



禾伸堂企業股份有限公司  
*Holy Stone Enterprise Co., Ltd.*

# 2018 Annual General Shareholders' Meeting

## Meeting Agenda

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( Summary Translation )

This document is prepared in accordance with the Chinese version and is for reference only. In the event of any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

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**June 8, 2018**

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# **Holy Stone Enterprise Co., Ltd.**

## **2018 Annual Shareholders' Meeting Procedure**

**1. Call meeting to order**

**2. Chairman takes podium**

**3. Report items**

**4. Acknowledgement items**

**5. Election items**

**6. Discussion items**

**7. Special motion**

**8. Meeting adjourned**

# **Holy Stone Enterprise Co., Ltd.**

## **2018Annual Shareholders' Meeting Agenda ( Translation )**

**Time/Date :** 9:00 a.m., June 8, 2018 (Friday)

**Place :** No.17, Lane 91, Section 1, Nei Hu Road, Nei Hu District, Taipei City 114, Taiwan, R.O.C.  
( 7F, Chu Pao Building)

### **Meeting Agenda:**

- 1. Report the number of shares represented by shareholders attending the Meeting**
- 2. Chairman's Address**
- 3. Report Items**
  - ( 1 ) To report the business of 2017.
  - ( 2 ) To report Supervisor's Review Report of 2017.
  - ( 3 ) To report the distribution of 2017 employee bonus and Directors and Supervisor remuneration.
- 4. Acknowledgement Items**
  - ( 1 ) To accept 2017 Business Report and Financial Statements.
  - ( 2 ) To accept the earnings distribution of 2017.
- 5. Election items**
  - ( 1 ) To elect Director and Supervisor
- 6. Discussion Items**
  - ( 1 ) To approve distribution of cash dividend from APIC.
  - ( 2 ) To approve and release director from non-competition restrictions
- 7. Special Motion**
- 8. Adjournment**

## **Report Items:**

### **1. To report the business of 2017**

**Explanation:** Please refer to page 7~8.

### **2. To report Supervisors' Review Report of 2017**

**Explanation:** Please refer to page 9.

### **3. To report the distribution of 2017 employee bonus and Directors and Supervisors remuneration**

**Explanation:** The Board of Directors meeting on March 5, 2018 proposed employee bonus NT126.375 million and director remuneration NT24.071 million, both paid in cash.

## **Acknowledgement Items**

**1.** (Proposed by the Board of Directors)

### **To accept 2017 Business Report and Financial Statements**

#### **Explanation:**

- (1) 2017 Financial Statement of the Company has been audited, and the audit report has been issued by Ching-Song Wang and Pei-Chi Chen accountant at CPA firm of KPMG.
- (2) The 2017 Financial Statements and Business Report are resolved by the Board of Directors and reviewed by Supervisors.
- (3) Attachment
  - i. Business Report ( P. 7~8 )
  - ii. Auditors' Report. ( P. 10~14 & P. 19~23 )
  - iii. Financial Statement ( P. 15~18 & P. 24~27 )
  - iv. Supervisors' Report ( P. 9 )
- (3) Please accept the above-mentioned items

#### **Resolution:**

**2.** (Proposed by the Board of Directors)

### **To approve the earnings distribution of 2017**

#### **Explanation:**

- (1) To draft the distribution of earnings according to Articles of Company ( P.28 ).
- (2) This distribution of earnings are resolved by the Board of Directors and reviewed by Supervisors ( P.9 ).
- (3) Each shareholder will be entitled to receive a cash dividend of NT\$5.0 per share.
- (4) Resolution at Shareholders' Meeting shall authorize the Board of Directors to decide on the Distribution Record Date.
- (5) In the event of that the outstanding shares is affected by capital increase (reduction), buyback of treasury stock or, write-off and transfer of treasury stock, conversion of convertible bonds, conduct of ESO or any other factors, authorized Board of Directors shall resolved the total amount of the distribution of earning at the shareholders' meeting. The distribution shall be adjusted in portion of outstanding shares on the distribution report date.
- (6) Please accept the above-mentioned items.

#### **Resolution:**

## **Election items**

### **1. ( Proposed by the Board of Directors )**

#### **To Elect Directors and Supervisors**

##### **Explanation:**

- ( 1 ) The term of office of all the current (the 13th term) directors and supervisors of the Company will expire on June 8, 2018. This proposal is submitted to the annual Shareholders' Meeting for the election of 7 directors (including 2 independent directors) and 2 supervisors for a term of 3 years.
- ( 2 ) The new 14th term of the Board of Directors and Supervisors shall be elected and take office at the annual Shareholders' Meeting of 2018. The term of office is effective from June 8, 2018 to June 7, 2021.
- ( 3 ) Pursuant to Article 13.(1) of the "the Articles of Incorporation," the Company's board of directors (including independent directors) and supervisors shall be elected by adopting a candidate nomination system. The Company's Board meeting was convened on April 25, 2018 to review and examine the qualifications of the supervisor and director candidates nominated.
- ( 4 ) The two independent director candidates have served as independent directors of the Company for three consecutive terms. In accordance with Paragraph 6, Article 5, "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies," the reasons for continuing to nominate them as independent directors in this election are as follows:  

