

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND
2013

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

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR14000186

To Hermes Microvision, Inc.

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

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

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hermes Microvision, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the parent company only financial statements of Hermes Microvision, Inc. as of the years ended December 31, 2014 and 2013. In our report dated March 4, 2015 we expressed an unqualified opinion on these financial statements.

PricewaterhouseCoopers, Taiwan

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

March 4, 2015

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

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

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

(Continued)

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

(Expressed in thousands of New Taiwan dollars)

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

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

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

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

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Notes	Share capital - common stock	Equity attributable to owners of the parent					Cumulative translation differences of foreign operations	Total	Non-controlling interest	Total equity
		Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Retained Earnings				
	\$ 660,000	\$ 1,234,348	\$ 80,186	\$ -	\$ 1,900,634	(\$ 8,136)	\$ 3,867,032	\$ 33,011	\$ 3,900,043	
	50,000	4,188,036	-	-	-	-	4,238,036	-	4,238,036	
	-	-	151,660	-	(151,660)	-	-	-	-	
	-	-	-	4,144	(4,144)	-	-	-	-	
	-	-	-	-	(792,000)	-	(792,000)	-	(792,000)	
	-	-	-	-	2,343,600	-	2,343,600	3,675	2,347,275	
	-	-	-	-	10,006	23,093	33,099	904	34,003	
6(16)	-	4,639	-	-	-	-	4,639	1,036	5,675	
Adjustments arising from changes in percentages of ownership in subsidiary										
6(14)	\$ 710,000	\$ 5,427,023	\$ 231,846	\$ 4,144	\$ 3,306,436	\$ 14,957	\$ 9,694,406	\$ 38,626	\$ 9,733,032	
	\$ 710,000	\$ 5,427,023	\$ 231,846	\$ 4,144	\$ 3,306,436	\$ 14,957	\$ 9,694,406	\$ 38,626	\$ 9,733,032	
	-	-	234,360	-	(234,360)	-	-	-	-	
	-	-	-	(4,144)	4,144	-	-	-	-	
	-	-	-	-	(1,136,000)	-	(1,136,000)	-	(1,136,000)	
	-	-	-	-	3,237,928	-	3,237,928	4,008	3,241,936	
	-	-	-	-	(7,339)	34,693	27,354	2,657	30,011	
6(16)	-	4,173	-	-	-	-	4,173	1,812	5,985	
Adjustments arising from changes in percentages of ownership in subsidiary										
6(14)	\$ 710,000	\$ 5,431,196	\$ 466,206	\$ -	\$ 5,170,809	\$ 49,650	\$ 11,827,861	\$ 47,103	\$ 11,874,964	

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

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

	Notes	For the years ended December 31,	
		2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax for the year		\$ 3,654,543	\$ 2,555,531
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
(Reversal of allowance) provision for doubtful accounts		7,505	(67,806)
Depreciation	6(7)(20)	57,322	53,766
Amortization	6(8)(20)	5,110	6,440
Revaluation of financial assets at fair value		(1,805)	-
(Gain) loss on disposal of property, plant, equipment and intangible assets		(27)	42
Compensation cost of employee stock option	6(11)(21)	2,817	2,827
Compensation cost of stock appreciation right	6(11)(21)	573,702	112,465
Interest income	6(18)	(70,115)	(24,284)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable	6(5)	(1,104,891)	(640,660)
Accounts receivable - related parties	7	(6,767)	(13,063)
Other receivables		10,302	7,050
Inventories	6(6)	(192,628)	(229,323)
Prepayments		(56,734)	(4,816)
Other current assets		28,900	(30,597)
Net changes in liabilities relating to operating activities			
Accounts payable		27,856	56,591
Accounts payable - related parties	7	(328)	328
Other payables		(129,957)	110,726
Other payables - related parties	7	(9,446)	6,606
Provisions for liabilities	6(12)	498,879	395,002
Other current liabilities		82,114	2,066
Other non - current liabilities		(2,132)	(3,237)
Cash generated from operations		3,374,220	2,295,654
Interest received		69,844	24,284
Income tax paid		(314,454)	(149,292)
Net cash provided by operating activities		<u>3,129,610</u>	<u>2,170,646</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at fair value through profit or loss		(1,100,000)	-
Proceeds from disposal (acquisition) of bond investments without active markets-current		1,625,085	(2,891,085)
Acquisition of available - for - sales financial assets - non - current		(3,038)	(4,412)
Acquisition of property, plant and equipment	6(7)(24)	(489,032)	(146,627)
Proceeds from disposal of property, plant, equipment and intangible assets		38	612
Acquisition of intangible assets	6(8)	(6,618)	(6,240)
Proceeds from disposal of intangible assets		-	47
Increased in deposits - out		(632)	(686)
Net cash provided by (used in) investing activities		<u>25,803</u>	<u>(3,048,391)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Cash dividends paid		(1,136,000)	(792,000)
Proceeds from issuance of common stock		-	4,302,575
Cost of acquisition of capital		-	(64,539)
Net cash (used in) provided by financing activities		<u>(1,136,000)</u>	<u>3,446,036</u>
Effect of exchange rate		6,356	26,103
Increase in cash and cash equivalents		2,025,769	2,594,394
Cash and cash equivalents at beginning of year	6(1)	5,370,702	2,776,308
Cash and cash equivalents at end of year	6(1)	<u>\$ 7,396,471</u>	<u>\$ 5,370,702</u>

