HERMES MICROVISION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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.

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REPORT OF INDEPENDENT ACCOUNTANTS

PWCR13000035

To Hermes Microvision, Inc.

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

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

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

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

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

February 25, 2014

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. HISTORY AND ORGANIZATION

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

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

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

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

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

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

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

Improvements to IFRSs 2010 cycle

Amendments to IFRS 7, 'Financial instruments: Disclosures'

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

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

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

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

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

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

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

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

IFRS 12, 'Disclosure of interests in other entities'

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

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

IFRS 13, 'Fair value measurement'

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

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

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

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

(revised) is effective for annual periods beginning on or after January 1, 2013.
Based on the Group's assessment, the adoption of the amendment require the Group to recognize the past service costs in profit and loss when incurred. It is also required to categorize components of defined benefit costs in accordance with the revised standard. The Group expects the amendment will have impact to the Group's accrued pension liabilities and comprehensive income. Furthermore, the amendment will require the Group to increase the disclosure for the defined benefit plan.

<u>Presentation of items of other comprehensive income ("OCI") (amendment to IAS 1)</u>

The amendment changes the title used for the statement of comprehensive income to 'statement of profit or loss and other comprehensive income'. However, IAS 1 still permits entities to use 'statement of comprehensive income' as title. The amendment requires profit or loss and OCI to be presented separately. Also, the amendment requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss when meeting specific criteria subsequently. This amendment is effective for annual periods beginning on or after July 1, 2012.
This amendment mainly affects presentation of the financial statements. There is no significant impact to the Group based on the assessment.

<u>Improvements to IFRSs 2009-2011</u>

Amendment to IAS 32, 'Financial instruments: Presentation'
The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12,'Income tax'. Hence, income tax related to distributions is recognized in profit or loss, and income tax related to the costs of equity transactions is recognized in equity. The amendment is effective for annual periods beginning on or after 1 January 2013.
Based on the Group's assessment, the adoption of the amendments has no significant impact on the consolidated financial statements of the Group.

<u>IFRIC 21, 'Levies'</u>

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

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

Improvements to IFRSs 2010-2012 cycle

1. IFRS 2, 'Share-based payment'

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

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

2. IFRS 13, 'Fair value measurement'

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

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

(2) Basis of preparation

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

the historical cost convention:

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

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

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

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

(3) Basis of consolidation

A. The basis for preparation of consolidated financial statements:

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

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

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

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

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

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

B. The subsidiaries included in the consolidated financial statements:

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

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

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

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

(4) Foreign currency translation

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

A.Foreign currency transactions and balances

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

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

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

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

B.Translation of foreign operations

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

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

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

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

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

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

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

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

(b)Assets held mainly for trading purposes;

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

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

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

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

(b)Liabilities arising mainly from trading activities;

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

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

(6) <u>Cash and cash equivalents</u>

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

(7) <u>Loans and receivables</u>

A.Accounts receivable

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

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

(8) <u>Available-for-sale financial assets</u>

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

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

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

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

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

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

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

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

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

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

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

(a)Financial assets measured at amortized cost

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

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

(b)Available-for-sale financial assets

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

(10) Derecognition of financial assets

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

(11) Lease receivables/ leases (lessor)

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

(12) Inventories

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

(13) Property, plant and equipment

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

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

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

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

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

(14) Leased assets/ leases (lessee)

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

(15) Intangible assets

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

(16) Impairment of non-financial assets

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

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

(17) Borrowings

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

(18) Notes and accounts payable

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

(19) Provisions

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

(20) Employee benefits

A.Short-term employee benefits

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

B.Pensions

(a)Defined contribution plans

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

(b)Defined benefit plans

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

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

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

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

(21) <u>Employee share-based payment</u>

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

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

(22) Income tax

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

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

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

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

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

(23) Share capital

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

(24) Dividends

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

(25) Revenue recognition

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

(26) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

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

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

A. Valuation of inventories

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

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

B. Realisability of deferred income tax assets

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

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

C. Provision for warranty liability

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

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

B.The Group has no cash pledged to others.

