non current.
(3) Increase in property, plant and equipment: Mainly due to capital expenditure of the new manufacturing facility.
(4) Increase in total assets: Mainly due to increase in current assets.
(5) Increase in current liabilities: Mainly due to increase in other payables and provisions for liabilities- current.
(6) Increase in total liabilities: Mainly due to increase in current liabilities.
(7) Increase in retained earnings: Mainly due to increase in net income.
(8) Increase in other equity: Mainly due to foreign exchange fluctuation.
(9) Increase in minority interest: Mainly due to increase in net income.
(10) Increase in total equity: Mainly due to increase in net income.

1.2. Parent Company

Unit: NT$1,000

Item	2013	2014	Change	% of Change
Current asset	10,716,351	13,141,462	2,425,111	23%
Funds and investments	820,448	947,430	126,982	15%
Property, plant and equipment	268,730	681,954	413,224	154%
Intangible assets	5,028	8,392	3,364	67%
Other assets	48,746	52,179	3,433	7%
Total assets	11,859,303	14,831,417	2,972,114	25%
Current Liabilities	2,080,797	2,914,483	833,686	40%
Non-current liabilities	84,100	89,073	4,973	6%
Total liabilities	2,164,897	3,003,556	838,659	39%
Capital stock	710,000	710,000	0	0%
Capital surplus	5,427,023	5,431,196	4,173	0%
Retained earnings	3,542,426	5,637,015	2,094,589	59%
Other equity	14,957	49,650	34,693	232%
Total equity	9,694,406	11,827,861	2,133,455	22%

Analysis of deviation over 20%:

(1) Increase in current assets: Mainly due to increase in cash and cash equivalents and accounts receivable.

(2) Increase in property, plant and equipment: Mainly due to capital expenditure of the new manufacturing facility.

(3) Increase in intangible assets: Mainly due to acquisision of intangible assets.

(4) Increase in total assets: Mainly due to increase in current assets.

(5) Increase in current liabilities: Mainly due to increase in other payables and provisions for liabilities- current.

(6) Increase in total liabilities: Mainly due to increase in current liabilities.

(7) Increase in retained earnings: Mainly due to increase in net income.

(8) Increase in other equity: Mainly due to foreign exchange fluctuation.

(9) Increase in total equity: Mainly due to increase in net income.

2. Operating Status

2.1. Consolidate Report

Unit: NT$1,000

	2013	2014	Change	% of Change
Net sales	5,340,043	7,209,650	1,869,607	35%
Operating costs	1,581,584	2,143,885	562301	36%
Gross margin	3,758,459	5,065,765	1,307,306	35%
Operating expenses	1,346,938	1,837,485	490,547	36%
Operating income	2,411,521	3,228,280	816,759	34%
Non-operating income and expenses	144,010	426,263	282,253	196%
Net income before income tax	2,555,531	3,654,543	1,099,012	43%
Income tax expense	208,256	412,607	204,351	98%
Net income	2,347,275	3,241,936	894,661	38%
Other comprehensive income, net of tax	34,003	30,011	-3,992	-12%
Total comprehensive income	2,381,278	3,271,947	890,669	37%

Analysis of deviation over 20%:

(1) Increase in net sales: Mainly due to increase in market demand.

(2) Increase in operating costs: Mainly due to increase in operating costs associated with higher sales.

(3) Increase in gross margin and operating income: Mainly due to increase in market demand.

(4) Increase in operating expenses: Mainly due to increase in R&D expenses

(5) Increase in non-operating income and expenses: Mainly due to favorable foreign exchange fluctuation.

(6) Increase in net income before income tax, net income, and total comprehensive income: Mainly due to revenue growth.

(7) Increase in income tax expense: Mainly due to increase in net income.

2.2. Parent Company

Unit: NT$1,000

Item	2013	2014	Change	% of Change
Net sales	5,340,043	7,390,177	1,902,949	35%
Operating costs	1,581,584	2,496,856	558,494	29%
Gross margin	3,758,459	4,893,321	1,344,455	38%
Operating expenses	1,346,938	1,792,028	484,448	37%
Operating income	2,411,521	3,101,293	860,007	38%
Non-operating income and expenses	144,010	490,005	210,706	75%
Net income before income tax	2,555,531	3,591,298	1,070,713	42%
Income tax expense	208,256	353,370	176,385	100%
Net income	2,347,275	3,237,928	894,328	38%
Other comprehensive income, net of tax	34,003	27,354	-5,745	-17%
Total comprehensive income	2,381,278	3,265,282	888,583	37%

Analysis of deviation over 20%:

(1) Increase in net sales: Mainly due to increase in market demand.

(2) Increase in operating costs: Mainly due to increase in operating costs associated with higher sales.

(3) Increase in gross margin and operating income: Mainly due to increase in market demand.

(4) Increase in operating expenses: Mainly due to increase in R&D expenses

(5) Increase in non-operating income and expenses: Mainly due to favorable foreign exchange fluctuation.

(6) Increase in net income before income tax, net income, and total comprehensive income: Mainly due to revenue growth.

(7) Increase in income tax expense: Mainly due to increase in net income.

3. Cash Flow Analysis

3.1 Consolidate Report

Unit: NT$1,000

Cash balance on Dec. 31, 2013	Net cash provided by operating activities in 2014	Net cash used in investing and financing activities	Cash balance on Dec. 31, 2014	Remedy for cash shortfall (investment and financing plan)
5,370,702	3,129,610	(1,103,841)	7,396,471	Not Applicable

3.1.1. Analysis of change in cashflow in 2014

Operating activities: Net cash inflow of NT$3,129,961 thousand was mainly from operating profits.

Investing activities: Net cash inflow of NT$32,159 thousand, mainly due to disposals of bond investment; partly offset by acquisition of financial assets and, property, plant and equipment.

Financing activities: Net cash outflow of NT$ 1,136,000 due to the distribution of earnings.

3.1.2. Remedial Actions for Cash Shortfall: HMI has ample cash on-hand; remedial actions are not required.

3.1.3. Cash Flow Projection for Next Year: Not applicable.

3.2 Parent Company

Unit: NT$1,000

Cash balance on Dec. 31, 2013	Net cash provided by operating activities in 2014	Net cash used in investing and financing activities	Cash balance on Dec. 31, 2014	Remedy for cash shortfall (investment and financing plan)
5,189,811	3,132,299	(1,091,927)	7,230,183	Not Applicable

3.2.1. Analysis of change in cashflow in 2014

Operating activities: Net cash inflow of NT$3,132,299 thousand was mainly from operating profits.

Investing activities: Net cash inflow of NT$44,073 thousand, mainly due to disposals of bond investment; partly offset by acquisition of financial assets and, property, plant and equipment.

Financing activities: Net cash outflow of NT$ 1,136,000 due to the distribution of earnings.

3.2.2. Remedial Actions for Cash Shortfall: HMI has ample cash on-hand; remedial actions are not required.

3.2.3. Cash Flow Projection for Next Year: Not applicable.

4. Major Capital Expenditure

Major Capital Expenditure and Source of Funding

Unit: NT$1,000

Plan	Actual or planned source of capital	Estimated Capital Requirement (as of Dec 31, 2014)	Status of actual or projected use of capital			
			2011	2012	2013	2014
Production facilities, R&D and production equipment	Cash flow generated from operations	734,574	52,499	46,416	146,627	489,032
Intangible Assets - Software, IPs and Patents	Cash flow generated from operations	26,879	8,420	5,601	6,240	6,618

The construction of HMI's new manufacturing plant located in Tainan Science Park was started in 2013 and will be completed in March 2015. This is expected to substantially increase the production capacity of HMI and will meet the demands for the e-beam inspection tools of the advanced semiconductor processes.

5. Investment Policies

HMI'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, HMI 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.

Unit: NT$1,000

Subsidiaries	Investment policy	2014 Investment Profit & Loss	Main Reasons for Profit or Loss	Improvement Plans	Future Investment Plans
HMI Holdings Inc.	Investment	77,973	Profit & loss in investing HMI Korea, HMI Japan, HMI Investment Corp., and Ansing International LLC.	-	Depends on operating conditions
HMI Investment Corp.	Investment	60,359	Profit & loss in investing in Hermes Microvision, Inc.(USA)	-	Depends on operating conditions
Hermes Microvision, Inc.(USA)	Research and Development Center	60,359	Mainly due to increase in operating revenue and good cost control, resulting in HMI USA gaining profit	-	Depends on operating conditions
Hermes Microvision Korea Inc.	Sales & support services for e-beam inspection tools & components	4,790	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	5,761	Mainly due to increase in operating revenue and good cost control, resulting in HMI Japan gaining profit	-	Depends on operating conditions
Ansing International LLC.	Investment	7,063	Profit & loss in investing HMI Beijing	-	Depends on operating conditions
Hermes Microvision Co., Ltd. (Beijing)	Research, development, production and technical support services of semiconductor machines and equipment	7,063	Mainly due to increase in operating revenue and good cost control, resulting in HMI Beijing gaining profit	-	Depends on operating conditions

6. Risk Management

6.1. Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation

6.1.1. Interest rate:

In terms of changes in interest rates, the main impact on HMI 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, HMI normally uses the shorter days of deposit to minimize the impact of floating interest rate and safeguard the assets and maintain its liquidity. Overall, HMI's risk due to changes in the interest rate is minimal.

6.1.2. 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, HMI maintains close contact with the banks and assigned specific persons to gather related information for judging the future trend of exchange rate. HMI also regularly reviews 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. Please refer to the financial statements for the disclosure regarding foreign exchange sensitivity and risk exposure.

6.1.3. 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.

6.2. Risks Associated with High-Risk/High-Leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

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.

6.3. Future R&D plans and expected R&D spending

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 R&D expenses for the year 2013 and 2014 was more than NT$ 700 million and NT$ 950 million respectively. This shows that the Company attaches great importance to the development of technologies. The amount of R&D in the future is forecasted to be maintained for at least 13 to 15% 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.

6.4. Risk Associated with Changes in the Political and Regulatory Environment

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.

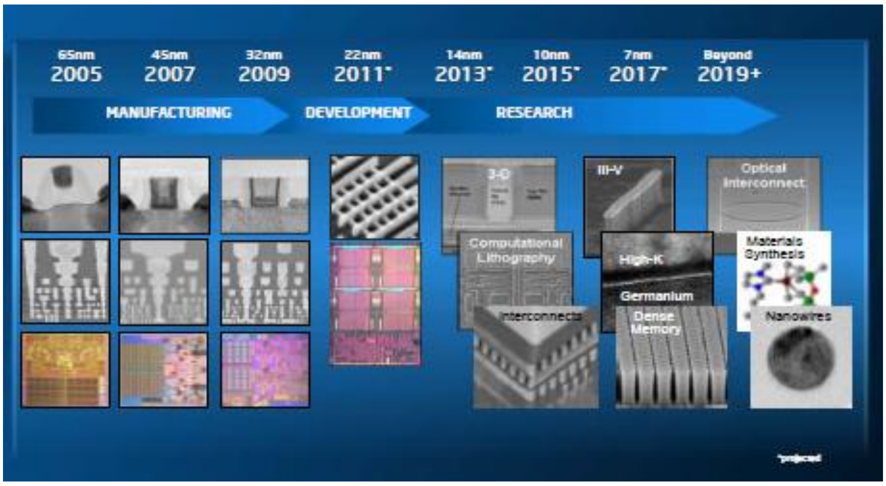
In summary, the Company's daily operations are in compliance with relevant laws and regulations at home and abroad, and the Company always pays attention to the development trend of domestic and foreign policies and the situation changes in laws and regulations. The Company also collects relevant information 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.

6.5. Impact of New Technology and Industry Changes

6.5.1 . Impact of new technology

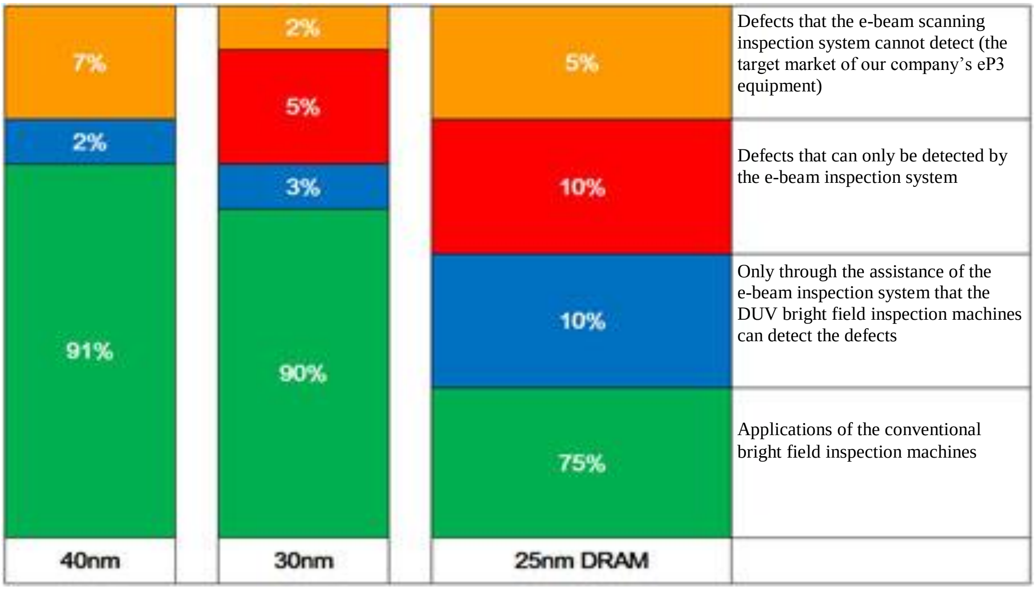
In order to reduce production costs and let the ICs have higher levels of functionalities and processing speed, the design node of the semiconductor industry will evolve towards the trend of miniaturization.

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.

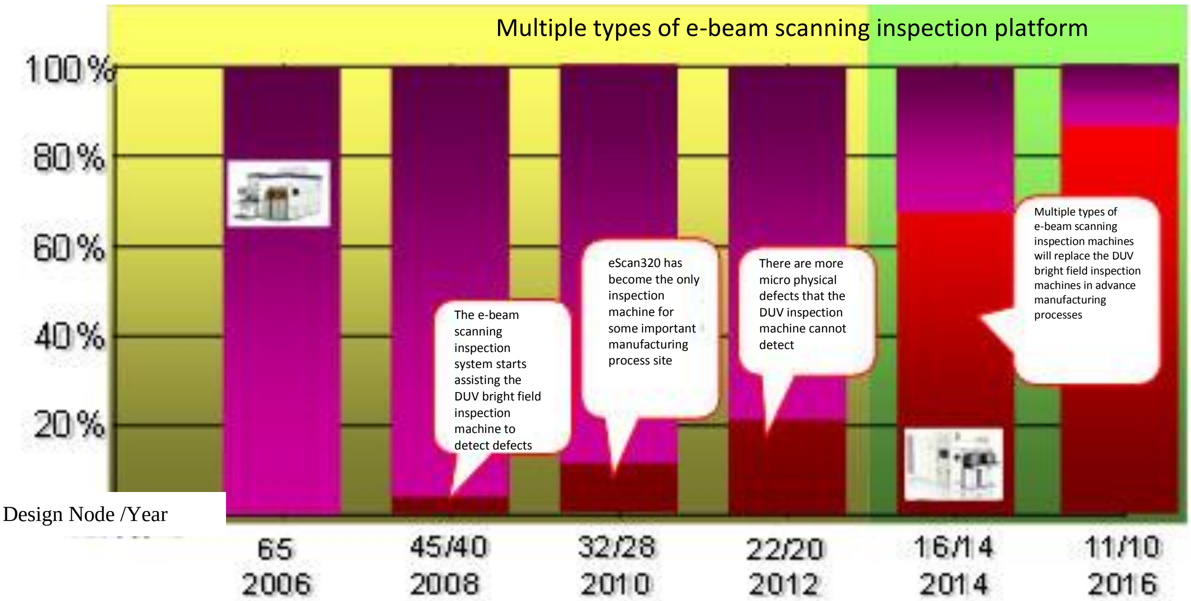


Source: the Company

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

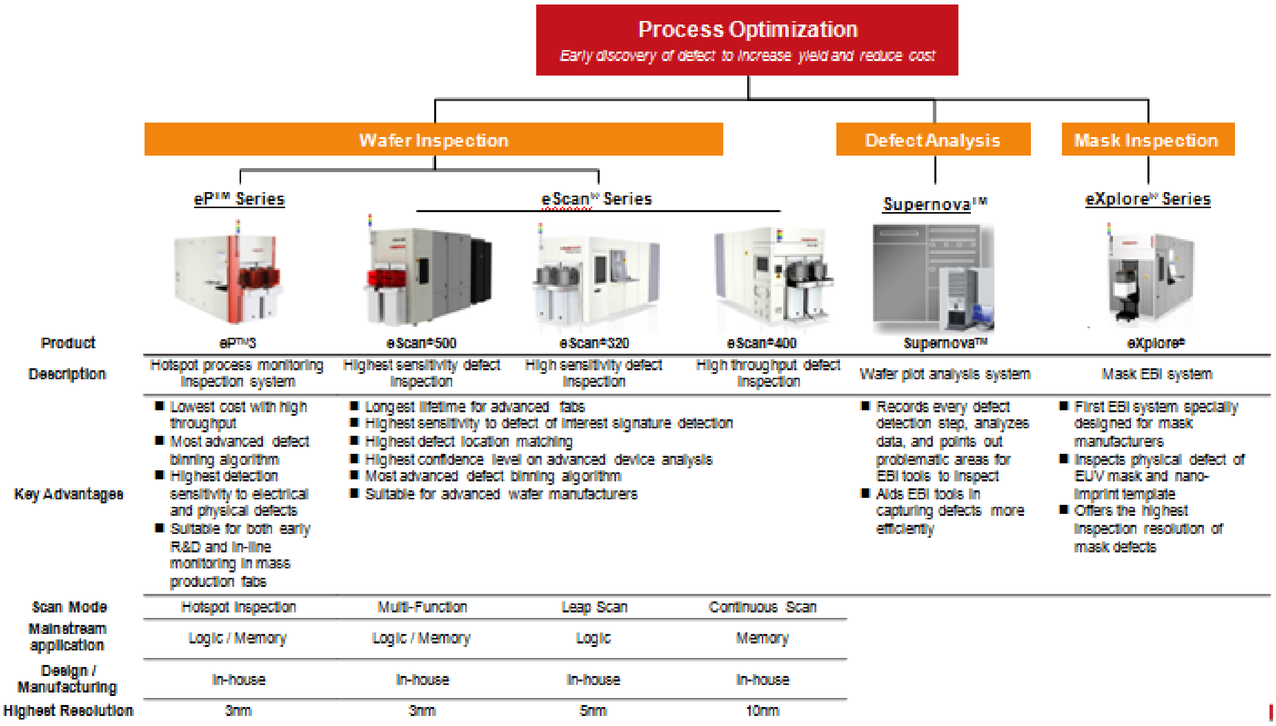


From the defect inspection plans proposed by the large advanced semiconductor manufacturers, we can see that from the design node of 65 nm of 2006 all the way to the 45/40 nm of 2008, 32/28 nm of 2010, and in the coming years of 2012, 2014, and 2016, the design nodes will continue to shrink to the 22/20 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.