Mr. Ken-Yi Cheng has expertise in business, finance, and accounting, and he is familiar with securities related laws and regulations. Mr. Nai-Hua Wu has professional experience in the industry and has a deep understanding of the sales channel. During the period when these two candidates served as independent directors of the Company, they were independent and objective in providing the Company with professional and constructive suggestions, to improve the Company's operational value and faithfully perform their supervision duties. Thus, they are still listed as the independent director candidates.
- ( 5 ) The list of the supervisor and director (including independent director) candidates is attached.  
( P. 29~P31 )
- ( 6 ) Voting begins.

##### **Election results:**

## **Discussion Items**

1. (Proposed by the Board of Directors)

### **To approve distribution of cash dividend from APIC**

#### **Explanation:**

- (1) To propose distribution of cash dividend from APIC of NT\$ 47,397,234, and each shareholder will be entitled to receive a cash dividend of NT\$0.3 per share according to shareholders' register.
- (2) Cash dividend amount will be round off to nearest dollar, and fractional amount will be recognized as Other Income.
- (3) After the approval from the Shareholders' Meeting, the Board of Directors will set schedule and timeline for the record date of the capital reduction and that of issuance of new shares.
- (4) In the event of that the outstanding shares is affected by capital increase (reduction), buyback of treasury stock or, write-off and transfer of treasury stock, conversion of convertible bonds, conduct of ESO or any other factors, authorized Board of Directors shall resolved the total amount of the distribution of earning at the shareholders' meeting. The distribution shall be adjusted in portion of outstanding shares on the distribution report date.
- (4) Please jointly decide the above-mentioned item.

#### **Resolution:**

2. (Proposed by the Board of Directors)

### **To approve and release director from non-competition restrictions**

#### **Explanation:**

- (1) In accordance with Article 209 of the R.O.C. Company Act, a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such as act and secure its approval.
- (2) Attached is the content of the business strife of the director (including independent director) candidates' concurrent holding of positions in other companies. ( P.32 )
- (3) Please jointly decide the above-mentioned item.

#### **Resolution:**

## **Special Motion**



## **【Attachment 1】**

### **Holy Stone Enterprise Co., Ltd.**

#### **Business Report**

Holy Stone had an excellent performance in terms of strategic transformation in 2017. In order to pursue a higher operation quality, the Company continuously makes product mix adjustments to increase the revenue share of passive components and reduce the sales of low-margin products. This year's single-quarter gross margin hit a record high in ten years. In 2017, the consolidated revenue was NT\$13.109 billion; the gross profit was NT\$2.421 billion, an increase of 27% over the previous year; the net operating income was NT\$884 million, an increase of 100% over the previous year; the net income attributed to the Parent Company was NT\$879 million, an increase of 74% over the previous year. The after-tax earnings per share was NT\$4.40. If it was calculated using the capital after capital reduction, then the after-tax earnings per share was NT\$5.56.

#### **The State of operation**

The Company's self-produced products are mainly laminated ceramic capacitors (MLCC) and LED ceramic heat sink substrates. The Company has always been developing niche-based MLCC products and is cultivating high-end application market. In 2017, these products achieved significant sales performance in the automotive, industrial control and communications related markets. The Company also participated in the government's "Industry Upgrade and Innovation Platform Assistance Project," to successfully develop "high-value inorganic capacitor materials for lighting" and initiate the high-end LED lighting supply chain. The LED ceramic heat sink substrate is mainly used in the application market of the heat dissipation of visible light and invisible light LED. In 2017, the Company's continuous breakthroughs in process technology brought new business opportunities and increased operational growth momentum. As the Company continues to innovate in its research and development capabilities of the self-produced products, and provides timely products and solutions needed in the market, it effectively improves the operating performance and profitability, and this is also the Company's core development direction.

Our distributed products are long-term cultivated in the communications, automotive and consumer electronics markets. In the future, the Company will continue to follow the market trends and provide customers with valuable services.

#### **The Future Development**

Holy Stone has been investing in the research and development of advanced products and technology for many years, and the resulted good outcomes can be seen this year. The Company will continue to persist in this direction, in order to have break-through innovation, increase R&D scale and production capacity, and expand market penetration of high-end niche-based products, to achieve the win-win goal for both customers and the Company.

In pursuit of technological development and operational performance, the Company will continue to implement corporate governance. Since 2008, the Company has compiled corporate social responsibility reports, to strengthen communication with employees, shareholders, and all stakeholders, and enhance transparency in disclosure of information. The Company always complies with relevant

laws and regulations, provides employees with a safe working environment, and establishes and maintains safety and health management systems so as to become a green enterprise.