(2) Available-for-sale financial assets

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

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

(3) Investments in bonds without active markets

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

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

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

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

(4) Accounts receivable

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

A. Analysis of movement of impaired accounts receivable:

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

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

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

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

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

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

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

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

(5) Inventories

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

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

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

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

(6) Property, plant and equipment

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

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

(7) Intangible assets

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

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

Details of amortization on intangible assets are as follows :

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

(8) Short-term loans

December 31, 2013 ： None.

December 31, 2012 ： None.

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

(9) Other payables

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

(10) Pension

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

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

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

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

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

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

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

e)Amounts of expenses recognized in comprehensive income

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

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

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

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

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

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

h) The principal actuarial assumptions used were as follows:

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

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

i) Historical information of experience adjustments was as follows:

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

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

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

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

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

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

(11) Share-based payment

The Company:

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

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

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

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

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

Stock appreciation right plan that is settled by cash.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(12) Provisions

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

(13) Share capital

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

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

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

(14) Capital surplus

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

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

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

(15) Retained earnings

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

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

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

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

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

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

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

(16) Other equity

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

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

(17) Other income

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

(18) Other gains and losses

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

(19) Finance costs

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

(20) Expenses by nature

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

(21) Employee benefit expense

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

(22) Income tax

A. Income tax expense

a) Components of income tax expense:

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

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

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

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

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

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

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

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

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

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

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

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

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

H. Unappropriated retained earnings:

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

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

(23) Earnings per share

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

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

(24) Non-cash transactions

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

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A.Operating revenue:

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

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

B.Purchases of services:

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

The above transactions are under normal commercial terms and conditions.

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

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

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

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

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

E.Leases

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

(2) Key management compensation

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

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A.Operating leases commitments

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

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

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

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

B. Capital commitments

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

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

In order to safeguard the Group's ability to adapt to the changes in the industry and to accelerate the new product development, the Group's objectives when managing capital are to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities and dividends paid to shareholders.

The Group monitors capital through the ratio of total liabilities divided by total assets. The Group's strategy is to maintain the ratio within 50%. As of December 31, 2013, December 31, 2012, and January 1, 2012, the Group's ratios of total liabilities divided by total assets were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	$ 2,118,505	$ 1,287,616	$ 1,365,329
Total assets	$ 11,851,537	$ 5,187,659	$ 2,740,486
Total liabilities/total assets ratio	18%	25%	50%

(2) Financial instruments

A. The carrying amounts of the Group's financial instruments measured at amortized cost approximate their fair values. These include cash and cash equivalents, notes payable, accounts receivable, other receivables, short-term loans, notes payable, accounts payable and other payables.

B. Financial risk management policies

a) The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

b) Risk management is carried out by the finance department (the "Group finance") under policies approved by the Board of Directors. Group finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

Except for the following, there is no significant change in this period.

a) Market risk

Foreign exchange risk

- The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, RMB and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, RMB and JPY). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2013		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 213,128	29.805	$ 6,352,280
JPY:NTD	1,730	105.390	$ 51,563
Financial liabilities			
Monetary items			
USD:NTD	$ 14,133	29.805	$ 421,234
USD:JPY	568	105.390	$ 16,929

	December 31, 2012				
	Foreign Currency Amount (In Thousands)		Exchange Rate		Book Value (NTD)
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	$	58,829	29.04	$	1,708,394
JPY:NTD		12,367	0.34		4,155
USD:JPY		4,391	86.58		127,515
Financial liabilities					
Monetary items					
USD:NTD	$	6,415	29.04	$	186,292
USD:JPY		9,288	86.58	$	269,724

	January 1, 2012				
	Foreign Currency Amount (In Thousands)		Exchange Rate		Book Value (NTD)
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	$	33,887	30.275	$	1,025,929
JPY:NTD		812,330	0.391		317,296
Financial liabilities					
Monetary items					
USD:NTD	$	12,081	30.275	$	365,752

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

	For the year ended, 2013				
	Sensitivity Analysis				
	Extent of Variation		Effect on Profit or Loss		Effect on other comprehensive income
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	1%	$	63,523	$	-
JPY:NTD	1%		516		-
Financial liabilities					
Monetary items					
USD:NTD	1%	$	4,212	$	-
USD:JPY	1%		169		-

	For the year ended, 2012		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 17,084	$ -
JPY:NTD	1%	42	-
USD:JPY	1%	1,275	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,863	$ -
USD:JPY	1%	2,697	-

Price risk

The Group does not hold any equity securities, so no equity price risk is expected. The Group is not exposed to commodity price risk either.