6.5.2. 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.



Source: the Company

From the above chart, we can see that in the continuous scanning series, the Company has introduced the eScan 400, which was heavily adopted by memory manufacturers; 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 to help fab users to manage yield rate effectively in 28/20nm node; in hotspot inspection series, HMI provided eP3 with 3nm resolution to address advanced technology nodes in-line monitoring market. Nevertheless, 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.

6.6. Changes in Corporate Image and Impact on Company’s Crisis Management

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.

6.7. Risks Associated with Mergers and Acquisitions

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.

6.8. Risks Associated with Plant Expansion

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.

6.9. Risks Associated with Purchase Concentration and Sales 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.

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.
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.

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.

6.10. Risks Associated with Sales of Significant Numbers of Shares by HMI's Directors and Major Shareholders Who Own 10% or More of HMI's Total Outstanding 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.

6.11. Risks Associated with Change in Management

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.

6.12. Risks Associated with Litigations

6.12.1. 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.

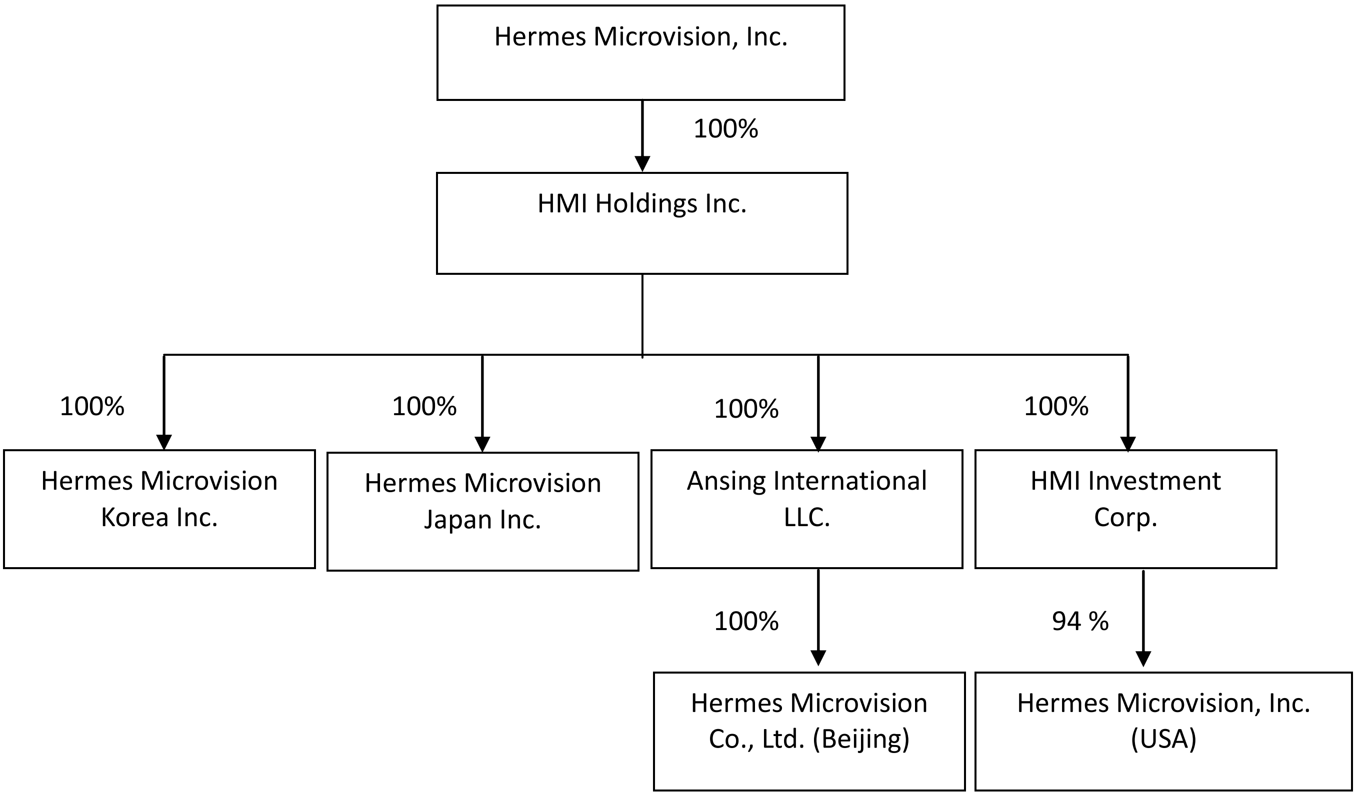
6.12.2. The Company directors, supervisors, president, and the real person in charge of the Company holding more than 10% of the Company's equity shares or its affiliated companies, who are with legal cases with decisions already rendered or presently still under litigation, non-litigation, or administrative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

6.13. Other material risks: None.

VIII. Other Special Notes

1. HMI Affiliates

1.1. HMI affiliated companies chart



1.2. HMI Affiliated Companies

As of Dec. 31, 2014; Unit: Foreign Currency 1,000

Company Name	Date of Incorporation	Address	Capital Stock	Major Business
Hermes Microvision, Inc.(USA)	Mar. 29, 2004	1762 Automation Parkway, San Jose, CA95131 USA	US$ 31,179	Research and Development Center
HMI Holdings Inc.	June 16, 2008	Level 2, Lotemau Centre, Vaea Street, Apia, Samoa	US$ 27,547	Investment
Hermes Microvision Korea Inc.	Sep. 19, 2008	2nd floor, Taeyang Building, 345-3, Banwol-dong, Hwasung-si, Kyungki-do, South Korea, 445-330	US$ 66	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	JPY 149,000	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.	*	Investment
Hermes Microvision Co., Ltd. (Beijing)	May 18, 2009	3rd Floor, No. 8 Liye Road, Beijing International Information Industry Base, Dingsi Road, Changping District, Beijing	*	Research, development, production and technical support services of semiconductor machines and equipment
HMI Investment Corp.	Oct 31, 2014	Portcullis TrustNet Chambers, Maxkar Building, P.O.Box 1225, Apia, Samoa.	US$ 21,547	Investment

* A limited company, capital shares not available.

1.3. Common Shareholders of HMI and Its Subsidiaries or Its Affiliates with Actual of Deemed Control: None.

1.4. Business Scope of HMI and Its Affiliated Companies

Business scope of HMI and its affiliates include research, development, design, manufacturing and sales of e-beam inspection tools as well as providing the technical support and services.

1.5. List of Directors, Supervisors and Presidents of HMI's Affiliated Companies

As of Dec. 31, 2014; Unit: share; %

Company Name	Title	Name or representative	Shares	% of holding
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	Pan, Chung-Shih	-	-
	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	-	-
HMI Investment Corp.	Director	Pan, Chung-Shih	-	100
	Director	Shen, Hsiao-Lien		

1.6. Operating status of respective affiliated enterprises

As of Dec. 31, 2014; Unit: NT$1,000

Name	Capital	Assets	Liabilities	Net worth	Net sales	Operating income	Net income	EPS (NT$)
HMI Holdings Inc.	843,045	939,980	-	939,980	-	-	77,973	-
Hermes Microvision Korea Inc.	2,140	42,504	25,616	16,887	85,160	6,206	4,790	-
Hermes Microvision Japan Inc.	52,574	64,031	9,837	54,194	227,063	3,043	5,761	-
Ansing International LLC.	133,738	159,380	-	159,380	-	-	7,063	-
Hermes Microvision Co., Ltd. (Beijing)	133,738	236,301	76,921	159,380	311,963	15,436	7,063	-
HMI Investment Corp.	-	709,519	-	709,519	-	-	64,366	
Hermes Microvision, Inc.(USA)	665,970	1,170,203	413,581	756,622	1,847,394	109,632	64,366	

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2014. The net sales, operating income, net income and EPS numbers were calculated using the average exchange rate in 2014.

2. Private placement of securities: None.

3. Holding or Disposition of HMI Stocks by Subsidiaries: None.

4. Any Events that Had Significant Impacts on Shareholders' Rights or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

5. Other Necessary Supplement: None.

IX. Financial Information

1. Consolidated Balance Sheet

1.1. 2012-2014 Condensed balance sheet of HMI and subsidiaries

Unit: NT$1,000

		2012	2013	2014
Current asset		4,971,559	11,444,474	14,297,574
Funds and investments		—	4,412	7,450
Property, plant and equipment		170,246	334,590	749,531
Intangible assets		10,717	10,632	12,357
Other assets		35,137	57,429	59,564
Total assets		5,187,659	11,851,537	15,126,476
Current Liabilities	Before appropriation	1,198,662	2,034,405	3,162,439
	After appropriation	1,990,662	3,170,405	(Note)
Non-current liabilities		88,954	84,100	89,073
Total liabilities	Before appropriation	1,287,616	2,118,505	3,251,512
	After appropriation	2,079,616	3,254,505	(Note)
Equity attributable to owners of the parent company		3,867,032	9,694,406	11,827,861
Capital stock		660,000	710,000	710,000
Capital surplus		1,234,348	5,427,023	5,431,196
Retained earnings	Before appropriation	1,980,820	3,542,426	5,637,015
	After appropriation	1,188,820	2,406,426	(Note)
Other equity		(8,136)	14,957	49,650
Treasury Stock		—	—	—
Non-controlling interest		33,011	38,626	47,103
Total equity	Before appropriation	3,900,043	9,733,032	11,874,964
	After appropriation	3,108,043	8,597,032	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.2. 2010-2011 Condensed Balance Sheet of HMI and subsidiaries by ROC GAAP

Unit: NT$1,000

		2010	2011
Current asset		2,586,099	2,523,151
Funds and investments		0	0
Property, plant and equipment		132,117	149,988
Intangible assets		29,664	27,080
Other assets		28,254	56,292
Total assets		2,776,134	2,756,521
Current Liabilities	Before appropriation	2,007,502	1,291,480
	After appropriation	2,007,502	1,555,480
Long-term liabilities		26,480	37,123
Other liabilities		0	0
Total liabilities	Before appropriation	2,033,982	1,328,603
	After appropriation	2,033,982	1,592,603
Capital stock		600,000	600,000
Capital surplus		0	0
Retained earnings	Before appropriation	149,616	797,137
	After appropriation	149,616	533,137
Unrealized gains from financial instruments		0	0
Accumulated conversion adjustment		(18,186)	9,690
Net loss not recognized as pension cost		(2,598)	0
Total equity	Before appropriation	742,152	1,427,918
	After appropriation	742,152	1,163,918

1.3. 2012-2014 Condensed Balance Sheet – Parent Company

Unit: NT$1,000

		2012	2013	2014
Current asset		4,607,056	10,716,351	13,141,462
Funds and investments		584,338	820,448	947,430
Property, plant and equipment		110,596	268,730	681,954
Intangible assets		5,467	5,028	8,392
Other assets		27,267	48,746	52,179
Total assets		5,334,724	11,859,303	14,831,417
Current Liabilities	Before appropriation	1,382,210	2,080,797	2,914,483
	After appropriation	2,174,210	3,216,797	(Note)
Non-current liabilities		85,482	84,100	89,073
Total liabilities	Before appropriation	1,467,692	2,164,897	3,003,556
	After appropriation	2,259,692	3,300,897	(Note)
Equity attributable to owners of the parent company		Not Applicable	Not Applicable	Not Applicable
Capital stock		660,000	710,000	710,000
Capital surplus		1,234,348	5,427,023	5,431,196
Retained earnings	Before appropriation	1,980,820	3,542,426	5,637,015
	After appropriation	1,188,820	2,406,426	(Note)
Other equity		(8,136)	14,957	49,650
Total equity	Before appropriation	3,867,032	9,694,406	11,827,861
	After appropriation	3,075,032	8,558,406	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.4. 2010-2011 Condensed Balance Sheet – Parent Company by ROC GAAP

		2010	2011
Current asset		2,179,545	2,237,300
Funds and investments		495,643	479,107
Property, plant and equipment		102,111	100,919
Intangible assets		26,354	22,615
Other assets		23,163	49,030
Total assets		2,826,816	2,888,971
Current Liabilities	Before appropriation	2,072,628	1,446,148
	After appropriation	2,072,628	1,710,148
Long-term liabilities		—	—
Other liabilities		25,356	35,996
Total liabilities	Before appropriation	2,097,984	1,482,144
	After appropriation	2,097,984	1,746,144
Capital stock		600,000	600,000
Capital surplus		—	—
Retained earnings	Before appropriation	149,616	797,137
	After appropriation	149,616	533,137
Unrealized gains from financial instruments		—	—
Accumulated conversion adjustment		(18,186)	9,690
Net loss not recognized as pension cost		(2,598)	—
Total equity	Before appropriation	728,832	1,406,827
	After appropriation	728,832	1,142,827

2. Condensed Income Statement

2.1. 2012-2014 Condensed income statement of HMI and subsidiaries

Unit: NT$1,000

	2012	2013	2014
Net sales	4,179,904	5,340,043	7,209,650
Operating costs	1,199,056	1,581,584	2,143,885
Gross margin	2,980,848	3,758,459	5,065,765
Operating expenses	1,273,532	1,346,938	1,837,485
Operating income	1,707,316	2,411,521	3,228,280
Non-operating income and expenses	(40,247)	144,010	426,263
Net income before income tax	1,667,069	2,555,531	3,654,543
Income tax expense	146,640	208,256	412,607
Net income	1,520,429	2,347,275	3,241,936
Other comprehensive income, net of tax	(35,846)	34,003	30,011
Total comprehensive income	1,484,583	2,381,278	3,271,947
Net income attributable to:			
Owners of the parent	1,517,166	2,343,600	3,237,928
Non-controlling interest	3,263	3,675	4,008
Total comprehensive income attributable to:			
Owners of the parent	1,482,618	2,376,699	3,265,282
Non-controlling interest	1,965	4,579	6,665
Earnings per share (NT$)	23.34	35.09	45.60

2.2. 2010-2011 Condensed income statement of HMI and subsidiaries by ROC GAAP

Unit: NT$1,000

	2010	2011
Net sales	1,545,309	2,677,955
Operating costs	594,436	869,826
Gross margin	950,873	1,808,129
Operating expenses	830,669	1,118,444
Operating income	120,204	689,685
Non-operating income and gains	36,442	95,310
Non-operating expenses and losses	64,753	39,673
Income from continuing operations before income tax	91,893	745,322
Net income	251,140	654,232
Earnings per share (NT$)	5.69	10.87

2.3. 2012-2014 Condensed income statement– Parent Company

Unit: NT$1,000

	2012	2013	2014
Net sales	4,174,028	5,487,228	7,390,177
Operating costs	1,330,571	1,938,262	2,496,856
Gross margin	2,843,457	3,548,866	4,893,321
Operating expenses	1,235,610	1,307,580	1,792,028
Operating income	1,607,847	2,241,286	3,101,293
Non-operating income and expenses	38,002	279,299	490,005
Net income before income tax	1,645,849	2,520,585	3,591,298
Income tax expense	128,683	176,985	353,370
Net income	1,517,166	2,343,600	3,237,928
Other comprehensive income, net of tax	(34,548)	33,099	27,354
Total comprehensive income	1,482,618	2,376,699	3,265,282
Earnings per share (NT$)	23.34	35.09	45.60