Finally, I sincerely thank all the colleagues for their contributions to the Company, as well as the long-term support and recognition of customers, suppliers, shareholders, and the general public. Holy Stone will continue to strengthen its core competitiveness with a more pragmatic and professional attitude and demonstrate its strength with concrete operational results in order to achieve your expectations.

Wish you the best of health!

Chairman: Jing-Rong Tang    President: Jing-Rong Tang    Accountant Manager: Shu-Ying Chang

**【Attachment 2】**

**Holy Stone Enterprise Co., Ltd.  
Supervisors' Report**

The Board of Directors has prepared the Company's 2017 Business Report, Financial Statements, and proposal for allocation of profits. Both CPA Ching-Song Wang and Pei-Chi Chen with KPMG were retained to audit Holy Stone's Financial Statements and have issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the undersigned, the supervisors of Holy Stone Enterprise Company Limited. According to Article 219 of the Company Act, we hereby submit this report.

Holy Stone's Annual Shareholders' Meeting, 2018

Supervisor: Tang-Ming Wu

Chung-Yi Yang

March 12, 2018

## **【Attachment 3】**

### **English Translations of Financial Statements Originally Issued in Chinese**

#### **Independent Auditors' Report**

The Board of Directors and Shareholders  
Holy Stone Enterprise Company Limited

#### **Opinion**

We have audited the financial statements of Holy Stone Enterprise Company Limited, which comprise the financial statements for the parent company. The financial statements for the parent company and its subsidiaries comprise the statement of financial position as at 31 December 2017, and 2016, the statement of income, the statement of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of the parent company have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the parent company as at 31 December 2017 and 2016 and their financial performance for the year then ended in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

#### **Basis for Opinion**

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the parent company in accordance with The Norm of professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Other Information**

Part of Holy Stone Enterprise Company Limited's investment that accounted under equity method was audited by other accountants. Therefore, the amount of partial parent company financial statement among our opinion on these financial statements was according to other accountants' auditor's report. As of December 31, 2017 and 2016, the investment amounts accounted under equity method made up 2.74% and 2.61% of total assets, respectively; the gains or losses from subsidiaries using equity method for the year ended December 31, 2017 and 2016 made up 0.24% and 0.27% of Net income before tax, respectively.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

## **Revenue Recognition**

Refer to the note 4.11 and 6.15 for more details on Unconsolidated Financial Statements.

The parent company's revenue is primarily generated from the provision of multilayer ceramic capacitors, integrated circuits, modules, and other electronic components. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the parent company. We evaluated the design and execution of internal control system, revenue analysis of top 10 trading partners, key reconciliations to assess the completeness and accuracy of revenue, including testing the period in which it is reported.

## **Valuation of Accounts Receivable**

Refer to the note 4.6.4, 5.1, and 6.5 for more details on Unconsolidated Financial Statements.

The parent company's accounts receivable evaluation is based on collectability. Due to high volatility of the industry, it is uncertain to have enough of information of collectability before the Unconsolidated Financial Statements is reported. In addition, the evaluation of collectability involves professional judgment from the management. Therefore, we identified accounts receivable as a key audit matter.

## **Valuation of Inventories**

Refer to the note 4.7, 5.2, and 6.6 for more details on Unconsolidated Financial Statements.

Inventory is carried in the Financial Statements at the lower of cost and net realisable value. Sales in the electronic components industry can be extremely volatile with consumer demand changing significantly based on current trends. As a result there is a risk that the carrying value of inventory exceeds its net realisable value. Our audit procedures were designed to challenge the reasonableness of the parent company's provisions against

impairment of inventory, assessing the hypothesis of allowance for inventory valuation and obsolescence losses from previous years; check if the parent company adopts the valuation of inventories; check inventory age report and analyze the pattern; look into the pattern of selling price and market value of inventories to evaluate the reasonableness of net realisable value; evaluate the legitimacy of the disclosure of allowance for inventory valuation.

### **Valuation of investment using equity method**

Refer to the note 4.8, 5.3, and 6.7 for more details on Unconsolidated Financial Statements.

We identified Valuation of investment using equity method as a key audit matter, as the ending balance of investment using equity method as of December 31st, 2017 made up 18% of consolidated total assets.

Our audit procedures were designed to understand the internal control system of investment using equity method; check for discrepancy of the investment amount; check if the ownership ratio is correct; check for discrepancy of the cost and net value of stocks, and check if adequate procedures are taken to deal with any change of unrealized gain/loss and stockholders' equity of the investee company; evaluate if there is any impairment occurred and the reasonableness of future discounted cash flow from investee company.