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Hermes Microvision, Inc. (the "Company") was incorporated on May 19, 2003. The Company and its subsidiaries (collectively referred herein as the "Group") are engaged in the research, development, design, manufacturing and sale of precision instruments and machinery (electronic inspection equipment.) The Company's stock was listed on the GreTai Securities Market, effective from May 21, 2012. The Company obtained the certification of Corporate Governance Assessment 6009 by Taiwan Corporate Governance Association on December 31, 2014.

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

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

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

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

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

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

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

The revised standard eliminates the corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service costs will be recognised immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expense, is recognised in other comprehensive income. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits or when it recognises any related restructuring costs. Additional disclosures are required to present how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

The Group expected to recognise previously unrecognised past service cost and as a consequence of elimination of the corridor approach to recognise prior unrecognised actuarial losses by decreasing operating expenses \$32 and other comprehensive income would be increased by \$32 for the year ended December 31, 2014.

B.IAS 1, 'Presentation of financial statements'

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

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

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

D.IFRS 13, 'Fair value measurement'

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

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

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

profit or loss.

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

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

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

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

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

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

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

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

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

B. Subsidiaries included in the consolidated financial statements:

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

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

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

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

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

(4) Foreign currency translation

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

the Company's functional currency and the Group's presentation currency.

A.Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within "other gains and losses".

B.Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and jointly controlled entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and
 - iii. All resulting exchange differences are recognized in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation.

(5) Classification of current and non-current items

A.Assets that meet one of the following criteria are classified as current assets; otherwise they are

classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

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

(7) Financial asset at fair value through profit or loss

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

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

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

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

(8) Loans and receivables

A. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, since short-term accounts receivable without bearing interest, are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B. Bond investments without active market

- (a) Bond investments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:
 - i. Not designated on initial recognition as at fair value through profit or loss;
 - ii. Not designated on initial recognition as available-for-sale;
 - iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.
- (b) On a regular way purchase or sale basis, bond investments without active market are recognized and derecognized using trade date accounting.
- (c) Bond investments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.
- (d) Bond investments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(9) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets is recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(10) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
- (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties;
 - (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
 - (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial asset:
- (a) Financial assets measured at amortized cost
The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the

impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss and is reclassified from "other comprehensive income" to "profit or loss". Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

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

(12) Inventories

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

(13) Property, plant and equipment

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

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

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

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future

economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

(14) Leased assets/ leases (lessee)

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

(15) Intangible assets

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

(16) Impairment of non-financial assets

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

(17) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method. However, since short - term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(18) Derecognition of financial liabilities

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

(19) Provisions

Provisions for warranties are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date. Provisions are not recognized for future operating losses.

(20) Employee benefits

A. Short-term employee benefits

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

B. Pensions

a) Defined contribution plans

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

b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).
- ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the periods in which they arise.
- iii. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. Additionally, the related information is disclosed accordingly.

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

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

(21) Employee share-based payment

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

(22) Income tax

- A. The tax expense for the periods comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(23) Share capital

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

(24) Dividends

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

(25) Revenue recognition

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

(26) Operating segments

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

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

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

None.