2.4. 2010-2011 Condensed income statement– Parent Company by ROC GAAP

Unit: NT$1,000

	2010	2011
Net sales	1,523,060	2,646,436
Operating costs	692,470	985,460
Gross margin	830,590	1,660,976
Operating expenses	775,810	917,479
Operating income	54,780	743,497
Non-operating income and gains	235,188	124,310
Non-operating expenses and losses	38,828	139,713
Income from continuing operations before income tax	251,140	728,094
Net income	251,140	652,242
Earnings per share (NT$)	5.69	10.87

3. Independent Auditors' Opinions

Consolidated

Year	Name of Auditors (CPA)	CPA Firm	Audit 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
2014	Lee, Tien-Yi, Cheng, Ya-Huei	PwC Taiwan	Unqualified opinion

Parent Company

Year	Name of Auditors (CPA)	CPA Firm	Audit 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
2013	Cheng, Ya-Huei, Lee, Tien-Yi	PwC Taiwan	Unqualified opinion
2014	Lee, Tien-Yi, Cheng, Ya-Huei	PwC Taiwan	Unqualified opinion

4. Financial Analysis

4.1. 2012-2014 Financial Analysis – HMI & Subsidiaries

		2012	2013	2014
Financial structure (%)	Ratio of liabilities to assets	24.82	17.88	21.50
	Ratio of long-term investment to property, plant and equipment	2,343	2,934	1,596
Liquidity %	Current ratio	414.76	562.55	452.11
	Quick ratio	305.3	486.17	393.95
	Times interest earned	287.2	9,535,546	—
Operating performance	Receivables turnover ratio (times)	5.54	4.42	3.39
	Average collection days	66	83	108
	Inventory turnover ratio (times)	0.97	1.13	1.31
	Payables turnover ratio (times)	15.65	13.01	13.09
	Average selling days	376	322	278
	Property, plant and equipment turnover ratio (times)	24.55	15.96	9.62
	Total assets turnover ratio (times)	0.81	0.45	1.91
Profitability	Return on assets (%)	31.96	22.87	24.03
	Return on shareholders' equity (%)	57.64	34.44	30.01
	Ratio of net income before tax to paid-in capital (%) (note 7)	252.59	359.93	514.72
	Net profit ratio (%)	36.37	43.96	44.97
	EPS (NT$)	23.30	35.04	45.55
Cash flows	Cash flow ratio (%)	155	106.70	98.96
	Cash flow adequacy ratio (%)	118.53	133.79	152.96
	Cash re-investment ratio (%)	38.49	13.84	16.40
Leverage	Degree of operational leverage	1.04	1.02	1.02
	Degree of financial leverage	1.00	1.00	1.00

Changes that exceed 20% in the past two years and explanation for those changes:

(1) Ratio of long-term investment to property, plant and equipment: Mainly due to capital expenditure in new manufacturing plant in Tainan.

(2) Liquidity: Mainly due to increase in sales reveune and no bank borrowing in 2014.

(3) Operating performance: Due to the significant increase in sales revenue in 4Q14, the amount of account receivables also increased by magnitudes. Thus result in the increase in average collection days. The sales revenue of 2014 increased 35% annually comparing to 2013, result in the decrease in receivables turnover ratio and average selling days. The construction of the new manufacturing plant caused the decrease in total asset turnover ratio.

(4)Profitability: The better profitabilitu ratios were mainly due to the growth in sales revenue and operating profitability.

4.2. 2010-2011 Financial Analysis – HMI & Subsidiaries by ROC GAAP

		2010	2011
Financial structure (%)	Ratio of liabilities to assets	73.27	48.20
	Ratio of long-term investment to property, plant and equipment	581.78	976.71
Liquidity %	Current ratio	128.82	195.37
	Quick ratio	74.51	100.87
	Times interest earned	3.77	43.76
Operating performance	Receivables turnover ratio (times)	1.98	3.85
	Average collection days	184	95
	Inventory turnover ratio (times)	0.48	0.77
	Payables turnover ratio (times)	4.67	12.31
	Average selling days	765	474
	Property, plant and equipment turnover ratio (times)	11.70	17.85
	Total assets turnover ratio (times)	0.56	0.97

Profitability	Return on assets (%)	9.41	20.15
	Return on shareholders' equity (%)	100.63	60.30
	Ratio of operating income to paid-in capital (%) (note 7)	20.03	114.95
	Ratio of net income before tax to paid-in capital (%) (note 7)	15.32	124.22
	Net profit ratio (%)	16.25	24.43
	EPS (NT$)	5.69	10.87
Cash flows	Cash flow ratio (%)	0	63.59
	Cash flow adequacy ratio (%)	0	812.01
	Cash re-investment ratio (%)	0	52.42
Leverage	Degree of operational leverage	1.37	1.07
	Degree of financial leverage	1.38	1.03

4.3. 2012-2014 Financial Analysis – Parent Company

		2012	2013	2014
Financial structure (%)	Ratio of liabilities to assets	27.51	18.25	20.25
	Ratio of long-term investment to property, plant and equipment	3,574	3,639	1,747
Liquidity %	Current ratio	333.31	515.01	450.90
	Quick ratio	267.6	473.23	422.27
	Times interest earned	283.6	9,405,169	—
Operating performance	Receivables turnover ratio (times)	4.12	3.66	3.32
	Average collection days	89	100	110
	Inventory turnover ratio (times)	1.51	2.22	2.98
	Payables turnover ratio (times)	6.37	6.34	9.22
	Average selling days	242	165	123
	Property, plant and equipment turnover ratio (times)	37.74	20.42	10.84
	Total assets turnover ratio (times)	0.78	0.46	0.50
Profitability	Return on assets (%)	30.82	27.26	24.26
	Return on shareholders' equity (%)	58.12	34.56	30.09
	Ratio of net income before tax to paid-in capital (%) (note 7)	249.37	355.01	505.82
	Net profit ratio (%)	36.35	42.71	43.81
	EPS (NT$)	23.30	35.04	45.55
Cash flows	Cash flow ratio (%)	118.15	112.88	107.47
	Cash flow adequacy ratio (%)	316.20	284.63	240.79
	Cash re-investment ratio (%)	33.68	15.78	16.59
Leverage	Degree of operational leverage	1.03	1.02	1.01
	Degree of financial leverage	1.00	1.00	1.00

Changes that exceed 20% in the past two years and explanation for those changes:
(1) Ratio of long-term investment to property, plant and equipment: Mainly due to capital expenditure in new manufacturing plant in Tainan.
(2) Liquidity: Mainly due to increase in sales reveune and no bank borrowing in 2014.
(3) Inventory turnover ratio: Mainly due to the improvement in profitability and higher inventory level comparing to 2013.
(4) Property, plant and equipment turnover ratio: Mainly due to capital expenditure in new manufacturing plant in Tainan.
(5) Payables turnover ratio: Mainly due to the improvement in profitability and liquidity.
(6) Average selling days: Mainly due to the increase in the amount of sales revenue and account receivables.
(7) Profitability: The better profitabilitu ratios were mainly due to the growth in sales revenue and operating profitability.
(8) Cash flows: The rowth in sales revenue and operating profitability resulted in better cashflow ratios.

4.3. 2010-2011 Financial Analysis – Parent Company by ROC GAAP

		2010	2011
Financial structure (%)	Ratio of liabilities to assets	74.22	51.30
	Ratio of long-term investment to property, plant and equipment	713.76	1,394.02
Liquidity %	Current ratio	105.16	154.71
	Quick ratio	69.12	93.13
	Times interest earned	32.87	42.77
Operating performance	Receivables turnover ratio (times)	2.49	3.57
	Average collection days	146	102
	Inventory turnover ratio (times)	0.90	1.07
	Payables turnover ratio (times)	3.28	6.17
	Average selling days	405	341
	Property, plant and equipment turnover ratio (times)	14.92	26.07
	Total assets turnover ratio (times)	0.54	0.93
Profitability	Return on assets (%)	11.38	23.37
	Return on shareholders' equity (%)	103.39	61.08
	Ratio of operating income to paid-in capital (%) (note 7)	9.13	123.92
	Ratio of net income before tax to paid-in capital (%) (note 7)	41.86	121.35
	Net profit ratio (%)	16.49	24.65
	EPS (NT$)	5.69	10.87
Cash flows	Cash flow ratio (%)	(70.07)	55.85
	Cash flow adequacy ratio (%)	(198.54)	(108.34)
	Cash re-investment ratio (%)	(179.20)	53.38
Leverage	Degree of operational leverage	10.51	3.00
	Degree of financial leverage	1.17	1.02

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.

5. Key performance indicators for HMI’s business

	2012	2013	2014
The ratio of operating revenue of the advanced process (2Xnm and below)	43%	56%	68%
Annual growth rate of Sales	56%	28%	35%
Annual growth rate of operating income	147%	41%	34%
Annual growth rate of net income after tax	132%	54%	38%

6. Audit Committee’s Review Report

Hermes Microvision, Inc.
Audit Committee’s Review Report

The Financial Statements of Hermes Microvision, Inc. in fiscal year 2014 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. 2015 Annual General Shareholders’ Meeting

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

March 4, 2015

Financial Statements

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR14000186

To Hermes Microvision, Inc.

We have audited the accompanying consolidated balance sheets of Hermes Microvision, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the "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 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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended 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, 2014 and 2013. In our report dated March 4, 2015 we expressed an unqualified opinion on these financial statements.

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

March 4, 2015

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
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	2014 AMOUNT	2014 %	2013 AMOUNT	2013 %
Current assets					
Cash and cash equivalents	6(1)	$ 7,396,471	49	$ 5,370,702	46
Financial assets at fair value through profit or loss - current	6(2)	1,101,805	7	-	-
Bond investments without active markets - current	6(4)	1,266,000	8	2,891,085	25
Accounts receivable, net	6(5)	2,661,783	18	1,556,892	13
Accounts receivable - related parties	7	20,134	-	13,367	-
Other receivables		7,306	-	24,842	-
Inventories	6(6)	1,744,812	12	1,516,157	13
Prepayments		94,412	1	37,678	-
Other current assets		4,851	-	33,751	-
Current Assets		14,297,574	95	11,444,474	97
Non-current assets					
Available - for - sale financial assets - noncurrent	6(3)	7,450	-	4,412	-
Property, plant and equipment	6(7)	749,531	5	334,590	3
Intangible assets	6(8)	12,357	-	10,632	-
Deferred income tax assets	6(22)	50,129	-	48,626	-
Other non - current assets		9,435	-	8,803	-
Non - current assets		828,902	5	407,063	3
Total assets		$ 15,126,476	100	$ 11,851,537	100

(Continued)

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	2014 AMOUNT	2014 %	2013 AMOUNT	2013 %
Current liabilities					
Accounts payable		$ 177,559	1	$ 149,703	1
Accounts payable - related parties	7	-	-	328	-
Other payables	6(9)(11)	1,080,525	7	678,687	6
Other payables - related parties	7	78,177	-	68,731	1
Current income tax liabilities	6(22)	267,987	2	159,758	1
Provisions for liabilities - current	6(12)	1,471,138	10	972,259	8
Other current liabilities		87,053	1	4,939	-
Current Liabilities		3,162,439	21	2,034,405	17
Non-current liabilities					
Deferred income tax liabilities	6(22)	12,147	-	5,042	-
Other non - current liabilities	6(10)	76,926	-	79,058	1
Non - current liabilities		89,073	-	84,100	1
Total Liabilities		3,251,512	21	2,118,505	18
Equity					
Equity attributable to owners of parent company					
Share capital					
Share capital - common stock	6(13)	710,000	5	710,000	6
Capital surplus	6(14)	5,431,196	36	5,427,023	46
Retained earnings	6(15)				
Legal reserve		466,206	3	231,846	2
Special reserve		-	-	4,144	-
Unappropriated retained earnings		5,170,809	34	3,306,436	28
Other equity interest	6(16)				
Other equity interest		49,650	-	14,957	-
Equity attributable to owners of the parent company		11,827,861	78	9,694,406	82
Non - controlling interest		47,103	1	38,626	-
Total equity		11,874,964	79	9,733,032	82
Significant contingent liabilities and unrecognised contract commitments	9				
Total liabilities and equity		$ 15,126,476	100	$ 11,851,537	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, except earnings pershare amount)

		For the years ended December 31			
		2014		2013	
	Notes	AMOUNT	%	AMOUNT	%
Operating revenue	6(17) and 7	$ 7,209,650	100	$ 5,340,043	100
Operating costs	6(6)	(2,143,885)	(30)	(1,581,584)	(30)
Net operating margin		5,065,765	70	3,758,459	70
Operating expenses	6(20)(21) and 7				
Selling expenses		(518,097)	(7)	(362,496)	(7)
General and administrative expenses		(358,202)	(5)	(240,476)	(4)
Research and development expenses		(961,186)	(13)	(743,966)	(14)
Total operating expenses		(1,837,485)	(25)	(1,346,938)	(25)
Operating profit		3,228,280	45	2,411,521	45
Non-operating income and expenses					
Other income	6(18)	102,553	1	79,312	2
Other gains and losses	6(19)	323,710	5	64,698	1
Total non-operating income and expenses		426,263	6	144,010	3
Profit before tax		3,654,543	51	2,555,531	48
Income tax expense	6(22)	(412,607)	(6)	(208,256)	(4)
Profit for the period		$ 3,241,936	45	$ 2,347,275	44
Other comprehensive income for the period					
Cumulative translation differences of foreign operations		$ 44,455	-	$ 27,061	1
Actuarial (loss) gain on defined benefit plan		(8,842)	-	6,645	-
Income tax relating to the components of other comprehensive income	6(22)	(5,602)	-	297	-
Other comprehensive income for the period		$ 30,011	-	$ 34,003	1
Total comprehensive income for the period		$ 3,271,947	45	$ 2,381,278	45
Profit, attributable to:					
Equity holders of the parent company		$ 3,237,928	45	$ 2,343,600	44
Non-controlling interest		4,008	-	3,675	-
Profit for the period		$ 3,241,936	45	$ 2,347,275	44
Total comprehensive income attributable to:					
Equity holders of the parent company		$ 3,265,282	45	$ 2,376,699	45
Non-controlling interest		6,665	-	4,579	-
Total comprehensive income for the period		$ 3,271,947	45	$ 2,381,278	45
Earnings per share					
Basic earnings per share	6(23)	$	45.60	$	35.09
Diluted earnings per share	6(23)	$	45.55	$	35.04

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, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

		Equity attributable to owners of the parent								
				Retained Earnings						
	Notes	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
Distribution 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	6(16)	-	-	-	-	10,006	23,093	33,099	904	34,003
Adjustments arising from changes in percentages of ownership in subsidiary	6(14)	-	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
For the year ended December 31, 2014										
Balance at January 1, 2014		$ 710,000	$ 5,427,023	$ 231,846	$ 4,144	$ 3,306,436	$ 14,957	$ 9,694,406	$ 38,626	$ 9,733,032
Distribution of 2013 earnings										
Legal reserve		-	-	234,360	-	(234,360)	-	-	-	-
Reversal of special reserve		-	-	-	(4,144)	4,144	-	-	-	-
Cash dividends		-	-	-	-	(1,136,000)	-	(1,136,000)	-	(1,136,000)
Profit for the year		-	-	-	-	3,237,928	-	3,237,928	4,008	3,241,936
Other comprehensive income for the year	6(16)	-	-	-	-	(7,339)	34,693	27,354	2,657	30,011
Adjustments arising from changes in percentages of ownership in subsidiary	6(14)	-	4,173	-	-	-	-	4,173	1,812	5,985
Balance at December 31, 2014		$ 710,000	$ 5,431,196	$ 466,206	$ -	$ 5,170,809	$ 49,650	$ 11,827,861	$ 47,103	$ 11,874,964

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, except as otherwise indicated)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		$ 3,654,543	$ 2,555,531
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		7,505	(67,806)
Depreciation	6(7)(20)	57,322	53,766
Amortization	6(8)(20)	5,110	6,440
Revaluation of financial assets at fair value		(1,805)	-
(Gain)loss on disposal of property, plant, equipment and intangible assets		(27)	42
Compensation cost of employee stock option	6(11)(21)	2,817	2,827
Compensation cost of stock appreciation right	6(11)(21)	573,702	112,465
Interest income	6(18)	(70,115)	(24,284)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable	6(5)	(1,104,891)	(640,660)
Accounts receivable - related parties	7	(6,767)	(13,063)
Other receivables		10,302	7,050
Inventories	6(6)	(192,628)	(229,323)
Prepayments		(56,734)	(4,816)
Other current assets		28,900	(30,597)
Net changes in liabilities relating to operating activities			
Accounts payable		27,856	56,591
Accounts payable - related parties	7	(328)	328
Other payables		(129,957)	110,726
Other payables - related parties	7	(9,446)	6,606
Provisions for liabilities	6(12)	498,879	395,002
Other current liabilities		82,114	2,066
Other non - current liabilities		(2,132)	(3,237)
Cash generated from operations		3,374,220	2,295,654
Interest received		69,844	24,284
Income tax paid		(314,454)	(149,292)
Net cash provided by operating activities		3,129,610	2,170,646
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in financial assets at fair value through profit or loss		(1,100,000)	-
Proceeds from disposal (acquisition) of bond investments without active markets-current		1,625,085	(2,891,085)
Acquisition of available - for - sales financial assets - non - current		(3,038)	(4,412)
Acquisition of property, plant and equipment	6(7)(24)	(489,032)	(146,627)
Proceeds from disposal of property, plant, equipment and intangible assets		38	612
Acquisition of intangible assets	6(8)	(6,618)	(6,240)
Proceeds from disposal of intangible assets		-	47
Increased in deposits - out		(632)	(686)
Net cash provided by (used in) investing activities		25,803	(3,048,391)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid		(1,136,000)	(792,000)
Proceeds from issuance of common stock		-	4,302,575
Cost of acquisition of capital		-	(64,539)
Net cash (used in) provided by financing activities		(1,136,000)	3,446,036
Effect of exchange rate		6,356	26,103
Increase in cash and cash equivalents		2,025,769	2,594,394
Cash and cash equivalents at beginning of year	6(1)	5,370,702	2,776,308
Cash and cash equivalents at end of year	6(1)	$ 7,396,471	$ 5,370,702

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, 2014 AND 2013
(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. The Company obtained the certification of Corporate Governance Assessment 6009 by Taiwan Corporate Governance Association on December 31, 2014.