### **Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the parent company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the parent company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
2. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
3. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
4. conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
5. evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the parent company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were

of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Accountants:

Taipei, Taiwan  
Republic of China

March 5, 2018



**English Translations of Financial Statements Originally Issued in Chinese**  
**HOLY STONE ENTERPRISE COMPANY LIMITED**

**Balance Sheets**

**December 31, 2017, 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

Assets	2017.12.31		2016.12.31			Liabilities and Equity	2017.12.31		2016.12.31	
	Amount	%	Amount	%			Amount	%	Amount	%
<b>Current Assets:</b>						<b>Current Liabilities:</b>				
1100 Cash and Cash Equivalents (Note6.1)	\$ 1,927,934	18	\$ 2,350,568	21	2100	Short-term Loans (Note6.9)	\$ 1,011,050	9	1,633,059	14
1110 Financial Assets at Fair Value through Profit or Loss - Current (Note6.2)	29,819	-	15,157	-	2170	Notes and Accounts Payable	1,271,822	12	951,469	9
1150 Notes and Accounts Receivable, net (Note6.5)	1,886,065	17	2,267,708	20	2180	Accounts Payable - Related Parties (Note7)	53,259	-	56,863	-
1180 Account Receivable - Related Parties (Note6.5&7)	982,624	9	887,324	8	2200	Other Receivables	611,690	6	410,746	4
1200 Other Receivables (Note6.5)	76,512	1	116,329	1	2230	Current Period Income Tax Liability	122,284	1	38,544	-
130X Inventories (Note6.6)	1,997,233	18	1,544,119	14		<b>Total Current Liabilities*</b>	<u>3,070,105</u>	<u>28</u>	<u>3,090,681</u>	<u>27</u>
1410 Prepaid Expenses and Other Current Assets	13,191	-	20,188	-	2570	<b>Noncurrent Liabilities:</b>				
<b>Total Current Assets</b>	<u>6,913,378</u>	<u>63</u>	<u>7,201,393</u>	<u>64</u>	2640	Deferred Income Tax Liabilities (Note6.11)	16,684	-	28,429	-
<b>Noncurrent Assets:</b>					2670	Accrued Pension Liabilities (Note6.10)	61,707	1	59,738	1
1523 Available-for-sale Financial Assets - Noncurrent (Note6.3)	15,656	-	49,570	-		Other Noncurrent Liabilities - Others	11	-	19	-
1543 Financial Assets Carried at Cost - Noncurrent (Note6.4)	24,246	-	24,246	-		<b>Total Noncurrent Liabilities</b>	<u>78,402</u>	<u>1</u>	<u>88,186</u>	<u>1</u>
1550 Investments under Equity Method (Note6.7)	2,009,159	18	2,138,335	19		<b>Total Liabilities</b>	<u>3,148,507</u>	<u>29</u>	<u>3,178,867</u>	<u>28</u>
1600 Property, Plant and Equipment (Note6.8 & 7)	1,840,843	17	1,950,016	17	3110	<b>Equity (Note6.10 &amp; 6.12):</b>				
1840 Deferred Income Tax Assets (Note6.11)	36,136	-	31,563	-	3100	Common Stock	1,579,908	14	2,242,154	20
1915 Prepaid Expense on Equipment	154,753	2	10,051	-	3200	Capital Surplus	3,493,390	32	3,567,070	31
1990 Other Noncurrent Assets - Others (Note8)	14,141	-	13,270	-	3310	Retained Earnings:				
<b>Total Noncurrent Assets</b>	<u>4,094,934</u>	<u>37</u>	<u>4,217,051</u>	<u>36</u>	3350	Legal Reserve	1,272,159	12	1,221,549	11
						Unappropriated Earnings	1,408,577	13	1,032,179	9
						Total Retained Earnings	2,680,736	25	2,253,728	20
						Other Equity:				
						3410 Exchange Differences on Translation of Financial Statements of Foreign Operations	(57,854)	(1)	13,280	-
						3425 Unrealized Gains and Losses on Available-for-sale Financial Assets	163,625	1	163,345	1
						Total Other Equity	105,771	-	176,625	1
						<b>Total Equity</b>	<u>7,859,805</u>	<u>71</u>	<u>8,239,577</u>	<u>72</u>
<b>Total Assets</b>	<u>\$ 11,008,312</u>	<u>100</u>	<u>11,418,444</u>	<u>100</u>		<b>Total Liabilities and Equity</b>	<u>\$ 11,008,312</u>	<u>100</u>	<u>\$ 11,418,444</u>	<u>100</u>

The accompanying notes are an integral part of the financial statements.