Interest rate risk

At December 31, 2013 and 2012, if interest rates on NTD-denominated time deposits had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2013 and 2012 would have been $14,604 and $3,392 lower/higher, respectively, mainly as a result of higher/lower interest revenue on floating rate time deposits.

b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

ii.No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

Non-derivative financial liabilities:

January 1, 2012	Less than 1 year
Short-term borrowings	$ 662,824
Notes payable	1,080
Accounts payable	59,066
Other payables	168,240
Other payables - related parties	87,590

(e) Fair value estimation

A. The table below analyses financial instruments measured at fair value, by valuation method.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data.

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2013.

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

December 31, 2012 and January 1, 2012:None.

B. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

C. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

D. Specific valuation techniques used to value financial instruments include:

a) Quoted market prices or dealer quotes for similar instruments.

b) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

c) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

d) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments as at December 31, 2013,

		2013
At January 1	$	-
Acquisition		4,412
At December 31	$	4,412

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

(Information on investee companies is disclosed based on investee companies' financial statements, which were audited by independent auditors. The following transactions had been eliminated in the consolidated financial statements; they are disclosed for reference purpose only.)

(a) Loans granted: None.

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

(c) Holding of securities as of December 31, 2013:

				December 31, 2013				
Investor	Types of marketable securities	Relationship of the issuer with the Company	General ledger account	Number of shares /unit	Book value	Percentage	Market value (Note)	Footnote
Hermes Microvision, Inc.	TransPacific Medtech Fund, LP.	Non-related-party	Available-for -sale financial assets-noncurrent	-	$ 4,412	15%	$ 4,412	none

Note: Derived from net equity value.

(d) Aggregate purchase or sales of the same securities reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(e) Acquisition of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(f) Disposal of real estate reaching $300,000 or 20% of paid-in capital or more for the year ended December 31, 2013: None.

(g) Purchases or sales of goods from or to related parties reaching $100,000 or 20% of paid-in capital or more for the year ended December 31, 2013:

			Transactions				Difference in transaction terms compared to third party transactions		Accounts receivable / (payable)	
Purchaser / Seller	Counterparty	Relationship with the counterparty	Purchases / (sales)	Amount	Percentage of purchases/(sales)	Credit term	Unit price	Term	Amount	Percentage of accounts (payable)/ receivable
Hermes Microvision, Inc.	Hermes Microvision, Japan Inc.	Subsidiary	Sales	($ 584,974)	(17%)	30 days after delivery	Approximately the same with third party transactions	Approximately the same with third party transactions	$ 16,918	1%
Hermes Microvision, Inc.	Hermes Microvision Inc. (USA)	Subsidiary	〃	(369,737)	(7%)	〃	〃	〃	320,750	18%
Hermes Microvision, Inc. (USA)	Hermes Microvision, Inc.	Parent company	〃	(751,647)	(44%)	〃	〃	〃	209,867	46%
Hermes Microvision, Co,Ltd(Beijing	Hermes Microvision, Inc.	Parent company	〃	(118,652)	(42%)	〃	〃	〃	11,738	62%
Hermes Microvision, Inc.	Hermes Microvision, Co,Ltd(Beijing	Subsidiary	Purchases	118,652	12%	30 days after acceptance	〃	〃	(11,738)	(4%)
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	Subsidiary	〃	751,647	75%	〃	〃	〃	(209,867)	(63%)
Hermes Microvision, Japan Inc.	Hermes Microvision, Inc.	Ultimate parent company	〃	369,737	42%	〃	〃	〃	(320,750)	(86%)
Hermes Microvision, Inc. (USA)	Hermes Microvision, Inc.	Parent company	〃	584,974	100%	〃	〃	〃	(16,918)	(100%)

(h) Receivables from related parties reaching $100,000 or 20% of paid-in capital or more as of December 31, 2013:

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2013	Turnover rate	Overdue receivables Amount	Overdue receivables Action taken	Amount collected subsequent to the balance sheet date	Allowance for bad debts
Hermes Microvision, Inc.(USA)	Hermes Microvision Inc.	Parent company	$ 209,867	3.13	$ -	$ 228,077	$ -	$ -
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA).	Subsidiary	320,750	1.64	-	-	-	-

(i) Derivative financial instruments undertaken during the year ended December 31, 2013: None.