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 March 4, 2015.

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”)

None.

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

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’) as endorsed by the FSC and the "Regulations Governing the Preparation of Financial Reports by Securities Issuers " effective January 1, 2015 (collectively referred herein as the “2013 version of IFRSs) in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1)	July 1, 2010

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1)	July 1, 2011
Government loans (amendment to IFRS 1)	January 1, 2013
Disclosures - transfers of financial assets (amendment to IFRS 7)	July 1, 2011
Disclosures—Offsetting financial assets and financial liabilities (amendment to IFRS 7)	January 1, 2013
IFRS 10, 'Consolidated financial statements'	January 1, 2013 (Investment entities: January 1, 2014)
IFRS 11,'Joint arrangements'	January 1, 2013
IFRS 12,'Disclosure of interests in other entities'	January 1, 2013
IFRS 13, 'Fair value measurement'	January 1, 2013
Presentation of items of other comprehensive income (amendment to IAS 1)	July 1, 2012
Deferred tax: recovery of underlying assets (amendment to IAS 12)	January 1, 2012
IAS 19 (revised),'Employee benefits'	January 1, 2013
IAS 27,'Separate financial statements' (as amended in 2011)	January 1, 2013
IAS 28,'Investments in associates and joint ventures'(as amended in 2011)	January 1, 2013
Offsetting financial assets and financial liabilities (amendment to IAS 32)	January 1, 2014
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	January 1, 2013
Improvements to IFRSs 2010	January 1, 2011
Improvements to IFRSs 2009-2011	January 1, 2013

Based on the Group's assessment, the adoption of the 2013 version of IFRS has no significant impact on the consolidated financial statements of the Group, except for the following：

A.IAS 19 (revised), 'Employee benefits'

The revised standard the eliminates the corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service costs will be recognised 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 recognised in other comprehensive income. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits or when it recognises any related restructuring costs. 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 Group expected to recognise previously unrecognised past service cost and as a consequence of elimination of the corridor approach to recognise prior unrecognised actuarial losses by decreasing operating expenses $32 and other comprehensive income would be increased by $32 for the year ended December 31, 2014.

B.IAS 1, ‘Presentation of financial statements’

The amendment requires entities to separate items presented in OCI classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Group will adjust its presentation of the statement of comprehensive income.

C.IFRS 12, ‘Disclosure of interests in other entities’

The standard integrates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. And the Group will disclose additional information about its interests in consolidated entities and unconsolidated entities accordingly.

D.IFRS 13, ‘Fair value measurement’

The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard sets out a framework for measuring fair value using the assumptions that market participants would use when pricing the asset or liability; for non-financial assets, fair value is determined based on the highest and best use of the asset. And, the standard requires disclosures about fair value measurements. Based on the Group’s assessment, the adoption of the standard has no significant impact on its consolidated financial statements, and the Group will disclose additional information about fair value measurements accordingly.

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

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRS as endorsed by the FSC：

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 9, ‘Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	January 1, 2016
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016

New Standards, Interpretations and Amendments	Effective Date by International Accounting
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
IFRS 15, 'Revenue from contracts with customers'	January 1, 2017
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The Group is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the consolidated financial statements.

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

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports 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").

(2) Basis of preparation

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

(a)Financial assets and financial liabilities (including derivative insturments) at fair value through

profit or loss.

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

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

(d)Defined benefit liabilities recognized based on the net amount of pension fund assets less unrecognized actuarial gains and present value of defined benefit obligation.

B.The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "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. 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 control is transferred to the Group. They are de-consolidated from the date that control ceases.

(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 of 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 of a subsidiary, the Group remeasures 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 of 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. Subsidiaries included in the consolidated financial statements:

			Percentage of Ownership		
Name of Investor	Name of subsidiary	Main Business Activities	December 31, 2014	December 31, 2013	Note
Hermes Microvision Inc.	HMI Holdings Inc.	Investment holdings	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%	-
HMI Holdings Inc.	Hermes Microvision Japan Inc.	Marketing of e-Beam inspection equipment and its components and related technical support services	100%	100%	-
HMI Holdings Inc.	Ansing International LLC.	Investment holdings	100%	100%	-
HMI Holdings Inc.	HMI Investment Corp.	Investment holdings	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%	-
HMI Investment Corp.	Hermes Microvision, Inc. (USA)	Research and development center	94%	-	Note
Hermes Microvision Inc.	Hermes Microvision, Inc. (USA)	Research and development center	-	94%	Note

Note: Considering the operation of group organization, the Board of Directors had approved the adjustment of the organization. That is, invests subsidiaries through HMI Holdings Inc.

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 is

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. 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 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, associates and jointly controlled 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 meet 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 meet 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 refer to 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) Financial asset at fair value through profit or loss

A.Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a)Hybrid (combined) contracts; or

(b)They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c)They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B.On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C.Financial assets at fair value through profit or loss are initially recognised at fair value. Related

transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(8) 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 without bearing interest, are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B. Bond investments without active market

(a) Bond investments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

i. Not designated on initial recognition as at fair value through profit or loss;

ii. Not designated on initial recognition as available-for-sale;

iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(b) On a regular way purchase or sale basis, bond investments without active market are recognized and dercognized using trade date accounting.

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

(d) Bond investments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(9) 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.

(10) Impairment of financial assets

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 an 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 according to the category of financial asset:

(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". Impairment loss of an 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.

(11) Derecognition of financial assets

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

(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 under 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) 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 at amortised cost using the effective interest method. However, since short - term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(18) Derecognition of financial liabilities

Financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(19) Provisions

Provisions for warranties 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. 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 government bonds (at the balance sheet date).

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

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

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 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 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 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 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 tax asset is realized or the deferred income tax liability is settled.

D. Deferred 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 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 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 insurance 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 Group's 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 **c**ritical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgments 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.Evaluation 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 judgments 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 an evaluation 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 evaluation.

As of December 31, 2014, the carrying amount of inventories was $1,744,812.

B.Realisability of deferred income tax assets

Deferred 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 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 tax assets.

As of December 31, 2014, the Group recognized deferred tax assets amounting to $50,129.

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, 2014, the carrying amount of accrued warranty liabilities was $1,471,138.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	$ 447	$ 564
Checking accounts and demand deposits	2,272,324	2,419,466
Time deposits	5,123,700	2,950,672
	$ 7,396,471	$ 5,370,702

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 and cash equivalences pledged to others.

(2) Financial assets at fair value through profit or loss

Items	December 31, 2014	December 31, 2013
Current items:		
Financial assets held for trading		
Beneficiary certificates	$ 1,100,000	$ -
Valuation	1,805	-
Total	$ 1,101,805	$ -

A.The Group recognized net gain of $1,805 and $0 on financial assets held for trading for the years ended December 31, 2014 and 2013, respectively.

B.The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

Item	December 31, 2014	December 31, 2013
Non-listed and emerging stocks	$ 7,450	$ 4,412
Valuation adjustment of available-for-sale financial assets	-	-
Total	$ 7,450	$ 4,412

The Group did not recognize any other comprehensive income for fair value change for the years ended December 31, 2014 and 2013.

(4) Investments in bonds without active markets

Item	December 31, 2014	December 31, 2013
Time deposits	$ 1,266,000	$ 2,891,085

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

B.The Group recognized interest of $6,654 and $1,595 in profit or loss for the years ended December 31, 2014 and 2013, respectively.

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.

(5) Accounts receivable

	December 31, 2014	December 31, 2013
Accounts receivable	$ 2,661,783	$ 1,556,892
Less: allowance for bad debts	-	-
	$ 2,661,783	$ 1,556,892

A. Analysis of movement of impaired accounts receivable:

(a)As of December 31, 2014 and 2013, the Group had no provisions for impairment of accounts receivable.

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

	For the year ended December 31, 2014		
	Individual provision	Group provision	Total
At January 1	$ -	$ -	$ -
Reversal of impairment	-	-	-
Write off during the period	-	-	-
Effect of exchange rate changes	-	-	-
At December 31	$ -	$ -	$ -

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

B.The Group's accounts receivable that were neither past due nor impaired were fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability, which had good credit quality.

C.As of December 31, 2014 and 2013, 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 into an agreement with Merrill Lynch Japan Finance Co., Ltd. to sell its accounts receivable of Elpida Memory Inc. ("Elpida") for JPY 218,007 thousand. Under the agreement, Hermes Microvision Japan Inc. is not required to bear the uncollectibility risk of the underlying accounts receivable. The original accounts receivable amounted to JPY 445,607 thousand, but it had been provided with 100% allowance for bad debts. Therefore, Hermes Microvision Japan Inc. had reversed the allowance for bad debts previously provided, and had written off the balance of outstanding accounts receivable.

(6) Inventories

	December 31, 2014		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 801,210	($ 204,582)	$ 596,628
Work - in - process	1,204,431	(125,020)	1,079,411
Finished goods	236,738	(167,965)	68,773
Total	$ 2,242,379	($ 497,567)	$ 1,744,812

	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

The cost of inventories recognized as expense for the period:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Cost of goods sold	$ 2,014,708	$ 1,445,863
Loss on decline in market value	129,177	135,721
	$ 2,143,885	$ 1,581,584

(7) 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, 2014								
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
Year ended December 31, 2014								
Opening net book amount	$ 100,736	$ 4,838	$ 2,932	$ 10,148	$ 25,017	$ 3,674	$ 187,245	$ 334,590
Additions	11,104	1,516	429	10,912	6,797	1,163	425,254	457,175
Disposals	-	-	-	(11)	-	-	-	(11)
Reclassifications	-	-	-	-	762	12,051	(762)	12,051
Depreciation charge	(38,134)	(1,611)	(871)	(5,964)	(10,421)	(321)	-	(57,322)
Net exchange differences	2,211	297	75	78	507	(268)	148	3,048
Closing net book amount	$ 75,917	$ 5,040	$ 2,565	$ 15,163	$ 22,662	$ 16,299	$ 611,885	$ 749,531
At December 31, 2014								
Cost	$ 268,525	$ 9,258	$ 6,095	$ 37,338	$ 63,744	$ 17,302	$ 611,885	$ 1,014,147
Accumulated depreciation and impairment	(192,608)	(4,218)	(3,530)	(22,175)	(41,082)	(1,003)	-	($ 264,616)
	$ 75,917	$ 5,040	$ 2,565	$ 15,163	$ 22,662	$ 16,299	$ 611,885	$ 749,531

	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
Year ended December 31, 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

(8) Intangible assets

	Computer Software
At January 1, 2014	
Cost	$ 22,571
Accumulated amortization and impairment	(11,939)
	$ 10,632
Year ended December 31, 2014	
Opening net book amount	$ 10,632
Additions - acquired separately	6,618
Amortization charge	(5,110)
Net exchange differences	217
Closing net book amount	$ 12,357
At December 31, 2014	
Cost	$ 29,396
Accumulated amortization and impairment	(17,039)
	$ 12,357

	Computer Software
At January 1, 2013	
Cost	$ 23,394
Accumulated amortization and impairment	(12,677)
	$ 10,717
Year ended December 31, 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

Details of amortization on intangible assets are as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Operating costs	$ -	$ 4
Operating expenses	5,110	6,436
	$ 5,110	$ 6,440

(9) Other payables

	December 31, 2014	December 31, 2013
Accrued salaries and bonuses	$ 818,813	$ 366,305
Accrued employees' bonuses and director's and supervisors' remuneration	87,995	100,245
Accrued commission	40,684	17,771
Payables on equipment	45,538	77,395
Others	87,495	116,971
	$ 1,080,525	$ 678,687

(10) Pension

A.(a)The Company and its domestic subsidiaries have 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 the independent retirement fund committee.

(b)The amounts recognised in the balance sheet are as follows:

	December 31, 2014	December 31, 2013
Present value of funded defined benefit obligations	($ 91,002)	($ 79,967)
Fair value of plan assets	13,978	12,500
Net liability in the balance sheet (Shown in the other non-current liabilities)	($ 77,024)	($ 67,467)

(c)Movements in present value of defined benefit obligations are as follows:

Present value of funded obligations	2014	2013
At January 1	$ 79,967	$ 85,065
Current service cost	529	330
Interest cost	1,596	1,273
Actuarial profit (loss)	8,910	(6,701)
At December 31	$ 91,002	$ 79,967

(d)Movements in fair value of plan assets:

Fair value of plan assets	2014	2013
At January 1	$ 12,500	$ 11,188
Expected return on plan assets	226	203
Actuarial profit (loss)	69	(56)
Employer contributions	1,183	1,165
At December 31	$ 13,978	$ 12,500

(e)Amounts of expenses recognised in comprehensive income statements:

	Year ended December 31, 2014	Year ended December 31, 2013
Current service cost	$ 529	$ 330
Interest cost	1,596	1,273
Expected return on plan assets	(226)	(203)
Current pension cost	$ 1,899	$ 1,400

Details of cost and expenses recognised in comprehensive income statements are as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Cost of sales	$ 814	$ 505
Selling expenses	286	224
General and administrative expenses	345	264
Research and development expenses	454	407
	$ 1,899	$ 1,400

(f)Amounts of actuarial gains or losses recognised under other comprehensive income are as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Recognition for current period	$ 8,842	($ 6,645)
Accumulated amount	$ 28,609	$ 19,767

(g)The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and

Utilisation 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 December 31, 2014 and 2013 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 obligations 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 local banks.

(h)The principal actuarial assumptions used were as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Discount rate	2%	2%
Future salary increases	5%	4%
Expected return on plan assets	1.75%	1.75%

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:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Present value of defined benefit obligation	($ 91,002)	($ 79,967)	($ 79,967)
Fair value of plan assets	13,978	12,500	12,500
Deficit in the plan	($ 77,024)	($ 67,467)	($ 67,467)
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, 2014 amounts to $1,174.

B.(a)Effective July 1, 2005, the Company and its domestic subsidiaries have 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 and its domestic subsidiaries contribute 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' montly 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)The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2014 and 2013 were $31,403 and $27,437, respectively.

(11) Share-based payment

The Group:

A. The Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Stock appreciation rights plan1	December 31, 2013	1,104,000	3 years	Note 1
Stock appreciation rights plan 2	January 1, 2014	729,700	5 years	Note 2
Stock appreciation rights plan 3	April 1, 2014	50,500	5 years	Note 2
Stock appreciation rights plan 4	July 1, 2014	40,000	5 years	Note 2
Stock appreciation rights plan 5	October 1, 2014	61,600	5 years	Note 2

Note 1: 40% of the stock appreciation rights were vested since grant date and the others will be vested 7.5% every season in the next eight seasons.

Note 2: 25% of the stock appreciation rights will be vested after four seasons since grant date and the others will be vested 6.25% every season in the next 16 seasons from the first vesting date.

Each stock appreciation right represents the future appreciation of one share. The plan will be cash settled by multiplying the execution rights of the employees and the price variance of the

closing date's stock price and the executing price.