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

**HOLY STONE ENTERPRISE COMPANY LIMITED**

**Statements of Income**

**For the years ended December 31, 2017, 2016**

(Expressed in Thousands of New Taiwan dollars, except earnings per share)

		2017		2016	
		Amount	%	Amount	%
4000	<b>Net Sales</b> (Note6.15&7)	\$ 11,138,979	100	11,546,400	100
5000	<b>Cost of Goods Sold</b> (Note6.6、6.10&7&12)	(9,180,704)	(82)	(10,072,169)	(87)
	<b>Gross Profit</b>	1,958,275	18	1,474,231	13
5910	Unrealized Gains and Losses on Sales	2,284	-	(5,751)	-
	<b>Gross Profit</b>	1,960,559	18	1,468,480	13
	<b>Operating Expense</b> (Note6.10&7&12)				
6100	Selling and Administrative*	(735,980)	(7)	(630,385)	(5)
6300	Research and Development	(138,051)	(1)	(144,025)	(1)
	<b>Total Operating Expense</b>	(874,031)	(8)	(774,410)	(6)
	<b>Operating Income</b>	1,086,528	10	694,070	7
	<b>Non-Operating Income and Expenses</b> (Note7):				
7020	Other Gains and Losses	63,004	1	29,341	-
7050	Financial Costs	(19,766)	-	(13,396)	-
7070	Gains of Losses from Subsidiary Using Equity Method	(85,551)	(1)	(107,142)	(1)
7100	Interest Income	8,912	-	10,920	-
	<b>Total Non-Operating Income and Expenses</b>	(33,401)	-	(80,277)	(1)
7900	<b>Income before Income Tax</b>	1,053,127	10	613,793	6
7950	<b>Less: Income Tax Expense</b> (Note6.11)	174,274	2	107,692	1
	<b>Net Income for Current Period</b>	878,853	8	506,101	5
8300	<b>Other Comprehensive Gains and Losses:</b>				
8310	<b>Revaluation income</b>				
8311	Defined benefit plan	(3,414)	-	(4,310)	-
8349	Income Tax incurred	-	-	-	-
	<b>Total Revaluation income</b>	(3,414)	-	(4,310)	-
8360	<b>Revaluation income arising from reclassification</b>				
8361	Exchange Differences on Translation of Financial Statements of Foreign Operations	(71,134)	(1)	(41,909)	-
8362	Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	(4,818)	-	10,579	-
8399	Income Tax related to reclassification	5,098	=	6,101	-
	<b>Total Revaluation income arising from reclassification</b>	(70,854)	(1)	(25,229)	-
8300	<b>Other Comprehensive Income for Current Period (after tax)</b>	(74,268)	(1)	(29,539)	-
	<b>Total Comprehensive Income for Current Period</b>	<b>\$ 804,585</b>	<b>7</b>	<b>476,562</b>	<b>5</b>
	<b>Earnings per Share</b> (Note 6.15)				
9750	<b>Basic Earnings per Share (Unit: NT Dollar)*</b>	<b>\$ 4.40</b>		<b>2.26</b>	
9850	<b>Diluted Earnings per Share (Unit: NT Dollar)*</b>	<b>\$ 4.37</b>		<b>2.23</b>	

The accompanying notes are an integral part of the financial statements.

**Chairman: Jing-Rong Tang    President: Jing-Rong Tang    Accountant Manager: Shu-Ying Chang**

**HOLY STONE ENTERPRISE COMPANY LIMITED**

**Statements of Changes in Stockholders' Equity**

**For the years ended December 31, 2017, 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	Equity Attributable to Stockholders of Parent Company						
	Retained Earnings				Other Equity		
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings*	Exchange Differences on Translation Of financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Products	Total Equity
<b>Beginning Balance, January 1, 2016</b>	\$ 2,242,154	3,608,244	1,161,732	1,150,743	45,807	156,047	8,364,727
Net Income	-	-	-	506,101	-	-	506,101
Other Comprehensive Income	-	-	-	(4,310)	(32,527)	7,298	(29,539)
Total Comprehensive Income	-	-	-	501,791	(32,527)	7,298	476,562
Appropriation of Retained Earnings							
Provision for Legal Reserve	-	-	59,817	(59,817)	-	-	-
Cash Dividend for Common Stock	-	-	-	(560,538)	-	-	(560,538)
Profit (loss) of associates and joint ventures accounted for using equity method	-	(41,174)	-	-	-	-	(41,174)
<b>Ending Balance, December 31, 2016</b>	2,242,154	3,567,070	1,221,549	1,032,179	13,280	163,345	8,239,577
Net Income	-	-	-	878,853	-	-	878,853
Other Comprehensive Income	-	-	-	(3,414)	(71,134)	280	(74,268)
Total Comprehensive Income	-	-	-	875,439	(71,134)	280	804,585
Appropriation of Retained Earnings							
Provision for Legal Reserve	-	-	50,610	(50,610)	-	-	-
Cash Dividend for Common Stock	-	-	-	(448,431)	-	-	(448,431)
Other Changes to Additional Paid-In Capital:							
Capital reserve distribution of cash dividends	-	(112,107)	-	-	-	-	(112,107)
Exercise Employee Stock Warrants	10,400	38,376	-	-	-	-	48,776
Cash reduction	(672,646)	-	-	-	-	-	(672,646)
Profit (loss) of associates and joint ventures accounted for using equity method	-	51	-	-	-	-	51
<b>Ending Balance, December 31, 2017</b>	\$ 1,579,908	3,493,390	1,272,159	1,408,577	(57,854)	163,625	7,859,805

Note: Remuneration of directors and supervisors of NT\$24,071, NT\$14,030 and employee benefit of NT\$126,375 and NT\$73,655 as of 2017 and 2016, respectively, have been deducted from Comprehensive Income Statement

The accompanying notes are an integral part of the financial statements.