(j) Significant inter-company transactions during the year ended December 31, 2013:

Number (Note 1)	Company	Counterparty	Relationship (Note 2)	Transactions: General ledger account	Transactions: Amount (Note 4)	Transactions: Terms	Transactions: Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	(1)	Sales	$ 369,737	The price and terms were based on the ordinary course of business.	6.92%
0	"	"	(1)	Purchases	751,647	The price and terms were based on the ordinary course of business.	14.08%
0	"	"	(1)	Contracted research expense	632,355	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	11.84%
0	"	"	(1)	Other expenses	67,210	"	1.26%
0	"	"	(1)	Accounts receivable	320,750	Net 30 days, after delivery	2.71%
0	"	"	(1)	Accounts payable	209,867	Net 30 days, after acceptance	1.77%
0	"	"	(1)	Other payables	66,155	"	0.56%
0	"	Hermes Microvision Japan Inc.	(1)	Sales	584,974	The price and terms were based on the ordinary course of business.	10.95%
0	"	"	(1)	Contracted service expenses	17,474	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.33%
0	"	"	(1)	Other expenses	(12,512)	"	(0.23%)
0	"	"	(1)	Accounts receivable	16,918	Net 30 days, after delivery	0.14%
0	"	Hermes Microvision Korea Inc.	(1)	Sales	30,304	The price and terms were based on the ordinary course of business.	0.57%
0	"	"	(1)	Other expenses	28,866	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	0.54%
0	"	"	(1)	Purchases	28,172	The price and terms were based on the ordinary course of business.	0.53%
0	"	"	(1)	Accounts receivable	30,618	Net 30 days, after delivery	0.26%
0	"	Hermes Microvision Co., Ltd. (Beijing)	(1)	Purchases	118,652	The price and terms were based on the ordinary course of business.	2.22%

Number (Note 1)	Company	Counterparty	Relationship (Note 2)	Transactions: General ledger account	Transactions: Amount (Note 4)	Transactions: Terms	Transactions: Percentage of consolidated revenues or total assets (Note 3)
0	Hermes Microvision, Inc.	Hermes Microvision Co., Ltd. (Beijing)	(1)	Accounts payable	$ 11,738	Net 30 days, after acceptance	0.10%
1	Hermes Microvision, Inc. (USA)	"	(3)	Sales	33,266	The price and terms were based on the ordinary course of business.	0.62%
1	"	"	(3)	Purchases	68,991	The price and terms were based on the ordinary course of business.	1.29%
1	"	"	(3)	Contracted research expense	92,629	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	1.73%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on periods-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the periods to consolidated total operating revenues for income statement accounts.

Note 4: Only transactions with amount equal to or higher than NT$10,000 thousand are disclosed.

Note 5: Transactions between these related parties are not disclosed separately.

(2) Information of investees as of December 31, 2013:

				Initial investment amount as at		Shares held				
Investor	Investee	Location	Main business activities	December 31, 2013	December 31, 2012	In Shares	Percentage	Book value	Net income (loss) of the investee Company	Income (loss) recognised by the Company
Hermes Microvision, Inc.	Hermes Microvision, Inc. (USA)	USA	Research and development	$ 665,970	$ 665,970	61,785,000	94%	$ 604,950	$ 61,236	$ 57,561
〃	HMI Holdings Inc.	Samoa	Investment holdings	188,452	188,452	5,955,088	100%	211,086	143,341	143,341
HMI Holdings Inc.	Hermes Microvision Korea Inc.	Korea	Marketing of e-Bean inspection equipment and its components and related technical support services	2,140	2,140	500	100%	11,735	2,250	-
〃	Hermes Microvision Japan Inc.	Japan	〃	52,574	52,574	2,980	100%	52,447	132,446	-
〃	Ansing International LLC.	USA	Investment holdings	133,738	133,738	-	100%	146,904	8,645	-

(3) Information on investment in Mainland China:

(a) Basic information

Name of investee in Mainland China	Main business activities	Paid-in capital	Method of investment	Beginning Balance of remittance in 2013	Amount of remittance for the year ended December 31, 2013		Ending balance of remittance as of December 31,2013	Investee net income or loss for current period	Ownerships held by the Company (direct and indirect)	Profit / (loss) recognised during the period (Note 2)	Ending balance of book value on December 31,2013
					Remittance out	Remittance in					
Hermes Microvision Co., Ltd. (Beijing)	Research, development and manufacturing of semiconductor machinery and equipment and related technical support services	$ 116,520	Note 1	$ 133,738	None	None	$ 133,738	$ 8,645	100%	$ 8,645	$ 146,904

Company name	Investment ending balance of remittance as of December 31, 2013	Approved investment amount by Ministry of Economic Affairs (MOEA).	Celling on investments in Mainland china imposed by the Investment commission of MOEA
Hermes Microvision Co., Ltd. (Beijing)	$ 133,738	$ 133,738	$ 5,816,643

Note 1: Reinvesting in Chinese companies through investing in existing companies in third countries.

Note 2: Investment income was recognized based on the investee's financial statement audited by the Company's auditors.

(b)Significant transactions with the direct and indirect investments in Mainland China

(1) Sales of goods:

For the year ended December 31, 2013, the Company's direct sales and indirect sales to investee in Mainland China amounted to $2,437 which was less than 10% of the total amount of net sales.

(2) Purchases of goods :

The Company's direct purchases from investee in Mainland China.

	2013	
	Amount	Percentage of net purchases
Hermes Microvision Co., Ltd. (Beijing)	$ 118,652	12%

Note : The purchase price and terms from investee in Mainland China were based on the ordinary course of business. The payment term was 30 days after acceptance.

(3) Accounts receivable:

As of December 31, 2013, the Company's accounts receivable from investee in Mainland China was $269, which was less than 10% of the total amount of accounts receivable.

(4) Accounts payable:

As of December 31, 2013 , the Company's accounts payable to investee in Mainland China was $11,738, which was less than 10% of the total amount of accounts payable.

(5)There were no direct or indirect loans, property transactions, endorsement guarantees or collaterals provided between the Company and the investee in Mainland China as of December 31, 2013, and for the year then ended.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Segment information

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

For the year ended December 31, 2013

	Amount
Revenue from external customers	$ 5,340,043
Inter-segment revenue	$ -
Segment income	$ 2,555,531
Total segment assets	$ 11,851,537

For the year ended December 31, 2012

	Amount
Revenue from external customers	$ 4,179,904
Inter-segment revenue	$ -
Segment income	$ 1,667,069
Total segment assets	$ 5,187,659

(3) Reconciliation for segment income (loss)

None.

(4) Revenue information by category

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

	2013	2012
Revenue from the sale of e-beam wafer inspection equipment	$ 5,035,270	$ 4,040,672
Revenue from the sale of related components	128,196	9,267
Revenue from services	172,348	120,342
Others	4,229	9,623
Total	$ 5,340,043	$ 4,179,904

(5) Revenue information by geographic area

	2013		2012	
	Revenue	Non - current assets	Revenue	Non - current assets
Taiwan	$ 1,869,669	$ 273,758	$ 1,574,856	$ 116,062
U.S.A.	1,791,602	34,826	1,386,036	32,937
Japan	632,314	59	690,916	87
Korea	699,681	79	226,980	164
Mainland china	188,699	36,500	116,802	31,713
Others	158,078	-	184,314	-
Total	$ 5,340,043	$ 345,222	$ 4,179,904	$ 180,963

(6) Information on major customers

Revenues from specific customers that represent over 10% of total revenues of the Company for the years ended December 31, 2013 and 2012 are listed below:

2013			
Customers	Sales amount	%	Sales segment
Customer B	$ 1,201,781	23%	The whole company
Customer D	1,080,427	20%	The whole company
Customer C	663,837	12%	The whole company

2012			
Customers	Sales amount	%	Sales segment
Customer B	$ 957,947	23%	The whole company
Customer A	584,613	14%	The whole company
Customer C	523,289	13%	The whole company