B. The fair value of stock appreciation rights as of December 31, 2014 are measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Expected price volatility	Expected term	Expected dividends yield rate	Risk - free interest rate	Fair value per unit (in NT dollars)
Stock appreciation rights plan	December 31, 2013	40.97%~43.47%	3 Years	0%	0.4841%~ 0.5859%	$864.00~$874.57
Stock appreciation rights plan	January 1, 2014	40.97%~44.58%	5 Years	0%	0.4841%~ 0.8992%	$648.38~$804.72
Stock appreciation rights plan	April 1, 2014	40.97%~44.58%	5 Years	0%	0.5008%~ 0.9464%	$419.96~$684.21
Stock appreciation rights plan	July 1, 2014	40.97%~44.58%	5 Years	0%	0.5274%~ 0.9933%	$611.24~$800.01
Stock appreciation rights plan	October 1, 2014	40.97%~44.58%	5 Years	0%	0.5561%~ 1.0393%	$567.64~$775.54

C. Details of the stock appreciation rights plan 1 are as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	1,104,000	-
Rights granted	-	1,104,000
Rights forfeited	(21,827)	-
Rights exercised	(390,530)	-
Rights outstanding at end of the year	691,643	1,104,000
Rights exercisable at end of the year	292,303	1,104,000

Details of the stock appreciation rights plan 2 are as follows:

	For the year ended December 31, 2014
	No. of Rights
Rights outstanding at beginning of the year	-
Rights granted	729,700
Rights forfeited	(34,400)
Rights exercised	-
Rights outstanding at end of the year	695,300
Rights exercisable at end of the year	-

Details of the stock appreciation rights plan 3 are as follows:

	For the year ended December 31, 2014
	No. of Rights
Rights outstanding at beginning of the year	-
Rights granted	50,500
Rights forfeited	(2,000)
Rights exercised	-
Rights outstanding at end of the year	48,500
Rights exercisable at end of the year	-

Details of the stock appreciation rights plan 4 are as follows:

	For the year ended December 31, 2014
	No. of Rights
Rights outstanding at beginning of the year	-
Rights granted	40,000
Rights forfeited	-
Rights exercised	-
Rights outstanding at end of the year	40,000
Rights exercisable at end of the year	-

Details of the stock appreciation rights plan 5 are as follows:

	For the year ended December 31, 2014
	No. of Rights
Rights outstanding at beginning of the year	-
Rights granted	61,600
Rights forfeited	-
Rights exercised	-
Rights outstanding at end of the year	61,600
Rights exercisable at end of the year	-

D. The weighted average stock price of stock appreciation right at exercise dates for the year ended December 31, 2014 was NT $1,240 (in dollars).

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

	For the year ended December 31, 2014	For the year ended December 31, 2013
Cash settled-stock appreciation rights plan	$ 573,702	$ 112,465

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

	December 31, 2014	December 31, 2013
Liabilities on cash-settled stock appreciation rights plan	$ 575,940	$ 112,465

(shown in other payables)

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

A. As of December 31, 2014, 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	April 1, 2005 ~ November 1, 2011	254,574	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:

	For the year ended December 31, 2014		For the year ended December 31, 2013	
	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	378,000	$ 0.8527	672,044	$ 0.9126
Options exercised	(123,426)	0.8111	(119,877)	0.8003
Options expired	-	-	(174,167)	0.8700
Options outstanding at end of the year	254,574	0.8568	378,000	0.8486
Options exercisable at end of the year	178,867	0.8657	164,209	0.8510

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2014 and 2013 was $0.8111 (in US dollars) and $0.8003 (in US dollars), respectively.

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

		December 31, 2014		December 31, 2013	
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, 2005 ~ November 1, 2011	March 31, 2020~ October 31, 2021	255	$0.56~0.87	378	$ 0.56~0.87

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	April 1, 2005 ~ November 1, 2011	$0.49~0.87	29.85%~ 42.16%	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:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Equity-settled	$ 2,817	$ 2,827

(12) Provisions

	Warranty
At January 1, 2014	$ 972,259
Additional provisions	498,879
At December 31, 2014	$ 1,471,138

	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, 2014, 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:

Unit:One thousand shares

	2014	2013
At January 1	71,000	66,000
Issuance of common stock for cash	-	5,000
At December 31	71,000	71,000

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, totaling 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. As of December 31, 2014, the outstanding shares of GDRs were 764 thousand units representing 764 thousand shares.

(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, 2014	$ 5,411,867	$ 15,156
Adjustments arising from changes in ownership percentage in subsidiary	-	4,173
At December 31, 2014	$ 5,411,867	$ 19,329

	Share premium	Adjustments arising from changes in ownership percentage in subsidiary
At January 1, 2013	$ 1,223,831	$ 10,517
Cash capital increase	4,188,036	-
Adjustments arising from changes in ownership percentage in subsidiary	-	4,639
At December 31, 2013	$ 5,411,867	$ 15,156

(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, 2014 and 2013, employees' bonus was accrued at $79,995 and $91,132, respectively; directors' and supervisors' remuneration were accrued at $8,000 and $9,113, respectively. The difference between employees' bonus and directors' and supervisors' remuneration as resolved by the stockholders and the amount recognized in the 2013 financial statements will been adjusted in the 2014 statement of comprehensive income.

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 website "Market Observation Post System".

F. The Company recognised dividends distributed to owners amounting to $1,136,000 ($16 (in dollars) per share) and $792,000 ($12 (in dollars) per share) for the years ended December 31, 2014 and 2013, respectively. The dividend distribution for 2014 was proposed by the Board of Directors on March 4, 2015 and amounted to $1,562,000 ($22 (in dollars) per share). The above mentioned 2014 earnings appropriation had not been approved by the stockholders at stockholders' meeting.

(16) Other equity

	Currency translation
At January 1, 2014	$ 14,957
Cumulative translation difference of foreign operations	41,798
Tax on cumulative translation difference of foreign operations	(7,105)
At December 31, 2014	$ 49,650

	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

(17) Operating revenue

	For the year ended December 31, 2014	For the year ended December 31, 2013
Sales revenue	$ 6,905,683	$ 5,035,270
Other operating revenue	303,967	304,773
	$ 7,209,650	$ 5,340,043

(18) Other income

	For the year ended December 31, 2014	For the year ended December 31, 2013
Interest income:		
Interest income from bank deposits	$ 70,115	$ 24,284
Net income from disposal of obligation	-	54,965
Others	32,438	63
Total	$ 102,553	$ 79,312

(19) Other gains and losses

	For the year ended December 31, 2014	For the year ended December 31, 2013
Gain (loss) on disposal of property, plant and equipment	$ 27	($ 42)
Net currency exchange gain	325,989	64,815
Gain on revaluation of financial assets	1,805	-
Other losses	(4,111)	(75)
Total	$ 323,710	$ 64,698

(20) Expenses by nature

	For the year ended December 31, 2014	For the year ended December 31, 2013
Employee benefit expense	$ 1,767,297	$ 1,138,506
Depreciation charges on property, plant and equipment	57,322	53,766
Amortization charges on intangible assets	5,110	6,440
Total	$ 1,829,729	$ 1,198,712

(21) Employee benefit expense

	For the year ended December 31, 2014	For the year ended December 31, 2013
Wages and salaries	$ 1,038,962	$ 877,585
Compensation cost of employee stock options and stock appreciation right	576,519	115,292
Labor and health insurance fees	94,680	67,614
Pension costs	33,302	28,837
Other personnel expenses	23,834	49,178
	$ 1,767,297	$ 1,138,506

(22) Income tax

A. Income tax expense

a) Components of income tax expense:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Current tax:		
Current tax on profits for the period	$ 402,391	$ 197,541
Adjustments in respect of prior period	10,216	(5,566)
Total current tax	412,607	191,975
Deferred tax:		
Origination and reversal of temporary differences	-	16,281
Total deferred tax	-	16,281
Income tax expense	$ 412,607	$ 208,256

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

	2014	2013
Cumulative translation differences of foreign operations	($ 7,105)	($ 3,064)
Actuarial gain/loss on defined benefit obligations	1,503	3,361

B. As of December 31, 2014, the Company's income tax returns have been assessed and approved by the Tax Authority through 2011.

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

	For the year ended December 31, 2014	For the year ended December 31, 2013
Tax calculated based on profit before tax and statutory tax rate	$ 610,521	$ 428,500
Subsidiaries-income tax expense accrued in accordance with the local regulation	63,349	31,271
Tax effect of non pretax income items	125,173	(10,576)
Estimate on 10% corporate income tax on unappropriated earnings	98,739	56,880
Adjustment of prior years' income tax	10,216	(5,566)
Tax effect of income tax exemption	(495,391)	(322,106)
Tax effect of deferred tax assets realized	-	29,853
Income tax expense	$ 412,607	$ 208,256

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

	For the year ended December 31, 2014				
	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	836	-	-	-	836
Accrued pension	2,009	-	-	-	2,009
Accrued employee bonus	3,278	-	-	-	3,278
Actuarial gain / loss on defined benefit plan	3,361	-	1,503	-	4,864
Subtotal	48,626	-	1,503	-	50,129
－Deferred tax liabilities:					
Unrealized foreign exchange gain	(1,978)	-	-	-	(1,978)
Currency translation differences	(3,064)	-	(7,105)	-	(10,169)
Subtotal	(5,042)	-	(7,105)	-	(12,147)
Total	$43,584	$ -	($ 5,602)	$ -	$ 37,982

	For the year ended December 31, 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

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

	December 31, 2014	December 31, 2013
Deductible temporary differences	$ 1,867,853	$ 1,278,512

F. The Company's products are qualified for 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, 2014 and 2013, the subsidiary－Hermes Microvision Inc. (USA) was eligible for investment credits for research and development expenditures amounting to $130,176 and $99,996, respectively, under the U.S. Federal Tax Law, which will expire in 2022, $123,530 and $91,621 under the California Tax Law, which has no expiry date, and unrecognized deferred tax assets.

H. Unappropriated retained earnings:

	December 31, 2014	December 31, 2013
Earnings generated in and after 1998	$ 5,170,809	$ 3,306,436

I. As of December 31, 2014 and 2013, the balance of the imputation tax credit account was $254,759 and $137,913, respectively. The creditable tax rate was 4.17% for 2013 and was estimated to be 4.93% for the year ended December 31, 2014.

(23) Earnings per share

	For the year ended December 31, 2014		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 3,237,928	71,000	$ 45.60
Diluted earnings per share		-	
Profit attributable to equity holders of the parent company	$ 3,237,928	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	83	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 3,237,928	71,083	$ 45.55

	For the year ended December 31, 2013		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	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

(24) Non-cash transactions

Investing activities with partial cash payments:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Purchase of fixed assets	$ 457,175	$ 224,022
Add: opening balance of payable on equipment	77,395	-
Less: ending balance of payable on equipment	(45,538)	(77,395)
Cash paid during the period	$ 489,032	$ 146,627

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A.Operating revenue:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Sales of goods:		
The entity with significant influence over the Group	$ 42,284	$ 15,494

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

B.Purchases of services:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Technology service charge -		
The entity with significant influence over the Group	$ 18,463	$ 19,751
Commission expense -		
The entity with significant influence over the Group	$ 38,155	$ 21,213
Other expenses -		
The entity with significant influence over the Group	$ 34	$ 29

The above transactions are under normal commercial terms and conditions.

C.Accounts receivable:

	December 31, 2014	December 31, 2013
Receivables from the entity with significant influence over the Group	$ 20,134	$ 13,367

The receivables from the entity with significant influence over the Group arise mainly from sale transactions. The receivables are due from 30~60 day 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.Other payables:

	December 31, 2014	December 31, 2013
Payables from the entity with significant influence over the Group	$ 78,177	$ 68,731

E.Leases

	For the year ended December 31, 2014	For the year ended December 31, 2013
Rental expense- The entity with significant influence over the Group	$ 22,409	$ 21,891

(2) Key management compensation

	For the year ended December 31, 2014	For the year ended December 31, 2013
Salaries and other short-term employee benefits	$ 54,030	$ 42,910
Share-based payment	46,211	15,259
	$ 100,241	$ 58,169

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 $90,740 and $73,854 were recognized for the years ended December 31, 2014 and 2013, 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, 2014	December 31, 2013
Not later than one year	$ 42,287	$ 62,170
Later than one year but not later than five years	141,639	145,180
Later than five years	76,098	99,121
Total	$ 260,024	$ 306,471

B. Capital commitments

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

	December 31, 2014	December 31, 2013
Future payments for plant and equipment	$ 210,643	$ 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 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, 2014 and 2013, the Group's ratios of total liabilities divided by total assets were as follows:

	December 31, 2014	December 31, 2013
Total liabilities	$ 3,251,512	$ 2,118,505
Total assets	$ 15,126,476	$ 11,851,537
Total liabilities/total assets ratio	21%	18%

(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 expose it 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 and RMB. 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, KRW 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, 2014				
	Foreign Currency Amount (In Thousands)		Exchange Rate	Book Value (NTD)	
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	$	195,290	31.65	$	6,180,932
USD:JPY		479	119.62		15,149
USD:CNY		1,330	6.22		42,091
Financial liabilities					
Monetary items					
USD:NTD	$	10,089	31.65	$	319,318
USD:KRW		232	1,082.98		251,670

	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
USD:JPY		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

- Analysis of foreign currency market risk arising from significant foreign exchange variation is as follows:

	For the year ended December 31, 2014		
	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%	$ 61,809	$ -
USD:JPY	1%	151	-
USD:CNY	1%	421	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 3,193	$ -
USD:KRW	1%	2,517	-

	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	$ -
USD:JPY	1%	516	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 4,212	$ -
USD:JPY	1%	169	-

Price risk

The Group’s investments in equity securities consist of unlisted stocks, which are classified on the consolidated balance sheet as available-for-sale financial assets. The price of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased / decreased by 5% with all other variables held constant, total equity for the year ended December 31, 2014 would have increased / decreased by $373, as a result of gains / losses on equity securities classified as available-for-sale.

Interest rate risk

At December 31, 2014 and 2013, 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, 2014 and 2013 would have been $15,974 and $14,604 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.

c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance 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 finance. Group 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 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:

December 31, 2014	Less than 1 year
Accounts payable	$ 177,559
Other payables	1,080,525
Other payables - related parties	78,177

Non-derivative financial liabilities:

December 31, 2013	Less than 1 year
Accounts payable	$ 149,703
Accounts payable - related parties	328
Other payables	678,687
Other payables - related parties	68,731

d) 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 as of December 31, 2014 and 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading financial assets	$1,101,805	$ -	$ -	$1,101,805
Equity securities	-	-	7,450	7,450
Total	$1,101,805	$ -	$ 7,450	$1,109,255

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity securities	$ -	$ -	$ 4,412	$ 4,412
Total	$ -	$ -	$ 4,412	$ 4,412

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.

F. The following table presents the changes in level 3 instruments as of December 31, 2014 and 2013.

	2014	
	Equity securities	
At January 1	$	4,41
Acquisition		3,03
At December 31	$	7,45

	2013	
	Equity securities	
At January 1	$	-
Acquisition		4,41
At December 31	$	4,41

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

(Information on investee companies is disclosed based on investee companies' financial statements, which were reviewed 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, 2014:

Securities held by	Marketable securities (Note 1)	General ledger account	As of December 31, 2014				Footnote (Note 4)
			Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
Hermes Microvision, Inc.	TransPacific Medtech Fund, LP.	Available-for -sale financial assets-noncurrent	-	$ 7,450	25%	$ 7,450	None
"	Jih Sun Money Market	Financial assets at fair value through profit or loss-current	17,223,705	250,429	-	250,429	"
"	Franklin Templeton Sinoam Money Market	"	24,703,413	250,456	-	250,456	"
"	UPAMC James Bond Money Market	"	12,198,581	200,321	-	200,321	"
"	Fuh Hwa You Li Money Market	"	7,554,810	100,165	-	100,165	"
"	Fubon Chi-Hsiang Money Market	"	6,495,447	100,159	-	100,159	"
"	CTBC Hwa-win Money Market Fund	"	9,251,122	100,140	-	100,140	"
"	Union Money Market	"	7,715,275	100,135	-	100,135	"

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, 2014:

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2014		Addition (Note 3)		Disposal (Note 3)				Balance as at December 31, 2014	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Hermes Microvision, Inc.	Jih Sun Money Market	Financial assets at fair value through profit or loss-current	None	Non-related party	-	$ -	17,223,705	$ 250,000	-	$ -	$ -	$ -	17,223,705	$ 250,429
"	Franklin Templeton Sinoam Money Market	"	"	"	-	-	24,703,413	250,000	-	-	-	-	24,703,413	250,456
"	UPAMC James Bond Money Market	"	"	"	-	-	12,198,581	200,000	-	-	-	-	12,198,581	200,321

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

e) Acquisition of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2014: None.

f) Disposal of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2014: 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, 2014:

			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	($ 169,509)	(2%)	30 days after delivery	Approximately the same with third party transactions	Approximately the same with third party transactions	$ 3,161	-
〃	Hermes Microvision, Inc.	〃	Sales	(291,680)	(4%)	30 days after delivery	〃	〃	38,498	1%
〃	Hermes Microvision, Co., Ltd. (Beijing)	〃	Purchases	116,484	8%	30 days after acceptance	〃	〃	(12,299)	(6%)
〃	Hermes Microvision, Inc.	〃	Purchases	663,902	46%	30 days after acceptance	〃	〃	(73,667)	(35%)

h) Receivables from related parties reaching $100,000 or 20% of paid-in capital or more as of December 31, 2014: None.

i) Derivative financial instruments undertaken during 2014: None.

j) Significant inter-company transactions during the year ended December 31, 2014:

Number (Note 1)	Company	Counterparty	Relationship (Note 2)	Transactions: General ledger account	Amount (Note 4)	Terms	Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision, Inc.	(1)	Sales	$ 291,680	The price and terms were based on the ordinary course of business.	4.05%
0	"	"	(1)	Purchases	663,902	The price and terms were based on the ordinary course of business.	9.21%
0	"	"	(1)	Contracted research expense	885,592	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	12.28%
0	"	"	(1)	Other expenses	89,539	"	1.24%
0	"	"	(1)	Accounts receivable	38,498	Net 30 days, after delivery	0.25%
0	"	"	(1)	Accounts payable	73,667	Net 30 days, after acceptance	0.49%
0	"	"	(1)	Other payables	105,257	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.69%
0	"	Hermes Microvision Japan Inc.	(1)	Sales	169,509	The price and terms were based on the ordinary course of business.	2.35%
0	"	Hermes Microvision Korea Inc.	(1)	Sales	34,898	"	0.48%
0	"	"	(1)	Other expenses	14,909	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.21%
0	"	"	(1)	Contracted research expense	24,377	"	0.34%
0	"	Hermes Microrision Co., Ltd. (Beijing)	(1)	Sales	116,484	The price and terms were based on the ordinary course of business.	1.62%
0	"	"	(1)	Accounts payable	12,299	Net 30 days, after acceptance	0.08%
	"	"	(3)	Sales	33,663	The price and terms were based on the ordinary course of business.	0.47%
1	Hermes Microvision, Inc. (USA)	"	(3)	Purchases	82,192	"	1.14%
1	"	"	(3)	Contracted research expense	112,738	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	1.56%
1	"	"	(3)	Accounts payable	29,789	Netr 30 days, after acceptance	0.20%

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;

(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, 2014:

Investor	Investee	Location	Main business activities	Initial investment amount as at December 31, 2014	Initial investment amount as at December 31, 2013	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.	HMI Holdings Inc.	Samoa	Investment holdings	$ 843,045	$ 188,452	27,546,821	100%	$ 939,980	$ 77,973	$ 77,973
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%	16,887	4,790	-
〃	Hermes Microvision Japan Inc.	Japan	Marketing of e-Bean inspection equipment and its components and related technical support services	52,574	52,574	2,980	100%	54,194	5,761	-
〃	Ansing International LLC.	USA	Investment holdings	133,738	133,738	-	100%	159,380	7,063	-
〃	HMI Investment Corp.	Samoa	Investment holdings	-	-	21,546,821	100%	709,519	60,359	-
HMI Investment Corp.	Hermes Microvision Inc. (USA)	USA	Research and development	665,970	665,970	61,785,000	94%	709,519	64,366	-

(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 January 1, 2014	Amount of remittance for the year ended December 31, 2014: Remittance out	Amount of remittance for the year ended December 31, 2014: Remittance in	Ending balance of remittance as of December 31, 2014	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, 2014	Ending balance of profit remittance into Taiwan
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	$ 7,063	100%	$ 7,063	$ 159,380	-

Company name	Investment ending balance of remittance as of December 31, 2014	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	$ 7,096,717

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 statements reviewed 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, 2014, the Company’s direct sales and indirect sales to investee in Mainland China amounted to $3,838 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.

	For the year ended December 31, 2014	
	Amount	Percentage of net purchases
Hermes Microvision Co., Ltd. (Beijing)	$ 116,484	8%

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, 2014, the Company’s accounts receivable from investee in Mainland China was $491, which was less than 10% of the total amount of accounts receivable.

(4) Accounts payable:

As of December 31, 2014, the Company’s accounts payable to investee in Mainland China was $12,299, which was less than 10% of the total amount of accounts payable.

(5) There were no indirect loans, property transactions, endorsement guarantees or collaterals provided between the Company and the investee in Mainland China as of December 31, 2014 and for the year the 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, 2014

	Amount
Revenue from external customers	$ 7,209,650
Inter-segment revenue	$ -
Segment income	$ 3,654,543
Total segment assets	$ 15,126,476

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

(3) Reconciliation for segment income (loss)

None.

(4) Information on product and service

Revenue from external customers are derived from the sale of e-beam wafer inspection equipment and related components. Breakdown of the revenue from all sources are as follows:

	2014	2013
Revenue from the sale of e-beam wafer inspection equipment	$ 6,905,683	$ 5,035,270
Revenue from the sale of related components	42,825	128,196
Revenue from services	258,426	172,348
Others	2,716	4,229
Total	$ 7,209,650	$ 5,340,043

(5) Geographical information

Geographical information for the years ended December 31, 2014 and 2013 is as follows:

	For the year ended December 31, 2014		For the year ended December 31, 2013	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 2,388,531	$ 690,346	$ 1,869,669	$ 273,758
U.S.A.	3,136,454	37,635	1,791,602	34,826
Japan	741,751	335	632,314	59
Korea	424,362	37	699,681	79
Mainland China	200,362	33,535	188,699	36,500
Others	318,190	-	158,078	-
Total	$ 7,209,650	$ 761,888	$ 5,340,043	$ 345,222

(1) Major customer information

Revenue from specific customers that represent over 10% of total revenues of the Company for the years ended December 31, 2014 and 2013 is as follows:

	For the year ended December 31, 2014		
	Revenue	Percentage	Segment
Customer B	$ 1,343,920	19%	The whole company
Customer L	1,397,914	19%	The whole company

	For the year ended December 31, 2013		
	Revenue	Percentage	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

HERMES MICROVISION, INC.

PARENT COMPANY ONLY NON-CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Hermes Microvision, Inc.

We have audited the accompanying parent company only balance sheets of Hermes Microvision, Inc. as of December 31, 2014 and 2013, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended. 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, 2014 and 2013, and its financial performance and cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

March 4, 2015

The accompanying non-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 non-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.

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
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2014 AMOUNT	%	December 31, 2013 AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	$ 7,230,183	49	$ 5,189,811	44
Financial assets at fair value through profit or loss - current	6(2)	1,101,805	7	-	-
Bond investments without active markets - current	6(4)	1,266,000	9	2,891,085	24
Accounts receivable, net	6(5)	2,633,803	18	1,365,752	12
Accounts receivable - related parties	7	69,639	-	381,922	3
Other receivables		5,263	-	17,355	-
Other receivables - related parties		417	-	1,085	-
Inventories	6(6)	816,609	6	859,798	7
Prepayments		17,743	-	9,543	-
Current Assets		13,141,462	89	10,716,351	90
Non-current assets					
Available-for-sale financial assets - noncurrent	6(3)	7,450	-	4,412	-
Investments accounted for using the equity method	6(7)	939,980	6	816,036	7
Property, plant and equipment	6(8)	681,954	5	268,730	2
Intangible assets	6(9)	8,392	-	5,028	-
Deferred income tax assets	6(23)	50,129	-	48,626	1
Refundable deposits		2,050	-	120	-
Non-current assets		1,689,955	11	1,142,952	10
Total assets		$ 14,831,417	100	$ 11,859,303	100

(Continued)

HERMES MICROVISION, INC.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

		December 31, 2014		December 31, 2013	
Liabilities and Equity	Notes	AMOUNT	%	AMOUNT	%
Current liabilities					
Accounts payable		$ 116,362	1	$ 98,288	1
Accounts payable - related parties	7	91,326	1	235,579	2
Other payables	6(10)(12)	780,040	5	468,320	4
Other payables - related parties	7	182,428	1	148,563	1
Current income tax liabilities	6(23)	265,634	2	152,848	1
Provisions for liabilities - current	6(13)	1,471,138	10	972,259	8
Other current liabilities		7,555	-	4,940	-
Current Liabilities		2,914,483	20	2,080,797	17
Non-current liabilities					
Deferred income tax liabilities	6(23)	12,147	-	5,042	-
Other non - current liabilities	6(11)	76,926	-	79,058	1
Non - current liabilities		89,073	-	84,100	1
Total Liabilities		3,003,556	20	2,164,897	18
Equity					
Share capital - common stock	6(14)	710,000	5	710,000	6
Capital surplus	6(15)	5,431,196	37	5,427,023	46
Retained earnings	6(16)				
Legal reserve		466,206	3	231,846	2
Special reserve		-	-	4,144	-
Unappropriated retained earnings		5,170,809	35	3,306,436	28
Other equity interest	6(17)				
Other equity interest		49,650	-	14,957	-
Total equity		11,827,861	80	9,694,406	82
Significant contingent liabilities and unrecognized contract commitments	9				
Total liabilities and equity		$ 14,831,417	100	$ 11,859,303	100

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

HERMES MICROVISION, INC.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

		For the years ended December 31			
		2014		2013	
	Notes	AMOUNT	%	AMOUNT	%
Operating revenue	6(18) and 7	$ 7,390,177	100	$ 5,487,228	100
Operating costs	6(6) and 7	(2,496,856)	(34)	(1,938,362)	(35)
Net operating margin		4,893,321	66	3,548,866	65
Operating expenses	6(21)(22) and 7				
Selling expenses		(393,913)	(5)	(274,437)	(5)
General and administrative expenses		(221,447)	(3)	(158,646)	(3)
Research and development expenses		(1,176,668)	(16)	(874,497)	(16)
Total operating expenses		(1,792,028)	(24)	(1,307,580)	(24)
Operating profit		3,101,293	42	2,241,286	41
Non-operating income and expenses					
Other income	6(19)	93,019	1	24,205	-
Other gains and losses	6(20)	319,013	5	54,192	1
Share of profit of subsidiaries	4(15) and 6(7)	77,973	1	200,902	4
Total non-operating income and expenses		490,005	7	279,299	5
Profit before income tax		3,591,298	49	2,520,585	46
Income tax expense	6(23)	(353,370)	(5)	(176,985)	(3)
Profit for the year		$ 3,237,928	44	$ 2,343,600	43
Other comprehensive income	6(11)(17)				
Cumulative translation differences of foreign operations		$ 41,798	-	$ 26,157	-
Actuarial (loss) gain on defined benefit plan		(8,842)	-	6,645	-
Income tax relating to the components of other comprehensive income	6(23)	(5,602)	-	297	-
Other comprehensive income for the year		$ 27,354	-	$ 33,099	-
Total comprehensive income for the year		$ 3,265,282	44	$ 2,376,699	43
Basic earnings per share	6(24)	$ 45.60		$ 35.09	
Diluted earnings per share	6(24)	$ 45.55		$ 35.04	

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

HERMES MICROVISION, INC.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars)

	Notes	Share capital - common stock	Capital surplus	Retained Earnings: Legal reserve	Retained Earnings: Special reserve	Retained Earnings: Unappropriated retained earnings	Cumulative translation differences of foreign operations	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
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	6(15)	-	4,639	-	-	-	-	4,639
Other comprehensive income for the year	6(17)	-	-	-	-	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
For the year ended December 31, 2014								
Balance at January 1, 2014		$ 710,000	$ 5,427,023	$ 231,846	$ 4,144	$ 3,306,436	$ 14,957	$ 9,694,406
Appropriation of 2013 earnings								
Legal reserve		-	-	234,360	-	(234,360)	-	-
Special reserve		-	-	-	(4,144)	4,144	-	-
Cash dividends		-	-	-	-	(1,136,000)	-	(1,136,000)
Profit for the year		-	-	-	-	3,237,928	-	3,237,928
Adjustments arising from changes in percentages of ownership in subsidiary	6(15)	-	4,173	-	-	-	-	4,173
Other comprehensive income for the year	6(17)	-	-	-	-	(7,339)	34,693	27,354
Balance at December 31, 2014		$ 710,000	$ 5,431,196	$ 466,206	$ -	$ 5,170,809	$ 49,650	$ 11,827,861

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

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

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		$ 3,591,298	$ 2,520,585
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		7,505	-
Depreciation	6(8)(21)	36,396	35,328
Amortization	6(9)(21)	3,254	4,108
Revaluation of financial assests at fair value		(1,805)	-
Compensation cost of stock appreciation right	6(12)(22)	306,057	62,790
Share of profits of subsidiaries		(77,973)	(200,902)
Interest income	6(19)	(69,909)	(23,997)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable		(1,268,051)	(546,681)
Accounts receivable - related parties		312,283	46,053
Other receivables		4,858	(1,670)
Other receivables - related parties		668	17,454
Inventories		31,138	36,268
Prepayments		(8,200)	10,079
Net changes in liabilities relating to operating activities			
Accounts payable		18,074	36,008
Accounts payable - related parties		(144,253)	20,260
Other payables		28,677	47,179
Other payables - related parties		33,865	(10,146)
Provisions for liabilities		498,879	395,002
Other current liabilities		2,616	2,068
Other non- current liabilities		(2,132)	235
Cash generated from operations		3,303,245	2,450,021
Interest received		69,638	23,997
Income tax paid		(240,584)	(125,235)
Net cash provided by operating activities		3,132,299	2,348,783
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in financial assests at fair value through profit or loss		(1,100,000)	-
Proceeds from disposal (acquisition) of bond investments without active markets - current		1,625,085	(2,891,085)
Acquisition of available-for-sales financial assets - non - current		(3,038)	(4,412)
Acquisition of property, plant and equipment	6(8)(25)	(469,437)	(123,843)
Proceeds from disposal of property, plant, equipment and intangible assets		11	3
Acquisition of intangible assets	6(9)	(6,618)	(3,669)
(Increase) decrease in refundable deposits		(1,930)	127
Net cash provided by (used in) investing activities		44,073	(3,022,879)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock		-	4,302,575
Cost of acquisition of capital		-	(64,539)
Cash dividends paid		(1,136,000)	(792,000)
Net cash (used in) provided by financing activities		(1,136,000)	3,446,036
Increase in cash and cash equivalents		2,040,372	2,771,940
Cash and cash equivalents at beginning of year	6(1)	5,189,811	2,417,871
Cash and cash equivalents at end of year	6(1)	$ 7,230,183	$ 5,189,811

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

HERMES MICROVISION, INC.
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(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. The Company obtained the certification of Corporate Governance Assessment 6009 by Taiwan Corporate Governance Association on September 30, 2014.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These parent company only financial statements were authorized for issuance by the Board of Directors on March 4, 2015.

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”)

None.

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

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’) as endorsed by the FSC and the "Regulations Governing the Preparation of Financial Reports by Securities Issuers " effective January 1, 2015 (collectively referred herein as the “2013 version of IFRSs) in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1)	July 1, 2010
Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1)	July 1, 2011
Government loans (amendment to IFRS 1)	January 1, 2013
Disclosures - transfers of financial assets (amendment to IFRS 7)	July 1, 2011
Disclosures—Offsetting financial assets and financial liabilities (amendment to IFRS 7)	January 1, 2013
IFRS 10, 'Consolidated financial statements'	January 1, 2013 (Investment entities: January 1, 2014)
IFRS 11,'Joint arrangements'	January 1, 2013
IFRS 12,'Disclosure of interests in other entities'	January 1, 2013
IFRS 13, 'Fair value measurement'	January 1, 2013
Presentation of items of other comprehensive income (amendment to IAS 1)	July 1, 2012
Deferred tax: recovery of underlying assets (amendment to IAS 12)	January 1, 2012
IAS 19 (revised),'Employee benefits'	January 1, 2013
IAS 27,'Separate financial statements' (as amended in 2011)	January 1, 2013
IAS 28,'Investments in associates and joint ventures'(as amended in 2011)	January 1, 2013
Offsetting financial assets and financial liabilities (amendment to IAS 32)	January 1, 2014
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	January 1, 2013
Improvements to IFRSs 2010	January 1, 2011
Improvements to IFRSs 2009-2011	January 1, 2013

Based on the Company's assessment, the adoption of the 2013 version of IFRS has no significant impact on the parent company only financial statements of the Company, except for the following：

A.IAS 19 (revised), 'Employee benefits'

The revised standard the eliminates the corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service costs will be recognised 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 recognised in other comprehensive income. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits or when it recognises any related restructuring costs. 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 Company expected to recognise previously unrecognised past service cost and as a consequence of elimination of the corridor approach to recognise prior unrecognised actuarial losses by decreasing operating expenses by $32 and other comprehensive income would be increased by $32 for the year ended December 31, 2014.

B.IAS 1, 'Presentation of financial statements'

The amendment requires entities to separate items presented in OCI classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Company will adjust its presentation of the statement of comprehensive income.

C.IFRS 12, 'Disclosure of interests in other entities'

The standard integrates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. Also, the Company will disclose additional information about its interests in consolidated entities and unconsolidated entities accordingly.

D.IFRS 13, 'Fair value measurement'

The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard sets out a framework for measuring fair value using the assumptions that market participants would use when pricing the asset or liability; for non-financial assets, fair value is determined based on the highest and best use of the asset. Also, the standard requires disclosures about fair value measurements. Based on the Company's assessment, the adoption of the standard has no significant impact on its parent company only financial statements, and the Company will disclose additional information about fair value measurements accordingly.

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

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRS as endorsed by the FSC：

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 9, 'Financial instruments'	January 1, 2018
Sales or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRIC 14 'Regulatory deferral accounts'	January 1, 2016

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2017
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contribution (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The Company is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the parent company only financial statements.