(2) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting periods. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A. Evaluation of inventories

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

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

B. Realisability of deferred income tax assets

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

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

C. Provision for warranty liability

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

As of December 31, 2014, the carrying amount of accrued warranty liabilities was \$1,471,138.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

B. The Group has no cash and cash equivalents pledged to others.

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

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

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

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

(3) Available-for-sale financial assets

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

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

(4) Investments in bonds without active markets

Item	December 31, 2014	December 31, 2013
Time deposits	<u>\$ 1,266,000</u>	<u>\$ 2,891,085</u>

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

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

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

(5) Accounts receivable

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

A. Analysis of movement of impaired accounts receivable:

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

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

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

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

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

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

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

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

(6) Inventories

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

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

The cost of inventories recognized as expense for the period:

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

(7) Property, plant and equipment

	Computer and communication equipment			Transportation equipment		Furniture and fixtures		Leasehold improvements		Other equipment		Prepayments for equipment and construction in progress		Total
At January 1, 2014	Machinery													
Cost	\$ 253,902	\$	7,515	\$	5,546	\$	26,050	\$	54,627	\$	4,088	\$	187,245	\$ 538,973
Accumulated depreciation and impairment	(153,166)	(	2,677)	(	2,614)	(	15,902)	(	29,610)	(	414)	-	-	(204,383)
	\$ 100,736	\$	4,838	\$	2,932	\$	10,148	\$	25,017	\$	3,674	\$	187,245	\$ 334,590
Year ended December 31, 2014														
Opening net book amount	\$ 100,736	\$	4,838	\$	2,932	\$	10,148	\$	25,017	\$	3,674	\$	187,245	\$ 334,590
Additions	11,104		1,516		429		10,912		6,797		1,163		425,254	457,175
Disposals	-	-	-	-	-	-	11)	-	-	-	-	-	-	(11)
Reclassifications	-	-	-	-	-	-	-	762	12,051	(	762)	-	-	12,051
Depreciation charge	(38,134)	(	1,611)	(	871)	(	5,964)	(	10,421)	(	321)	-	-	(57,322)
Net exchange differences	2,211		297		75		78		507		268)	148	148	3,048
Closing net book amount	\$ 75,917	\$	5,040	\$	2,565	\$	15,163	\$	22,662	\$	16,299	\$	611,885	\$ 749,531
At December 31, 2014														
Cost	\$ 268,525	\$	9,258	\$	6,095	\$	37,338	\$	63,744	\$	17,302	\$	611,885	\$ 1,014,147
Accumulated depreciation and impairment	(192,608)	(	4,218)	(	3,530)	(	22,175)	(	41,082)	(	1,003)	-	-	(\$ 264,616)
	\$ 75,917	\$	5,040	\$	2,565	\$	15,163	\$	22,662	\$	16,299	\$	611,885	\$ 749,531

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

(8) Intangible assets

	<u>Computer Software</u>
<u>At January 1, 2014</u>	
Cost	\$ 22,571
Accumulated amortization and impairment	(11,939)
	<u>\$ 10,632</u>
<u>Year ended December 31, 2014</u>	
Opening net book amount	\$ 10,632
Additions - acquired separately	6,618
Amortization charge	(5,110)
Net exchange differences	217
Closing net book amount	<u>\$ 12,357</u>
<u>At December 31, 2014</u>	
Cost	\$ 29,396
Accumulated amortization and impairment	(17,039)
	<u>\$ 12,357</u>
	<u>Computer Software</u>
<u>At January 1, 2013</u>	
Cost	\$ 23,394
Accumulated amortization and impairment	(12,677)
	<u>\$ 10,717</u>
<u>Year ended December 31, 2013</u>	
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	<u>\$ 10,632</u>
<u>At December 31, 2013</u>	
Cost	\$ 22,571
Accumulated amortization and impairment	(11,939)
	<u>\$ 10,632</u>

Details of amortization on intangible assets are as follows:

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

(9) Other payables

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

(10) Pension

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

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

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

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

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

(d) Movements in fair value of plan assets:

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

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

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

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

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

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

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

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

Utilisation of the Labor Retirement Fund” (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of December 31, 2014 and 2013 is given in the Annual Labor Retirement Fund Utilisation Report published by the government. Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilisation by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund’s minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

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

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

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

(i)Historical information of experience adjustments was as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Present value of defined benefit obligation (\$	91,002)	(\$ 79,967)	(\$ 79,967)
Fair value of plan assets	13,978	12,500	12,500
Deficit in the plan	(\$ 77,024)	(\$ 67,467)	(\$ 67,467)
Experience adjustments on plan liabilities	-	-	-
Experience adjustments on plan assets	-	-	-

(j)Expected contributions to the defined benefit pension plans of the Group within one year from December 31, 2014 amounts to \$1,174.