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

**English Translations of Financial Statements Originally Issued in Chinese**

**HOLY STONE ENTERPRISE COMPANY LIMITED**

**Statements of Cash Flows**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows generated from Operating activities:</b>		
Income before Income Tax	\$ 1,053,127	613,793
<b>Adjusted Items:</b>		
Incomes or Expenses		
Depreciation	243,703	244,984
Bad Debt(Turnover)	-	-
Interest Expense	19,766	13,396
Interest Income	(8,912)	(10,920)
Dividend Income	(291)	-
Gains or Losses from Subsidiary Using Equity Method	85,551	107,142
Gain or Losses on Disposal and Scrap of Property, Plant and Equipment	(6,439)	(7,657)
Gain on Disposal of Investment	(39,248)	-
Gain or Losses on Non-Financial Assets	-	4,915
Unrealized Gains and Losses on Sales	(2,284)	5,751
Total Incomes or Expenses	<u>291,846</u>	<u>357,611</u>
Change in Assets and Liabilities related to Operating Activities:		
Change in Assets related to Operating Activities:		
Financial Assets at Fair Value through Profit or Loss - Current	(14,662)	463,479
Account and Notes Payable	381,643	(89,175)
Accounts Payable - Related Parties	(95,300)	(114,363)
Other Receivables	39,081	(72,257)
Inventory	(453,114)	(71,301)
Prepaid Expenses and Other Current Assets	6,997	(9,685)
Total	<u>(135,355)</u>	<u>106,698</u>
Change in Liabilities related to Operating Activities:		
Accounts Payable	320,353	33,666
Accounts Payable - Related Parties	(3,604)	6,042
Other Payables	201,743	(22,638)
Net Defined benefit liability	(1,444)	(1,346)
Total	<u>517,048</u>	<u>15,724</u>
Total Adjustment from Change in Assets and Liabilities related to Operating Activities	<u>381,693</u>	<u>122,422</u>
Total Adjusted Items	<u>673,539</u>	<u>480,033</u>
Cash Flow generated from Operations	1,726,666	1,093,826
Interest Collected	9,647	11,784
Dividends Collected	291	-
Interest Paid	(20,566)	(12,612)
Income Tax Paid	(101,754)	(153,860)
<b>Net Cash Flows generated from Operating activities</b>	<u>1,614,284</u>	<u>939,138</u>
<b>Cash Flows generated from Investing Activities:</b>		
Disposal of Available-for-Sale Financial Assets	43,171	-
Acquisition of Property and Equipments	(287,153)	(60,991)
Sale of Property and Equipments	14,360	8,203
Decrease in Other Noncurrent Assets	(871)	1,950
<b>Net Cash Flows generated from (used in) Investing Activities</b>	<u>(230,493)</u>	<u>(50,838)</u>
<b>Cash Flows generated from Financing Activities:</b>		
Increase (Decrease) in Short-term Loans	(622,009)	372,872
Repayments on Corporate Bonds	-	-
Increase (Decrease) in Other Noncurrent Liabilities	(8)	3
Cash Dividend Distribution	(560,538)	(560,538)
Cash reduction	(672,646)	-
Exercise Employee Stock Warrants	48,776	-
<b>Net Cash Flows used in Financing Activities</b>	<u>(1,806,425)</u>	<u>(187,663)</u>
<b>Increase (Decrease) in Cash and Cash in Banks of Current Period</b>	<u>(422,634)</u>	<u>700,637</u>
<b>Cash and Cash in Banks at Beginning of the Period</b>	<u>2,350,568</u>	<u>1,649,931</u>
<b>Cash and Cash in Banks at End of the Period</b>	<u>\$ 1,927,934</u>	<u>2,350,568</u>

The accompanying notes are an integral part of the financial statements.