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) Compliance statement

These parent company only financial statements are prepared by the Company in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, these parent company only financial statements have been prepared under the historical cost convention:

(a)Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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

(d)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 the Company are measured using the currency of the primary economic environment in which the Company 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 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 period; 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) Financial assets at fair value through profit or loss

A.Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets

are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a)Hybrid (combined) contracts; or

(b)They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c)They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B.On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C.Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(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 recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B.Bond investments without active market

(a)Bond investments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

i. Not designated on initial recognition as at fair value through profit or loss;

ii. Not designated on initial recognition as available-for-sale;

iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(b)On a regular way purchase or sale basis, bond investments without active market are recognised and derecognised using trade date accounting.

(c)Bond investments without active market are initially recognised 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 recognised in profit or loss.

(d)Bond investments without active market held by the Company are those time deposits with a

short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(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) 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.

(10) Derecognition of financial assets

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

(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. Also, 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) 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.

(18) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(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 operates and generates 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 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, 2014, the carrying amount of inventories was $816,609.

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, 2014, the Company recognized deferred income tax assets amounting to $50,129.

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, 2014, the carrying amount of accrued warranty liabilities was $1,471,138.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	$ 228	$ 261
Checking accounts and demand deposits	2,106,255	2,238,877
Time deposits	5,123,700	2,950,673
	$ 7,230,183	$ 5,189,811

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) Financial assets at fair value through profit or loss

Items	December 31, 2014	December 31, 2013
Current items:		
Financial assets held for trading		
Beneficiary certificates	$ 1,100,000	$ -
Valuation	1,805	-
Total	$ 1,101,805	$ -

A.The Company recognised net gain of $1,805 and $0 on financial assets held for trading for the years ended December 31, 2014 and 2013, respectively.

B.The Company has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

Item	December 31, 2014	December 31, 2013
Noncurrent		
Non-listed and emerging stocks	$ 7,450	$ 4,412
Valuation adjustment of available-for-sale financial assets	-	-
Total	$ 7,450	$ 4,412

The Company did not recognize any other comprehensive income for fair value change for the years ended December 31, 2014.

(4) Investments in bonds without active markets

Item	December 31, 2014	December 31, 2013
Time deposit	$ 1,266,000	$ 2,891,085

A.The Company listed the time deposits with maturities exceeding 90 days in this account.

B.The Company recognized interest of $6,654 and $1,595 in profit for the years ended December 31, 2014 and 2013, respectively.

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.

(5) Accounts receivable

	December 31, 2014	December 31, 2013
Accounts receivable	$ 2,633,803	$ 1,365,752
Less: allowance for bad debts	-	-
	$ 2,633,803	$ 1,365,752

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

B.As of December 31, 2014 and 2013, the maximum exposure to credit risk was the carrying amount of accounts receivable.

C.The Company does not hold any collateral as security.

(6) Inventories

	December 31, 2014		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 476,107	($ 120,712)	$ 355,395
Work - in - process	392,441	-	392,441
Finished goods	236,738	(167,965)	68,773
Total	$ 1,105,286	($ 288,677)	$ 816,609

	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

The cost of inventories recognised as expense for the period:

	Year ended December 31, 2014	Year ended December 31, 2013
Cost of goods sold	$ 2,410,728	$ 1,899,839
Loss on decline in market value	86,128	38,523
	$ 2,496,856	$ 1,938,362

(7) 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, 2014.

	December 31, 2014	December 31, 2013
Hermes Microvsion, Inc. (Note)	$ -	$ 604,950
HMI Holdings Inc.	939,980	211,086
	$ 939,980	$ 816,036

Note: In consideration of the operations of the group, the Board of Directors had approved the adjustment in the group structure. As a result, investments in subsidiaries are made through HMI Holdings Inc.

(b) Investments in associates : None.

(8) 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, 2014							
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
Year ended December 31, 2014							
Opening net book amount	$ 55,822	$ 1,595	$ 8,033	$ 13,389	$ 3,407	$ 186,484	$ 268,730
Additions	1,632	-	9,781	3,132	1,162	421,873	437,580
Disposals	-	-	(11)	-	-	-	(11)
Reclassifications	-	-	-	-	12,051	-	12,051
Depreciation charge	(24,549)	(660)	(4,984)	(5,882)	(321)	-	(36,396)
Closing net book amount	$ 32,905	$ 935	$ 12,819	$ 10,639	$ 16,299	$ 608,357	$ 681,954
At December 31, 2014							
Cost	$ 177,965	$ 3,300	$ 27,844	$ 26,153	$ 17,301	$ 608,357	$ 860,920
Accumulated depreciation and impairment	(145,060)	(2,365)	(15,025)	(15,514)	(1,002)	-	($ 178,966)
	$ 32,905	$ 935	$ 12,819	$ 10,639	$ 16,299	$ 608,357	$ 681,954

	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
Year ended December 31, 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)
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

(9) Intangible assets

	Computer Software
At January 1, 2014	
Cost	$ 13,376
Accumulated amortization and impairment	(8,348)
	$ 5,028
Year ended December 31, 2014	
Opening net book amount	$ 5,028
Additions-acquired separately	6,618
Amortization charge	(3,254)
Closing net book amount	$ 8,392
At December 31, 2014	
Cost	$ 19,994
Accumulated amortization and impairment	(11,602)
	$ 8,392

	Computer Software
At January 1, 2013	
Cost	$ 13,325
Accumulated amortization and impairment	(7,858)
	$ 5,467
Year ended December 31, 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

Details of amortization on intangible assets are as follows :

	For the years ended December 31,	
	2014	2013
Operating costs	$ -	$ -
Operating expenses	3,254	4,108
	$ 3,254	$ 4,108

(10) Other payables

	December 31, 2014	December 31, 2013
Accrued salaries and bonuses	$ 488,752	$ 229,652
Accrued employees' bonuses and directors' and supervisors' remuneration	87,995	100,245
Accrued commission	40,684	17,770
Payables on equipment	45,538	77,395
Others	117,071	43,258
	$ 780,040	$ 468,320

(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, 2014	December 31, 2013
Present value of funded obligations	($ 91,002)	($ 79,967)
Fair value of plan assets	13,978	12,500
Net liability in the balance sheet (shown in other non-current liabilities)	($ 77,024)	($ 67,467)

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

	2014	2013
Present value of funded obligations at January 1	$ 79,967	$ 85,065
Current service cost	529	330
Interest expense	1,596	1,273
Actuarial (profit) loss	8,910	(6,701)
At December 31	$ 91,002	$ 79,967

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

	2014	2013
Fair value of plan assets at January 1	$ 12,500	$ 11,188
Expected return on plan assets	226	203
Actuarial profit (loss)	69	(56)
Employer contributions	1,183	1,165
At December 31	$ 13,978	$ 12,500

e)Amounts of expenses recognized in statement of comprehensive income:

	2014	2013
Current service cost	$ 529	$ 330
Interest cost	1,596	1,273
Expected return on plan assets	(226)	(203)
Current service cost	$ 1,899	$ 1,400

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

	2014	2013
Cost of sales	$ 814	$ 505
Selling expenses	286	224
General and administration expenses	345	264
Research and development expenses	454	407
	$ 1,899	$ 1,400

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

	2014	2013
Recognition for current period	$ 8,842	($ 6,645)
Accumulated amount	$ 28,609	$ 19,767

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 2014 and 2013 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:

	2014	2013
Discount rate	2%	2%
Future salary increases	5%	4%
Expected return on plan assets	1.75%	1.75%

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:

	2014	2013	2012
Present value of defined benefit obligations	($ 91,002)	($ 79,967)	($ 85,065)
Fair value of plan assets	13,978	12,500	11,188
Deficit in the plan	($ 77,024)	($ 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, 2014 amounts to $1,174.

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, 2014 and 2013, the Company recognized pension expenses based on the above pension plan amounting to $14,071 and $11,923, respectively.

(12) Share-based payment

The Company:

A. The Company's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Stock appreciation rights plan 1	December 31, 2013	1,104,000 (Note 3)	3 years	Note 1
Stock appreciation rights plan 2	January 1, 2014	729,700 (Note 4)	5 years	Note 2
Stock appreciation rights plan 3	April 1, 2014	50,500 (Note 5)	5 years	Note 2
Stock appreciation rights plan 4	July 1, 2014	40,000 (Note 6)	5 years	Note 2
Stock appreciation rights plan 5	October 1, 2014	61,600 (Note 7)	5 years	Note 2

Note 1: 40% of the stock appreciation rights were vested since grant date and the others will be vested 7.5% every season for the next eight seasons.

Note 2: 25% of the stock appreciation rights will be vested after four seasons since grant date and the others will be vested 6.25% every season for the next 16 seasons from the first vesting date.

Note 3: Including 463,200 units for the subsidiaries' employees.

Note 4: Including 435,700 units for the subsidiaries' employees.

Note 5: Including 33,500 units for the subsidiaries' employees.

Note 6: Including 8,500 units for the subsidiaries' employees.

Note 7: Including 44,100 units for the subsidiaries' employees.

Each stock appreciation right represents the future appreciation of one share. The plan will be cash settled by multiplying the execution rights of the employees and the price variance of the closing date's stock price and the executing price.

B. The fair value of stock appreciation rights as of December 31, 2014 are measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Expected price volatility	Expected term	Expected dividends yield rate	Risk - free interest rate	Fair value per unit (in NT dollars)
Stock appreciation rights plan	December 31, 2013	40.97%~43.47%	3 Years	0%	0.4841%~ 0.5859%	$864.00~$874.57
Stock appreciation rights plan	January 1, 2014	40.97%~44.58%	5 Years	0%	0.4841%~ 0.8992%	$648.38~$804.72
Stock appreciation rights plan	April 1, 2014	40.97%~44.58%	5 Years	0%	0.5008%~ 0.9464%	$419.96~$684.21
Stock appreciation rights plan	July 1, 2014	40.97%~44.58%	5 Years	0%	0.5274%~ 0.9933%	$611.24~$800.01
Stock appreciation rights plan	October 1, 2014	40.97%~44.58%	5 Years	0%	0.5561%~ 1.0393%	$567.64~$775.54

C. The weighted average stock price of stock apprciation right at exercise dates for the year ended December 31, 2014 was NT$1,240 (in dollars).

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

	2014	2013
Cash settled-stock appreciation rights plan	$ 306,057	$ 62,790

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

	December 31, 2014	December 31, 2013
Liabilities on cash-settled-Stock appreciation rights plan	$ 345,674	$ 62,790

(13) Provisions

	Warranty
At January 1, 2014	$ 972,259
Additional provisions	498,879
At December 31, 2014	$ 1,471,138

	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, 2014, 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:

Unit: Thousand shares

	2014	2013
At January 1	71,000	66,000
Issuance of common stock for cash	-	5,000
At December 31	71,000	71,000

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.

As of December 31, 2014, the outstanding shares of GDRs were 764 thousand units representing 764 thousand shares.

(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, 2014	$ 5,411,867	$ 15,156
Adjustments arising from changes in ownership percentage in subsidiary	-	4,173
At December 31, 2014	$ 5,411,867	$ 19,329

	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

(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, 2014 and 2013, employees' bonus was accrued at $79,995 and $91,132, respectively; directors' and supervisors' remuneration were accrued at $8,000 and $9,113, respectively.

   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 $1,136,000 ($16 (in dollars) per share) and $792,000 ($12 (in dollars) per share) for the years ended December 31, 2014 and 2013, respectively. The dividend distribution proposal for 2014 was proposed by the Board of Directors on March 4, 2015 and amounted to $1,562,000 ($22 (in dollars) per share). The above mentioned 2014 earnings appropriation had not been approved at the stockholders' meeting.

(17) Other equity

		Currency translation
At January 1, 2014	$	14,957
Cumulative translation difference of foreign operations		41,798
Tax on cumulative translation difference of foreign operations	(	7,105)
At December 31, 2014	$	49,650

		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

(18) Operating revenue

	2014	2013
Sales revenue	6,851,072	5,051,343
Other operating revenue	539,105	435,885
	7,390,177	5,487,228

(19) Other income

	2014	2013
Interest income from bank deposits	69,909	23,997
Others	23,110	208
Total	93,019	24,205

(20) Other gains and losses

		2014		2013
Net currency exchange gain	$	317,208	$	54,192
Gain on revaluation of financial assests		1,805		-
Total	$	319,013	$	54,192

(21) Expenses by nature

		2014		2013
Employee benefit expenses	$	739,260	$	523,622
Depreciation charges on property, plant and equipment		36,396		35,328
Amortization charges on intangible assets		3,254		4,108

(22) Employee benefit expense

	2014	2013
Wages and salaries	$ 377,561	$ 409,706
Compensation cost of employee stock options	306,057	62,790
Labor and health insurance fees	29,637	23,042
Pension costs	15,970	13,323
Other personnel expenses	10,035	14,761
	$ 739,260	$ 523,622

(23) Income tax

A.Income tax expense

a)Components of income tax expense:

	2014	2013
Current tax:		
Current tax on profits for the period	$ 340,131	$ 166,270
Adjustments in respect of prior years	13,239	(5,566)
Total current tax	353,370	160,704
Deferred tax:		
Origination and reversal of temporary differences	-	16,281
Income tax expense	$ 353,370	$ 176,985

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

	2014	2013
Cumulative translation differences of foreign operations	($ 7,105)	($ 3,064)
Actuarial gain / loss on defined benefit obligations	1,503	3,361

B.As of December 31, 2014, 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:

	2014	2013
Tax on pretax income at statutory tax rate	$ 610,521	$ 428,500
Tax effect of non pretax income items	126,262	(10,576)
Estimated 10% corporate income tax on unappropriated earnings	98,739	56,880
Adjustment of prior years' income tax	13,239	(5,566)
Tax effect of income tax exemption	(495,391)	(322,106)
Tax effect of deferred tax assets realized	-	29,853
Income tax expense	$ 353,370	$ 176,985

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

	2014				
	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	836	-	-	-	836
Accrued pension liabilities	2,009	-	-	-	2,009
Accrued employee bonus	3,278	-	-	-	3,278
Actuarial gain / loss on defined benefit plan obligations	3,361	-	1,503	-	4,864
Subtotal	48,626	-	1,503	-	50,129
-Deferred tax liabilities					
Unrealized foreign exchange gain	(1,978)	-	-	-	(1,978)
Currency translation differences	(3,064)	-	(7,105)	-	(10,169)
Subtotal	(5,042)	-	(7,105)	-	(12,147)
Total	$ 43,584	$ -	($ 5,602)	$ -	$ 37,982

	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
Actuarial gain / loss on defined benefit plan obligations	-	-	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

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

	December 31, 2014	December 31, 2013
Deductible temporary differences	$ 1,687,192	$ 1,097,851

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, 2014	December 31, 2013
Earnings generated in and before 1997	$ -	$ -
Earnings generated in and after 1998	5,170,809	3,306,436
	$ 5,170,809	$ 3,306,436

H.As of December 31, 2014 and 2013, the balance of the imputation tax credit account was $254,759 and $137,913, respectively. The creditable tax rate was 4.17% for 2013 and was estimated to be 4.93 % for the year ended December 31, 2014.

(24) Earnings per share

	For the year ended December 31, 2014		
	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	$ 3,237,928	71,000	$ 45.60
Diluted earnings per share			
Profit attributable to equity holders of the parent company	$ 3,237,928	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	83	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 3,237,928	71,083	$ 45.55

	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

(25) Non-cash transactions

	December 31, 2014	December 31, 2013
Purchase of fixed assets	$ 437,580	$ 201,238
Add: opening balance of payable on equipment	77,395	-
Less: ending balance of payable on equipment	(45,538)	(77,395)
Cash paid during the year	$ 469,437	$ 123,843

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A.Operating revenue:

	2014	2013
Sales of goods:		
-The entity with significant influence over the Company	$ 42,284	$ 15,494
-Subsidiaries	499,925	987,451
	$ 542,209	$ 1,002,945

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

B.Purchases

	2014	2013
Purchases of goods:		
-Subsidiaries	$ 785,993	$ 898,712

There are no significant differences in purchase prices and payment terms between related parties and third parties.

C.Purchases of services:

	2014	2013
Technology service charge		
-The entity with significant influence over the Company	$ 18,463	$ 19,751
-Subsidiaries	28,843	21,694
	$ 47,306	$ 41,445
Contracted research expense		
-Subsidiaries	$ 885,592	$ 632,355
Commission expense		
-The entity with significant influence over the Company	$ 38,155	$ 21,213
Other expenses		
-The entity with significant influence over the Company	$ 22	$ 29
-Subsidiaries	94,324	83,564
	$ 94,346	$ 83,593

The above transactions are under normal commercial terms and conditions.