B.(a)Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’

monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company's indirect Chinese subsidiary – Hermes Microvision Co., Ltd. (Beijing) has a funded defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (the "PRC") are based on certain percentage of the employees' 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) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2014 and 2013 were \$31,403 and \$27,437, respectively.

(11) Share-based payment

The Group:

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

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

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

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

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

closing date's stock price and the executing price.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Liabilities on cash-settled stock appreciation rights plan	\$ <u>575,940</u>	\$ <u>112,465</u>
(shown in other payables)		

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

A. As of December 31, 2014, the Company's subsidiary - Hermes Microvision, Inc. (U.S.A) share based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Outstanding quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Employee stock options	April 1, 2005 ~ November 1, 2011	254,574	10 years	4 years' service

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

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

	<u>For the year ended December 31, 2014</u>		<u>For the year ended December 31, 2013</u>	
	<u>No. of options</u>	<u>Weighted-average exercise price (in US dollars)</u>	<u>No. of options</u>	<u>Weighted-average exercise price (in US dollars)</u>
Options outstanding at beginning of the year	378,000	\$ 0.8527	672,044	\$ 0.9126
Options exercised	(123,426)	0.8111	(119,877)	0.8003
Options expired	-	-	(174,167)	0.8700
Options outstanding at end of the year	<u>254,574</u>	0.8568	<u>378,000</u>	0.8486
Options exercisable at end of the year	<u>178,867</u>	0.8657	<u>164,209</u>	0.8510

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

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

Date of the plan	Expiry date	December 31, 2014		December 31, 2013	
		No. of shares (in thousands)	Exercise price (in US dollars)	No. of shares (in thousands)	Exercise price (in US dollars)
April 1, 2005 ~ November 1, 2011	March 31, 2020~ October 31, 2021	255	\$0.56~0.87	378	\$ 0.56~0.87

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

Type of arrangement	Grant date	Exercise price (in US dollars)	Expected price volatility	Expected term	Expected dividends yield rate	Risk-free interest rate	Fair value per unit (in US dollars)
Employee stock options	April 1, 2005 ~ November 1, 2011	\$0.49~0.87	29.85%~ 42.16%	1~9.84 years	-	2.22%~ 5.2%	\$0.1043~ 0.4954

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

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

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

(12) Provisions

	Warranty
At January 1, 2014	\$ 972,259
Additional provisions	498,879
At December 31, 2014	\$ 1,471,138
	Warranty
At January 1, 2013	\$ 577,257
Additional provisions	395,002
At December 31, 2013	\$ 972,259

(13) Share capital

A.As of December 31, 2014, the Company's authorized capital was \$1,200,000, consisting of 120,000 thousand shares of ordinary stock, and the paid-in capital was \$710,000 with a par value of \$10 (in NT dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	Unit:One thousand shares	
	2014	2013
At January 1	71,000	66,000
Issuance of common stock for cash	-	5,000
At December 31	71,000	71,000

B.As authorized during the shareholders' meeting on June 4, 2013, the Board of Directors adopted a resolution in the July 31, 2013 meeting to increase capital by issuance of Global Deposit Receipts ("GDRs"). The offering was completed in November 2013 with the issuance of 5,000 thousand new shares and 5,000 thousand existing outstanding shares, totaling 10,000 thousand units to be listed in Luxembourg Stock Exchange. Each unit of GDRs represents 1 common share. The issue price was US\$29.17 per unit, which is equivalent to NT\$860 per unit. Total proceeds raised were \$4,238,036 after deducting the issuance costs. As of December 31, 2014, the outstanding shares of GDRs were 764 thousand units representing 764 thousand shares.