15. INITIAL APPLICATION OF IFRSs

These consolidated financial statements are the first consolidated financial statements prepared by the Group in accordance with IFRSs. The Group has adjusted the amounts as appropriate that are reported in the previous R.O.C. GAAP consolidated financial statements to those amounts that should be presented under IFRSs in the preparation of the opening IFRS balance sheet. Information about exemptions elected by the Group, exceptions to the retrospective application of IFRSs in relation to initial application of IFRSs, and how it affects the Group's financial position, operating results and cash flows in transition from R.O.C. GAAP to IFRSs is set out below:

(1) Exemptions elected by the Group

A. Business combinations

The Group has elected not to apply the requirements in IFRS 3, 'Business Combinations', retrospectively to business combinations that occurred prior to the date of transition to IFRSs (the "transition date"). This exemption also applies to the Group's previous acquisitions of investments in associates.

B. Share-based payment transactions

The Group has elected not to apply the requirements in IFRS 2, 'Share-based Payment', retrospectively to equity instruments that were vested arising from share-based payment transactions prior to the transition date.

C. Employee benefits

The Group has elected to recognize all cumulative actuarial gains and losses relating to all employee benefit plans in 'retained earnings' at the transition date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, 'Employee Benefits', based on their prospective amounts for financial periods from the transition date.

D. Cumulative translation differences

The Group has elected to reset the cumulative translation differences arising on the translation of the financial statements of foreign operations under R.O.C. GAAP to zero at the transition date, and to deal with translation differences arising subsequent to the transition date in accordance with IAS 21, 'The Effects of Changes in Foreign Exchange Rates'.

(2) Except for hedge accounting and non-controlling interest, to which exceptions to the retrospective application of IFRSs specified in IFRS 1 are not applied as they have no relation with the Group, other exceptions to the retrospective application are set out below:

A. Accounting estimates

Accounting estimates made under IFRSs on January 1, 2012 are consistent with those made under R.O.C. GAAP on that day.

B. Derecognition of financial assets and financial liabilities

The derecognition requirements in IAS 39, 'Financial Instruments: Recognition and Measurement' shall be applied prospectively to transactions occurring on or after January 1, 2004.

(3) Requirement to reconcile from R.O.C. GAAP to IFRSs at the time of initial application

IFRS 1 requires that an entity should prepare reconciliations for equity, comprehensive income and cash flows for the comparative periods. The Group's initial application of IFRSs has no significant effect on cash flows from operating activities, investing activities and financing activities. Reconciliations for equity and comprehensive income for the comparative periods as to transition from R.O.C. GAAP to IFRSs is shown below:

A.Reconciliation for equity on January 1, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Current assets				
Cash and cash equivalents	$ 612,326	$ -	$ 612,326	
Accounts receivable	652,622	-	652,622	
Accounts receivable - related parties	7,135	-	7,135	
Other receivables	30,565	-	30,565	
Inventories	1,189,641	-	1,189,641	
Prepayments	30,840	-	30,840	
Other current assets	22	-	22	
Total current assets	2,523,151	-	2,523,151	
Non-current assets				
Property, plant and equipment	168,142	-	168,142	
Intangible assets	27,080	(16,035)	11,045	(1)
Deferred income tax assets	30,595	-	30,595	
Other non - current assets	7,553	-	7,553	
Total non - current assets	233,370	(16,035)	217,335	
Total assets	$ 2,756,521	($ 16,035)	$ 2,740,486	
Current liabilities				
Short-term loans	$ 657,000	$ -	$ 657,000	
Notes payable	1,080	-	1,080	
Accounts payable	59,066	-	59,066	
Other payables	155,803	12,437	168,240	(2)
Other payables - related parties	87,590	-	87,590	
Current income tax liabilities	100,064	-	100,064	
Provisions for liabilities - current	218,576	-	218,576	
Deferred income tax liabilities	3,589	(3,589)	-	(3)
Other current liabilities	8,712	-	8,712	
Total current liabilities	1,291,480	8,848	1,300,328	
Non-current liabilities				
Deferred income tax liabilities	-	3,589	3,589	(3)
Other non - current liabilities	37,123	24,289	61,412	(1)
Total non - current liabilities	37,123	27,878	65,001	
Total Liabilities	1,328,603	36,726	1,365,329	
Equity attributable to owners of the parent company				
Common stocks	$ 600,000	$ -	$ 600,000	
Retained earnings				
Legal reserve	14,962	-	14,962	
Unappropriated retained earnings	782,175	(43,071)	739,104	(1)(2)(4)
Other equity				
-Cumulative translation adjustments	9,690	(9,690)	-	(4)
Equity attributable to owners of the parent company	1,406,827	(52,761)	1,354,066	
Non-controlling interest	21,091	-	21,091	
Total equity	1,427,918	(52,761)	1,375,157	
Total liabilities and equity	$ 2,756,521	($ 16,035)	$ 2,740,486	

Reasons for differences are outlined below:

(1) Pensions

(a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting periods and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting periods) instead.