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

	December 31, 2014	December 31, 2013
Receivables from the entity with significant influence	$ 20,134	$ 13,367
Receivables from the subsidiaries	49,505	368,555
	$ 69,639	$ 381,922

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, 2014	December 31, 2013
Payable to the subsidiaries	$ 91,326	$ 235,579

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

	December 31, 2014	December 31, 2013
Receivables from the entity with significant influence	$ 78,177	$ 68,708
Receivables from the subsidiaries	104,251	79,855
	$ 182, 428	$ 148, 563

G.Leases

	2014	2013
Rental expense- The entity has significant influence over the Company	$ 22,409	$ 21,891

(2) Key management compensation

	2014	2013
Salaries and other short-term employee benefits	$ 30,724	$ 27,897
Share-based payment	8,928	5,932
	$ 39,652	$ 33,829

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 $23,600 and $23,733 were recognized for the years ended December 31, 2014 and 2013, 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, 2014	December 31, 2013
Not later than one year	$ 5,915	$ 26,395
Later than one year but not later than five years	14,569	12,413
Later than five years	48,551	44,470
Total	$ 69,035	$ 83,278

B. Capital commitments

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

	December 31, 2014	December 31, 2013
Future payments for plant and equipment	$ 210,643	$ 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, 2014 and 2013, the Company's ratios of total liabilities divided by total assets were as follows:

	December 31, 2014	December 31, 2013
Total liabilities	$ 3,003,556	$ 2,164,897
Total assets	$ 14,831,417	$ 11,859,303
Total liabilities/total assets ratio	20%	18%

Financial instruments

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 and RMB. 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 the Company to manage its foreign exchange risk against its functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Company'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, 2014		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 195,290	31.65	$ 6,180,932
Financial liabilities			
Monetary items			
USD:NTD	$ 10,089	31.65	$ 319,318

	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

Analysis of foreign currency market risk arising from significant foreign exchange variation.

	For the year ended December 31, 2014		
	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%	$ 61,809	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 3,193	$ -

	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	$	-

Price risk

The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 5% with all other variables held constant, total equity for the year ended December 31, 2014 would have increased/decreased by $373, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

At December 31, 2014 and 2013, 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, 2014 and 2013 would have been $15,974 and $14,604 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, 2014	Less than 1 year
Accounts payable	$ 116,362
Accounts payable- related parties	91,326
Other payables	780,040
Other payables - related parties	182,428

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

(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, 2014 and 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading financial assests	$1,101,805	$ -	$ -	$1,101,805
Equity securities	-	-	7,450	7,450
Total	$ 1,101,805	$ -	$ 7,450	$1,109,255

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading financial assests	$ -	$ -	$ -	$ -
Equity securities	-	-	4,412	4,412
Total	$ -	$ -	$ 4,412	$ 4,412

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 Company 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, 2014 and 2013.

	2014		2013	
At January 1	$	4,412	$	-
Acquisition		3,038		4,412
At December 31	$	7,450	$	4,412

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

a) Loans granted: None.

b) Endorsements and guarantees provided by the Company to others: None.

c) Holding of securities as of December 31, 2014:

Securities held by	Marketable securities (Note 1)	General ledger account	As of December 31, 2014				Footnote (Note 4)
			Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
Hermes Microvision, Inc.	TransPacific Medtech Fund, LP.	Available-for -sale financial assets-noncurrent	-	$ 7,450	25%	$ 7,450	None
"	Jih Sun Money Market	Financial assets at fair value through profit or loss-current	17,223,705	250,429	-	250,429	"
"	Franklin Templeton Sinoam Money Market	"	24,703,413	250,456	-	250,456	"
"	UPAMC James Bond Money Market	"	12,198,581	200,321	-	200,321	"
"	Fuh Hwa You Li Money Market	"	7,554,810	100,165	-	100,165	"
"	Fubon Chi-Hsiang Money Market	"	6,495,447	100,159	-	100,159	"
"	CTBC Hwa-win Money Market Fund	"	9,251,122	100,140	-	100,140	"
"	Union Money Market	"	7,715,275	100,135	-	100,135	"

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, 2014:

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2014		Addition (Note 3)		Disposal (Note 3)				Balance as at December 31, 2014	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Hermes Microvision, Inc.	Jih Sun Money Market	Financial assets at fair value through profit or loss-current	None	Non-related party	-	$ -	17,223,705	$ 250,000	-	$ -	$ -	$ -	17,223,705	$ 250,429
"	Franklin Templeton Sinoam Money Market	"	"	"	-	-	24,703,413	250,000	-	-	-	-	24,703,413	250,456
"	UPAMC James Bond Money Market	"	"	"	-	-	12,198,581	200,000	-	-	-	-	12,198,581	200,321

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

e) Acquisition of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2014: None.

f) Disposal of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2014: 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, 2014:

			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	($ 169,509)	(2%)	30 days after delivery	Approximately the same with third party transactions	Approximately the same with third party transactions	$ 3,161	-
〃	Hermes Microvision, Inc.	〃	Sales	(291,680)	(4%)	30 days after delivery	〃	〃	38,498	1%
〃	Hermes Microvision, Co., Ltd. (Beijing)	〃	Purchases	116,484	8%	30 days after acceptance	〃	〃	(12,299)	(6%)
〃	Hermes Microvision, Inc.	〃	Purchases	663,902	46%	30 days after acceptance	〃	〃	(73,667)	(35%)

h) Receivables from related parties reaching $100,000 or 20% of paid-in capital or more as of December 31, 2014: None.

i) Derivative financial instruments undertaken during 2014: None.

j) Significant inter-company transactions during the year ended December 31, 2014:

Number (Note 1)	Company	Counterparty	Relationship (Note 2)	Transactions: General ledger account	Amount (Note 4)	Terms	Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision, Inc.	(1)	Sales	$ 291,680	The price and terms were based on the ordinary course of business.	4.05%
0	"	"	(1)	Purchases	663,902	The price and terms were based on the ordinary course of business.	9.21%
0	"	"	(1)	Contracted research expense	885,592	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	12.28%
0	"	"	(1)	Other expenses	89,539	"	1.24%
0	"	"	(1)	Accounts receivable	38,498	Net 30 days, after delivery	0.25%
0	"	"	(1)	Accounts payable	73,667	Net 30 days, after acceptance	0.49%
0	"	"	(1)	Other payables	105,257	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.69%
0	"	Hermes Microvision Japan Inc.	(1)	Sales	169,509	The price and terms were based on the ordinary course of business.	2.35%
0	"	Hermes Microvision Korea Inc.	(1)	Sales	34,898	"	0.48%
0	"	"	(1)	Other expenses	14,909	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.21%
0	"	"	(1)	Contracted research expense	24,377	"	0.34%
0	"	Hermes Microrision Co., Ltd. (Beijing)	(1)	Sales	116,484	The price and terms were based on the ordinary course of business.	1.62%
0	"	"	(1)	Accounts payable	12,299	Net 30 days, after acceptance	0.08%
	"	"	(3)	Sales	33,663	The price and terms were based on the ordinary course of business.	0.47%
1	Hermes Microvision, Inc. (USA)	"	(3)	Purchases	82,192	"	1.14%
1	"	"	(3)	Contracted research expense	112,738	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	1.56%
1	"	"	(3)	Accounts payable	29,789	Net 30 days, after acceptance	0.20%

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;

(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 total assets for balance sheet accounts and based on accumulated transaction amount for the periods to 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, 2014:

Investor	Investee	Location	Main business activities	Initial investment amount as at December 31, 2014	Initial investment amount as at December 31, 2013	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.	HMI Holdings Inc.	Samoa	Investment holdings	$ 843,045	$ 188,452	27,546,821	100%	$ 939,980	$ 77,973	$ 77,973
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%	16,887	4,790	-
〃	Hermes Microvision Japan Inc.	Japan	Marketing of e-Bean inspection equipment and its components and related technical support services	52,574	52,574	2,980	100%	54,194	5,761	-
〃	Ansing International LLC.	USA	Investment holdings	133,738	133,738	-	100%	159,380	7,063	-
〃	HMI Investment Corp.	Samoa	Investment holdings	-	-	21,546,821	100%	709,519	60,359	-
HMI Investment Corp.	Hermes Microvision Inc. (USA)	USA	Research and development	665,970	665,970	61,785,000	94%	709,519	64,366	-

(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 January 1, 2014	Amount of remittance for the year ended December 31, 2014: Remittance out	Amount of remittance for the year ended December 31, 2014: Remittance in	Ending balance of remittance as of December 31, 2014	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, 2014	Ending balance of profit remittance into Taiwan
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	$ 7,063	100%	$ 7,063	$ 159,380	-

Company name	Investment ending balance of remittance as of December 31, 2014	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	$ 7,096,717

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 statements reviewed 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, 2014, the Company's direct sales and indirect sales to investee in Mainland China amounted to $3,838 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.

	For the year ended December 31, 2014	
	Amount	Percentage of net purchases
Hermes Microvision Co., Ltd. (Beijing)	$ 116,484	8%

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, 2014, the Company's accounts receivable from investee in Mainland China was $491, which was less than 10% of the total amount of accounts receivable.

(4) Accounts payable:

As of December 31, 2014, the Company's accounts payable to investee in Mainland China was $12,299, which was less than 10% of the total amount of accounts payable.

(5) There were no indirect loans, property transactions, endorsement guarantees or collaterals provided between the Company and the investee in Mainland China as of December 31, 2014 and for the year then ended.

14. SEGMENT INFORMATION

Disclosure is required only in consolidated financial statements.

HERMES MICROVISION, INC

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2014

(EXPRESSED IN THOUSAND OF NEW TAIWAN DOLLARS)

Items		Description	Amount
Cash			
Cash on hand			$ 228
Cash in banks：			
Checking accounts	-NTD		17
demand deposits	-NTD		396,368
	-Foreign currency		
		USD 54,024 thousands , exchange rate @ 31.65	1,709,868
		JPY 7 thousands , exchange rate @ 0.2646	2
Time deposits	-NTD		4,617,300
	-Foreign currency		
		USD 16,000 thousands , exchange rate @ 31.65	506,400
			$ 7,230,183

HERMES MICROVISION, INC

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Name	Description	Number of shares (in thousands)	Par value	Total amount	Rate	Book value	Fair value: Unit price	Fair value: Total amount	Fair value due to the variance of credit risk	Footnote
Beneficiary certificates	Jih Sun Money Market	17,224	$ 10	$ 172,240	-	$ 250,000	$ 14.5398	$ 250,429	$ -	None
"	Franklin Templeton Sinoam Money Market	24,703	10	247,030	-	250,000	10.1385	250,456	-	"
"	UPAMC James Bond Money Market	12,199	10	121,990	-	200,000	16.4217	200,321	-	"
"	Fuh Hwa You Li Money Market	7,555	10	75,550	-	100,000	13.2584	100,165	-	"
"	Fubon Chi-Hsiang Money Market	6,495	10	64,950	-	100,000	15.4199	100,159	-	"
"	CTBC Hwa-win Money Market Fund	9,251	10	92,510	-	100,000	10.8246	100,140	-	"
"	Union Money Market	7,715	10	77,150	-	100,000	12.9788	100,135	-	"
		85,142		$ 851,420		$ 1,100,000		$ 1,101,805		

HERMES MICROVISION, INC

STATEMENT OF INVESTMENTS IN BONDS WITHOUT ACTIVE MARKETS

DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Name	Original Amount	Interest rates	Book Value	Note
Deposit over three months	USD 40,000 thousand	1.00%~1.20%	$ 1,266,000	-

HERMES MICROVISION, INC

STATEMENT OF ACCOUNTS RECEIVABLE, NET

DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Client Name	Description	Amount	Note
Non related parties			
B		$ 799,695	
A		547,545	
D		329,160	
E		177,240	
I		174,075	
J		162,839	
H		154,531	
K		144,008	
Others		144,710	The amount of individual clients included in others does not exceed 5% of the account balance
Less : Allowance for doubtful accounts		-	
		2,633,803	
Related parties			
Hermes Microvision, Inc.		38,498	
Others		31,141	
		69,639	
Total		$ 2,703,442	

HERMES MICROVISION, INC

STATEMENT OF INVENTORIES

DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

	Amount	
Items	Cost	Net Realizable value
Raw materials	$ 476,107	$ 357,265
Work - in - process	392,441	392,441
Finished goods	236,738	1,404,839
	1,105,286	$ 2,154,545
Less : Allowance for valuation loss	(288,677)	
	$ 816,609	

HERMES MICROVISION, INC

STATEMENT OF CHANGES IN INVESTMENT ACCOUNTED FOR USINGTHE EQUITY METHOD

FOR THE YEAR ENDED DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

	Balance, January 1, 2014(note 1)		Additions (note 2)		Reductions			Balance, December 31, 2014			Market value or net assets value		
Investees	Shares	Amount	Shares	Amount	Shares	Amount	(Note 3) Share of profit of subsidiaries	Shares	%	Amount	Unit price (NT)	Total amount	Collateral
Hermes Microvision, Inc.	61,785,000	$ 604,950	-	$ -	-	($ 604,950)	$ -	-	-	$ -	-	$ -	None
HMI Holdings Inc.	6,000,000	211,086	27,546,821	650,921	-	-	77,973	27,546,821	100%	939,980		939,980	None
		$ 816,036		$ 650,921		($ 604,950)	$ 77,973			$ 939,980			

Note 1：Hermes Microvision, Inc. holds shares amounting to 24,500,000 shares of preferred stock and 37,285,000 shares of common stock.

Note 2：Considering the operation of group organization, the Board of Directors had approved the adjustment of the organization. Invests subsidiaries through HMI Holdings Inc.

HERMES MICROVISION, INC

STATEMENT OF ACCOUNT PAYABLE

DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Vendor Name	Amount		Note
Non related parties			
A	$	18,426	
B		16,614	
C		15,571	
D		8,868	
E		7,038	
Others		49,845	The amount of individual clients included in others does not exceed 5% of the account balance
		116,362	
Related parties			
Hermes Microvision, Inc.		73,667	
Hermes Microvision Co., Ltd (Beijing)		12,299	
Others		5,360	
		91,326	
Total	$	207,688	

ERMES MICROVISION, INC

STATEMENT OF NET OPERATING REVENUE

FOR THE YEAR ENDED DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Item		Amount
Machine	$	6,851,072
Other operating revenue		539,614
		7,390,686
Less: Sales return and allowance	(	509)
	$	7,390,177

HERMES MICROVISION, INC

STATEMENT OF OPERATING COST

FOR THE YEAR ENDED DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Items	Amount
Raw materials	
Add : Balance, beginning of year	$ 456,285
Raw materials purchased	1,322,432
Transferred from work -in - process	3,444,594
Transferred from expenses	16,433
Less : Raw material, end of year	(476,107)
Inventory loss on material	(1,264)
Scrapped loss on material	(70,887)
Sales of raw materials	(396,336)
Transferred to property, plant and equipment	(3,318)
Raw materials used	4,291,832
Manufacturing expenses	290,685
Manufacturing cost	4,582,517
Add : Work - in - process, beginning of year	413,306
Work - in - process purchased	41,068
Transferred from finished goods	286,002
Less : Work - in - process, end of year	(392,441)
Transferred to raw materials	(4,787,531)
Transferred to expenses	(33,373)
Cost of finished goods	109,548
Add : Finished goods, beginning of year	217,171
Finished goods purchased	95,132
Transferred from property, plant and equipment	1,342,937
Less : Finished goods, end of year	(236,738)
Transferred to work-in-process	(286,002)
Transferred to expenses	(8,412)
Subtotal	1,233,636
Sales of raw materials	396,336
Provision for inventory valuation and obsolescence	86,128
Others	780,756
Total	$ 2,496,856

HERMES MICROVISION, INC

STATEMENT OF MANUFACTURING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Items	Amount	Note
Payroll expenses	$ 217,775	
Depreciation	23,740	
Rental expenses	21,375	
Miscellaneous expenses	20,465	
Others	7,330	The amount of each item in others does not exceed 5% of the account balance.
	$ 290,685	

HERMES MICROVISION, INC

STATEMENT OF OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

Items	Amount	Note
Selling expenses		
Payroll expenses	$ 130,484	
Commission expenses	145,186	
Business promotion expenses	47,078	
Service expenses	47,307	
Import and export expenses	23,240	
Others	618	The amount of each item in others does not exceed 5% of the account balance.
Total	$ 393,913	
General and administrative expenses		
Payroll expenses	$ 146,631	
Depreciation	11,431	
Miscellaneous expenses	25,252	
Others	38,133	The amount of each item in others does not exceed 5% of the account balance.
Total	$ 221,447	
Research and development expenses		
Contracted research expenses	$ 885,592	
Payroll expenses	204,698	
Others	86,378	The amount of each item in others does not exceed 5% of the account balance.
Total	$ 1,176,668	

HERMES MICROVISION, INC

SUMMARY OF LABOR, DEPRECIATION, AMORTIZATION EXPENSES BY FUNCTION

FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013

(EXPRESS IN THOUSAND OF NEW TAIWAN DOLLARS)

	2014			2013		
	Classified as manufacturing cost	Classified as operating expences	Total Amount	Classified as manufacturing cost	Classified as operating expences	Total Amount
Employee benefit expense						
Payroll expenses	$ 212,314	$ 471,304	$ 683,618	$ 138,271	$ 334,225	$ 472,496
Labor and health insurance fees	10,663	18,974	29,637	7,750	15,292	23,042
Pension costs	5,461	10,509	15,970	4,190	9,133	13,323
Other personnel expenses	4,160	5,875	10,035	3,602	11,159	14,761
Depreciation expenses	23,740	12,656	36,396	24,604	10,724	35,328
Amotization expenses	-	3,254	3,254	-	4,108	4,108

Note：As of December 31, 2014 and 2013, the Company had 347 and 264 employees, respectively.