(14) Capital surplus

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

	Share premium	Adjustments arising from changes in ownership percentage in subsidiary
At January 1, 2014	\$ 5,411,867	\$ 15,156
Adjustments arising from changes in ownership percentage in subsidiary	-	4,173
At December 31, 2014	<u>\$ 5,411,867</u>	<u>\$ 19,329</u>

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

(15) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Bonus distributed to the employees and remuneration paid to the directors and supervisors should account for higher than 1% and less than 1%, respectively, of the total remaining distributable earnings. The individuals who are entitled to employee stock dividends may include the employees of the Company's affiliates who meet certain criteria. Such criteria are determined by the Board of Directors. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.
- B. As the Company's industry is in the growth stage, in order to be in line with the industry's overall environment and its characteristics and pursue the goals of the Company's sustainable operations and shareholders' long-term interests, the dividend policy is adopted taking into consideration the Company's actual operating results of the dividend distribution year and the capital budget planning of the following year. Dividends are distributed in the form of stock or cash. According to the Company's dividend policy, cash dividends shall account for at least 10% of the total dividends distributed.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the amount of the associated special reserve could be released and included in the distributable earnings.
- E. For the years ended December 31, 2014 and 2013, employees' bonus was accrued at \$79,995 and \$91,132, respectively; directors' and supervisors' remuneration were accrued at \$8,000 and \$9,113, respectively. The difference between employees' bonus and directors' and supervisors' remuneration as resolved by the stockholders and the amount recognized in the 2013 financial statements will be adjusted in the 2014 statement of comprehensive income.
- Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as resolved by the stockholders will be posted in the website "Market Observation Post System".
- F. The Company recognised dividends distributed to owners amounting to \$1,136,000 (\$16 (in dollars) per share) and \$792,000 (\$12 (in dollars) per share) for the years ended December 31, 2014 and 2013, respectively. The dividend distribution for 2014 was proposed by the Board of Directors on March 4, 2015 and amounted to \$1,562,000 (\$22 (in dollars) per share). The above mentioned 2014 earnings appropriation had not been approved by the stockholders at stockholders' meeting.

(16) Other equity

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

(17) Operating revenue

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

(18) Other income

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

(19) Other gains and losses

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

(20) Expenses by nature

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

(21) Employee benefit expense

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

(22) Income tax

A. Income tax expense

a) Components of income tax expense:

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

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

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

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

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

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

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

For the year ended December 31, 2014					
	January 1,	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31,
Temporary differences:					
— Deferred tax assets:					
Unrealized loss on inventory	\$ 9,580	\$ -	\$ -	\$ -	\$ 9,580
Provision for warranty	29,562	-	-	-	29,562
Unrealized investment loss on long-term equity investments	836	-	-	-	836
Accrued pension	2,009	-	-	-	2,009
Accrued employee bonus	3,278	-	-	-	3,278
Actuarial gain / loss on defined benefit plan	3,361	-	1,503	-	4,864
Subtotal	48,626	-	1,503	-	50,129
— Deferred tax liabilities:					
Unrealized foreign exchange gain	(1,978)	-	-	-	(1,978)
Currency translation differences	(3,064)	-	(7,105)	-	(10,169)
Subtotal	(5,042)	-	(7,105)	-	(12,147)
Total	\$43,584	\$ -	(\$ 5,602)	\$ -	\$ 37,982

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

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

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

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

G. As of December 31, 2014 and 2013, the subsidiary—Hermes Microvision Inc. (USA) was eligible for investment credits for research and development expenditures amounting to \$130,176 and \$99,996, respectively, under the U.S. Federal Tax Law, which will expire in 2022, \$123,530 and \$91,621 under the California Tax Law, which has no expiry date, and unrecognized deferred tax assets.

H. Unappropriated retained earnings:

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

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

(23) Earnings per share

For the year ended December 31, 2014			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 3,237,928	71,000	\$ 45.60
<u>Diluted earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 3,237,928	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	83	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	\$ 3,237,928	71,083	\$ 45.55
For the year ended December 31, 2013			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 2,343,600	66,780	\$ 35.09
<u>Diluted earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 2,343,600	66,780	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	95	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	\$ 2,343,600	66,875	\$ 35.04

(24) Non-cash transactions

Investing activities with partial cash payments:

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

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A. Operating revenue:

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

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

B. Purchases of services:

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

The above transactions are under normal commercial terms and conditions.