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

## **【Attachment 4】**

English Translation of a Report Originally Issued in Chinese

### **Independent Auditors' Report**

The Board of Directors and Shareholders  
Holy Stone Enterprise Company Limited

#### **Opinion**

We have audited the financial statements of Holy Stone Enterprise Company Limited, which comprise the financial statements for the parent company and its subsidiaries (“the Company”). The financial statements for the parent company and its subsidiaries comprise the statement of financial position as at 31 December 2017, and 2016, the statement of income, the statement of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of the Company have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and 2016 and their financial performance for the year then ended in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

#### **Basis for Opinion**

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with The Norm of professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Information**

Part of Holy Stone Enterprise Company Limited’s investment that accounted under equity method was audited by other accountants. Therefore, the amount of partial Company financial statement among our opinion on these financial statements was according to other accountants’ auditor’s report. As of December

31, 2017 and 2016, the investment amounts accounted under equity method made up 5.63% and 3.04% of total assets, respectively; the gains or losses from subsidiaries accounted under equity method for the year ended December 31, 2017 and 2016 made up 12.58% and 14.06% of Net income before tax, respectively.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

### **Revenue Recognition**

Refer to the note 4.13 and 6.17 for more details on Unconsolidated Financial Statements.

The Company's revenue is primarily generated from the provision of multilayer ceramic capacitors, integrated circuits, modules, and other electronic components. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Company. We evaluated the design and execution of internal control system, revenue analysis of top 10 trading partners, key reconciliations to assess the completeness and accuracy of revenue, including testing the period in which it is reported.

### **Valuation of Accounts Receivable**

Refer to the note 4.7.4, 5.1, and 6.5 for more details on Unconsolidated Financial Statements.

The Company's accounts receivable evaluation is based on collectability. Due to high volatility of the industry, it is uncertain to have enough of information of collectability before the Unconsolidated Financial Statements is reported. In addition, the evaluation of collectability involves professional judgment from the management. Therefore, we identified accounts receivable as a key audit matter.

### **Valuation of Inventories**

Refer to the note 4.8, 5.2, and 6.6 for more details on Unconsolidated Financial Statements.

Inventory is carried in the Financial Statements at the lower of cost and net realisable value. Sales in the electronic components industry can be extremely volatile with consumer demand changing significantly based on current trends. As a result there is a risk that the carrying value of inventory exceeds its net realisable value.

Our audit procedures were designed to challenge the reasonableness of the Company's provisions against impairment of inventory, assessing the hypothesis of allowance for inventory valuation and obsolescence losses from previous years; check if the Company adopts the valuation of inventories; check inventory age report and analyze the pattern; look into the pattern of selling price and market value of inventories to

evaluate the reasonableness of net realisable value; evaluate the legitimacy of the disclosure of allowance for inventory valuation.

### **Goodwill Impairment**

The accounting policy regarding goodwill is detailed in Note 4.11 Intangible Assets of the consolidated financial statements. The estimation uncertainty and assumption uncertainty in the accounting of goodwill is detailed in Note 5.3 of the consolidated financial statements. The goodwill impairment assessment is detailed in Note 6.9

Communication of key audit matters:

Goodwill is generated from the acquisition of subsidiaries in previous years and is listed under intangible assets. The assessment of goodwill impairment is one of the significance audit items in the certified public account's audit of financial statements of the Holy Stone Group.

The responding audit procedures:

The management of Holy Stone Group has sought the assistance of external appraisers to evaluate the value of goodwill. The certified public account's main audit procedures of the aforementioned key audit matters include using internal evaluation experts to assess the suitability of the forecasting method and the discount rate used by the management of the Group, and to compare the discount rate with external information. For cash flow forecast, the certified public account's main audit procedures include conducting variance analysis of the difference between the actual cash flow and the forecast amount, and assessing the key assumptions used in forecasting future cash flows and evaluating the reasonableness based on historical information.

### **Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a

material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
2. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
3. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
4. conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
5. evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other



matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Accountants:

Taipei, Taiwan  
Republic of China

March 5, 2018

**English Translations of Consolidated Financial Statements Originally Issued in Chinese**

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2017, 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