(b) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service periods of employees still in service and expected to receive benefits. However, the transition guidance in IAS 19 "Employee Benefits" is not applicable because it is the first-time adoption of IFRSs for the Group. As a result, no transition net benefit obligations were recognized.

(c) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension fund assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet. However, IAS 19, "Employee Benefits", has no regulation regarding the minimum pension liability.

Therefore, the Group decreased the deferred pension costs by $16,035, increased the accrued pension liabilities by $24,289, and simultaneously decreased retained earnings by $40,324 and deferred pensions cost by $16,035 on the transition date.

(2) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on recognition of the cost of accumulated unused compensated absences. The Group recognized such cost as expense upon actual payment. However, IAS 19, "Employee Benefits", requires that cost of accumulated unused compensated absences should be accrued as expense at the end of the reporting periods. Therefore, the Group increased accrued expenses by $12,437 and decreased retained earnings by $12,437 on the transition date.

(3) Income tax

In accordance with current accounting standards in the R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected time periods to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of Financial Statements", an entity should not classify a deferred tax asset or liability as current. Therefore, the Group decreased deferred tax liability-current by $3,589 and increased deferred tax liability - non - current by $3,589 on the transition date.

(4) Cumulative translation adjustments

The Group elected to use the exemption of the cumulative translation differences relating to the investment in a foreign operation. The subsequent changes in foreign exchange rate are treated in accordance with IAS 21, "Effect of Changes in Foreign Exchange Rates". Therefore, the Group decreased the cumulative translation differences and increased retained earnings by $9,690, respectively, on the transition date.

B.Reconciliation for equity on December 31, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Current assets				
Cash and cash equivalents	$ 2,776,308	$ -	$ 2,776,308	
Accounts receivable	848,427	-	848,427	
Accounts receivable - related parties	303	-	303	
Other receivables	31,892	-	31,892	
Inventories	1,278,613	-	1,278,613	
Prepayments	32,862	-	32,862	
Other current assets	3,154	-	3,154	
Total current assets	4,971,559	-	4,971,559	
Non-current assets				
Property, plant and equipment	170,246	-	170,246	
Intangible assets	26,926	(16,209)	10,717	(1)
Deferred income tax assets	27,020	-	27,020	
Other non - current assets	8,117	-	8,117	
Total non - current assets	232,309	(16,209)	216,100	
Total assets	$ 5,203,868	($ 16,209)	$ 5,187,659	
Current liabilities				
Accounts payable	$ 93,112	$ -	$ 93,112	
Other payables	364,507	13,594	378,101	(2)
Other payables - related parties	62,125	-	62,125	
Current income tax liabilities	85,194	-	85,194	
Provisions for liabilities - current	577,257	-	577,257	
Other current liabilities	2,887	(14)	2,873	(3)
Total current liabilities	1,185,082	13,580	1,198,662	
Non-current liabilities				
Deferred income tax liabilities	-	14	14	(3)
Other non - current liabilities	45,834	43,106	88,940	(1)
Total non - current liabilities	45,834	43,120	88,954	
Total Liabilities	1,230,916	56,700	1,287,616	
Equity attributable to owners of the parent company				
Common stocks	$ 660,000	$ -	$ 660,000	
Capital reserve	1,234,348	-	1,234,348	
Retained earnings				
Legal reserve	80,186	-	80,186	
Unappropriated retained earnings	1,969,551	(68,917)	1,900,634	(1)(2)(4)
Other equity				
-Cumulative translation adjustments	1,554	(9,690)	(8,136)	(4)
-Unrecognized pension cost	(5,698)	5,698	-	(1)
Equity attributable to owners of the parent company	3,939,941	(72,909)	3,867,032	
Non-controlling interest	33,011	-	33,011	
Total equity	3,972,952	(72,909)	3,900,043	
Total liabilities and equity	$ 5,203,868	($ 16,209)	$ 5,187,659	

Reasons for differences are outlined below:

(1) Pensions

(a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting periods and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting periods) instead.