C.Accounts receivable:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Receivables from the entity with significant influence over the Group	\$ <u>20,134</u>	\$ <u>13,367</u>

The receivables from the entity with significant influence over the Group arise mainly from sale transactions. The receivables are due from 30~60 day after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions accrued against receivables from related parties.

D.Other payables:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Payables from the entity with significant influence over the Group	\$ <u>78,177</u>	\$ <u>68,731</u>

E.Leases

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

(2) Key management compensation

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

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A.Operating leases commitments

The Group leases offices and plant assets under non-cancellable operating lease agreements. Rental expense of \$90,740 and \$73,854 were recognized for the years ended December 31, 2014 and 2013, respectively.

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

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Not later than one year	\$ 42,287	\$ 62,170
Later than one year but not later than five years	141,639	145,180
Later than five years	<u>76,098</u>	<u>99,121</u>
Total	<u>\$ 260,024</u>	<u>\$ 306,471</u>

B. Capital commitments

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Future payments for plant and equipment	<u>\$ 210,643</u>	<u>\$ 640,892</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

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

The Group monitors capital through the ratio of total liabilities divided by total assets. The Group's strategy is to maintain the ratio within 50%. As of December 31, 2014 and 2013, the Group's ratios of total liabilities divided by total assets were as follows:

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

(2) Financial instruments

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

B. Financial risk management policies

- a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.
- b) Risk management is carried out by the finance department (the "Group finance") under policies approved by the Board of Directors. Group finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

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

a) Market risk

Foreign exchange risk

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

December 31, 2014				
Foreign Currency				
Amount (In Thousands)		Exchange Rate	Book Value (NTD)	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$	195,290	31.65	\$ 6,180,932
USD:JPY		479	119.62	15,149
USD:CNY		1,330	6.22	42,091
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$	10,089	31.65	\$ 319,318
USD:KRW		232	1,082.98	251,670

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

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

For the year ended December 31, 2014				
Sensitivity Analysis				
(Foreign currency: functional currency)	Extent of Variation	Effect on Profit or		Effect on Other Comprehensive Income
		Loss		
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	61,809	\$ -
USD:JPY	1%		151	-
USD:CNY	1%		421	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	3,193	\$ -
USD:KRW	1%		2,517	-

For the year ended December 31, 2013				
Sensitivity Analysis				
(Foreign currency: functional currency)	Extent of Variation	Effect on Profit or		Effect on Other Comprehensive Income
		Loss		
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	63,523	\$ -
USD:JPY	1%		516	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	4,212	\$ -
USD:JPY	1%		169	-

Price risk

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

Interest rate risk

At December 31, 2014 and 2013, if interest rates on NTD-denominated time deposits had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2014 and 2013 would have been \$15,974 and \$14,604 lower / higher, respectively, mainly as a result of higher/lower interest revenue on floating rate time deposits.

b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.
- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, and compliance with internal balance sheet ratio targets.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group finance. Group finance invests surplus cash in interest bearing current accounts that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

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

Non-derivative financial liabilities:

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

d) Fair value estimation

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

The different levels have been defined as follows:

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

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value as of December 31, 2014 and 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading financial assets	\$1,101,805	\$ -	\$ -	\$1,101,805
Equity securities	-	-	7,450	7,450
Total	<u>\$1,101,805</u>	<u>\$ -</u>	<u>\$ 7,450</u>	<u>\$1,109,255</u>
December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity securities	\$ -	\$ -	\$ 4,412	\$ 4,412
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,412</u>	<u>\$ 4,412</u>

- B. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price or the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments and debt instruments classified as financial assets/financial liabilities at fair value through profit or loss or available - for - sale financial assets.
- C. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- D. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.
- E. Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
 - The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
 - 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.
 - Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.
- F. The following table presents the changes in level 3 instruments as of December 31, 2014 and 2013.

	2014	
	Equity securities	
At January 1	\$	4,412
Acquisition		3,038
At December 31	\$	7,450
	2013	
	Equity securities	
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 reviewed by independent auditors. The following transactions had been eliminated in the consolidated financial statements; they are disclosed for reference purpose only.)

a) Loans granted: None.

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

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

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

d) Aggregate purchase or sales of the same securities reaching \$300,000 or 20% of paid-in capital or more for the year ended December 31, 2014:

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

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

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

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

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

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

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

g) Purchases or sales of goods from or to related parties reaching \$100,000 or 20% of paid-in capital or more for the year ended December 31, 2014:

Purchaser / Seller	Counterparty	Relationship with the counterparty	Transactions			Difference in transaction terms compared to third party transactions			Accounts receivable / (payable)	
			Purchases / (sales)	Amount	Percentage of purchases/(sales)	Credit term	Unit price	Term	Amount	Percentage of accounts (payable)/ receivable
Hermes Microvision, Inc.	Hermes Microvision Japan Inc.	Subsidiary	Sales	(\$ 169,509)	(2%)	30 days after delivery	Approximately the same with third party transactions	Approximately the same with third party transactions	\$ 3,161	-
"	Hermes Microvision, Inc.	"	Sales	(291,680)	(4%)	30 days after delivery	"	"	38,498	1%
"	Hermes Microvision, Co., Ltd. (Beijing)	"	Purchases	116,484	8%	30 days after acceptance	"	"	(12,299)	(6%)
"	Hermes Microvision, Inc.	"	Purchases	663,902	46%	30 days after acceptance	"	"	(73,667)	(35%)

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

i) Derivative financial instruments undertaken during 2014: None.

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

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

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

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories;

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

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

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

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

(2) Information of investees as of December 31, 2014:

Investor	Investee	Location	Main business activities	Initial investment amount as at			Shares held			Net income (loss) of the investee Company	Income (loss) recognised by the Company
				December 31, 2014	December 31, 2013	In Shares	Percentage	Book value			
Hermes Microvision, Inc.	HMI Holdings Inc.	Samoa	Investment holdings	\$ 843,045	\$ 188,452	27,546,821	100%	\$ 939,980	\$	77,973	77,973
HMI Holdings Inc.	Hermes Microvision Korea Inc.	Korea	Marketing of e-Bean inspection equipment and its components and related technical support services	2,140	2,140	500	100%	16,887		4,790	-
"	Hermes Microvision Japan Inc.	Japan	Marketing of e-Bean inspection equipment and its components and related technical support services	52,574	52,574	2,980	100%	54,194		5,761	-
"	Ansing International LLC.	USA	Investment holdings	133,738	133,738	-	100%	159,380		7,063	-
"	HMI Investment Corp.	Samoa	Investment holdings	-	-	21,546,821	100%	709,519		60,359	-
HMI Investment Corp.	Hermes Microvision Inc. (USA)	USA	Research and development	665,970	665,970	61,785,000	94%	709,519		64,366	-

(3) Information on investment in Mainland China:

(a) Basic information

Name of investee in Mainland China	Main business activities	Paid-in capital	Method of investment	Beginning Balance of remittance in January 1, 2014	Amount of remittance for the year ended December 31, 2014		Investee net income or loss for current period	Ownerships held by the Company (direct and indirect)	Profit / (loss) recognised during the period (Note 2)	Ending balance of book value on December 31, 2014	Ending balance of profit remittance into Taiwan
					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	\$ 7,063	100%	\$ 7,063	\$ 159,380	-

Company name	Investment ending balance of remittance as of December 31, 2014	Approved investment amount by Ministry of Economic Affairs (MOEA)	Celling on investments in Mainland china imposed by the Investment commission of MOEA
Hermes Microvision Co., Ltd. (Beijing)	\$ 133,738	\$ 133,738	7,096,717

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

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

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

(1) Sales of goods:

For the year ended December 31, 2014, the Company's direct sales and indirect sales to investee in Mainland China amounted to \$3,838 which was less than 10% of the total amount of net sales.

(2) Purchases of goods :

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

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

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

(3) Accounts receivable:

As of December 31, 2014, the Company's accounts receivable from investee in Mainland China was \$491, which was less than 10% of the total amount of accounts receivable.

(4) Accounts payable:

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

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

14. SEGMENT INFORMATION

(1) General information

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

(2) Segment information

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

For the year ended December 31, 2014

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

For the year ended December 31, 2013

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

(3) Reconciliation for segment income (loss)

None.

(4) Information on product and service

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

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

(5) Geographical information

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

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

(1) Major customer information

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

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

For the year ended December 31, 2013			
	Revenue	Percentage	Segment
Customer B	\$ 1,201,781	23%	The whole company
Customer D	1,080,427	20%	The whole company
Customer C	663,837	12%	The whole company