(b) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service periods of employees still in service and expected to receive benefits. However, the transition guidance in IAS 19 "Employee Benefits", is not applicable because it is the first-time adoption of IFRSs for the Group. As a result, no transition net benefit obligations were recognized.

(c) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension fund assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet. However, IAS 19, "Employee Benefits", has no regulation regarding the minimum pension liability.

(d) In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Group is recognized in net pension cost of current periods using the 'corridor' method. However, in accordance with IAS 19, "Employee Benefits", the Group selects to recognize actuarial pension gain or loss immediately in other comprehensive income.

Therefore, the Group decreased the deferred pension costs by $16,209, increased the accrued pension liabilities by $43,106, and simultaneously reduced retained earnings and unrecognized pension by $40,324 and $5,698, respectively, on December 31, 2012. The Group also decreased the operating expenses by $1,723 and decreased the other comprehensive income by $26,412.

(2) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on recognition of the cost of accumulated unused compensated absences. The Group recognized such cost as expense upon actual payment. However, IAS 19, "Employee Benefits", requires that cost of accumulated unused compensated absences should be accrued as expense at the end of the reporting periods. Therefore, the Group increased accrued expenses and decreased retained earnings by $13,594 and $12,437, respectively, on December 31, 2012. The Group also increased the operating expenses by $1,157 for 2012.

(3) Income tax

In accordance with current accounting standards in the R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected time periods to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of Financial Statements", an entity should not classify a deferred tax asset or liability as current on December 31, 2012.

Therefore, the Group decreased deferred tax liability-current by $14 and increased deferred tax liability – non-current by $14 on the transition date.

(4) Cumulative translation adjustments

The Group elected to use the exemption of the cumulative translation differences relating to the investment in a foreign operation. The subsequent changes in foreign exchange rate are treated in accordance with IAS 21, "Effect of Changes in Foreign Rates". Therefore, the Group decreased the cumulative translation differences and increased retained earnings both by $9,690 on December 31, 2012.

(5) In order to comply with the presentation of financial statements under the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC interpretations as endorsed by the FSC, certain items on the statement of comprehensive income have been reclassified by the Group.

C.Reconciliation for comprehensive income for the year ended December 31, 2012:

	R.O.C. GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Operating revenue	$ 4,179,904	$ -	$ 4,179,904	
Operating costs	(1,199,056)	-	(1,199,056)	
Gross profit	2,980,848	-	2,980,848	
Operating expenses				
Selling expenses	(321,188)	-	(321,188)	
General and administrative expenses	(234,650)	566	(234,084)	(1)(2)
Research and development expenses	(718,261)	-	(718,261)	
Other income and expenses - net	(1,274,099)	566	(1,273,533)	
Operating profit	1,706,749	566	1,707,315	
Non - operating revenue and expenses				
Other income	27,062	-	27,062	
Other gains and losses	(68,125)	-	(68,125)	
Finance costs	817	-	817	
Total non-operating revenue and expenses	(40,246)	-	(40,246)	
Profit before income tax	1,666,503	566	1,667,069	
Income tax expense	(146,640)	-	(146,640)	
Profit for the year	$ 1,519,863	$ 566	$ 1,520,429	
Other comprehensive income				
Actuarial gain (loss) on defined benefit plan	$ -	($ 26,412)	($ 26,412)	(1)(5)
Other comprehensive income for the year, net of tax	-	(26,412)	(26,412)	
Total comprehensive income for the year	$ 1,519,863	($ 25,846)	$ 1,494,017	

Reasons for differences are outlined below:

Please refer to Note 15(3)B.

D.Major adjustments for the consolidated statements of cash flows for the year ended December 31, 2012:

(a)The transition from R.O.C. GAAP to IFRSs has no effect on the Group's cash flows reported.

(b)The reconciliation between R.O.C. GAAP and IFRSs has no net effect on the Group's cash flows reported.