Assets		2017.12.31		2016.12.31		Liabilities and Equity		2017.12.31		2016.12.31	
		Amount	%	Amount	%			Amount	%	Amount	%
<b>Current Assets:</b>						<b>Current Liabilities:</b>					
1100	Cash and Cash Equivalents (Note6.1)	\$ 3,009,908	25	3,406,289	28	2100	Short-term Loans (Note6.10&8)	\$ 1,093,050	9	1,663,059	14
1110	Financial Assets at Fair Value through Profit or Loss - Current (Note6.2)	66,870	1	92,368	1	2170	Accounts Payable	1,370,532	11	1,064,785	9
1150	Notes and Accounts Receivable, net (Note6.5&7)	3,104,846	26	3,398,021	28	2180	Accounts Payable - Related Parties (Note7)	14,809	-	26,411	-
1200	Other Receivables (Note6.5)	114,688	1	152,948	1	2200	Other Payables	840,807	7	581,749	5
130X	Inventories (Note6.6)	2,193,230	18	1,805,964	15	2230	Current Period Income Tax Liability	133,586	1	45,301	-
1410	Prepaid Expenses and Other Current Assets	70,831	1	43,226	-	2322	Current Portion of Long-term Debt (Note6.11&8)	2,198	-	2,171	-
	<b>Total Current Assets</b>	<b>8,560,373</b>	<b>72</b>	<b>8,898,816</b>	<b>73</b>		<b>Total Current Liabilities</b>	<b>3,454,982</b>	<b>28</b>	<b>3,383,476</b>	<b>28</b>
<b>Noncurrent Assets:</b>						<b>Noncurrent Liabilities:</b>					
1523	Available-for-sale Financial Assets - Noncurrent (Note6.3)	334,574	3	381,162	3	2540	Long-term Loans (Note6.11&8)	68,014	1	17,058	-
1543	Financial Assets Carried at Cost - Noncurrent (Note6.4)	323,716	3	317,987	3	2570	Deferred Income Tax Liabilities (Note6.13)	16,684	-	28,464	-
1550	Investment using Equity Method (Note 6.7)	748	-	-	-	2640	Accrued Pension Liabilities-Noncurrent (Note6.12)	61,707	1	59,738	-
1600	Property, Plant and Equipment (Note6.8&8)	2,320,640	19	2,406,685	19	2670	Other Noncurrent Liabilities – Others	2,311	-	2,868	-
1780	Intangible Assets (Note6.9)	186,263	2	254,298	2		<b>Total Noncurrent Liabilities</b>	<b>148,716</b>	<b>2</b>	<b>108,128</b>	<b>-</b>
1840	Deferred Income Tax Assets (Note6.13)	36,901	-	32,265	-		<b>Total Liabilities</b>	<b>3,603,698</b>	<b>30</b>	<b>3,491,604</b>	<b>28</b>
1915	Prepaid Expense on Equipment	140,515	1	10,051	-	<b>Equity Attributable to Parent Company (Note6.12&amp;6.14):</b>					
1990	Other Noncurrent Assets - Others (Note8)	23,268	-	23,220	-	3110	Common Stock	1,579,908	13	2,242,154	18
	<b>Total Noncurrent Assets</b>	<b>3,366,625</b>	<b>28</b>	<b>3,425,668</b>	<b>27</b>	3200	Capital Surplus	3,493,390	29	3,567,070	29
							Retained Earnings:				
						3310	Legal Reserve	1,272,159	11	1,221,549	10
						3350	Unappropriated Earnings	1,408,577	12	1,032,179	9
							Total Retained Earnings	2,680,736	23	2,253,728	19
							Other Equity:				
						3410	Exchange Differences on Translation of Financial Statements of Foreign Operations	(57,854)	-	13,280	-
						3425	Unrealized gains and losses on Available-for-sale Financial Assets	163,625	1	163,345	1
							Total Other Equity	105,771	1	176,625	1
							<b>Non-Controlling Equity</b>	<b>463,495</b>	<b>4</b>	<b>593,303</b>	<b>5</b>
							<b>Total Equity</b>	<b>8,323,300</b>	<b>70</b>	<b>8,832,880</b>	<b>72</b>
							<b>Total Liabilities and Equity</b>	<b>\$ 11,926,998</b>	<b>100</b>	<b>12,324,484</b>	<b>100</b>
	<b>Total Assets</b>	<b>\$ 11,926,998</b>	<b>100</b>	<b>12,324,484</b>	<b>100</b>						

The accompanying notes are an integral part of the financial statements.

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2017, 2016

(Expressed in Thousands of New Taiwan Dollars, except earnings per share)

	2017		2016	
	Amount	%	Amount	%
Net Sales(Note6.17&7)	13,108,837	100	13,166,572	100
Cost of Goods Sold(Note6.6、6.12&7)	10,687,871	82	11,261,662	86
<b>Gross Profit</b>	<b>2,420,966</b>	<b>18</b>	<b>1,904,910</b>	<b>14</b>
<b>Operating Expense</b>				
Selling and Administrative(Note6.12&6.18)	1,249,303	10	1,158,620	9
Research and Development(Note6.12&6.18)	287,480	2	304,832	2
<b>Total Operating Expense</b>	<b>1,536,783</b>	<b>12</b>	<b>1,463,452</b>	<b>11</b>
<b>Operating Income</b>	<b>884,183</b>	<b>6</b>	<b>441,458</b>	<b>3</b>
<b>Non-Operating Income and Expenses:</b>				
Other Gains and Losses(Note6.9&6.19)	51,014	0	11,940	0
Financial Costs	(20,714)	-	(16,143)	-
Share of Profit of Associates Accounted for Using Equity Method	(252)	-	-	-
Interest Income	14,299	-	17,668	-
<b>Total Non-Operating Income and Expenses</b>	<b>44,347</b>	<b>0</b>	<b>13,465</b>	<b>0</b>
<b>Income before Income Tax</b>	<b>928,530</b>	<b>6</b>	<b>454,923</b>	<b>3</b>
<b>Less: Income Tax Expense(Note6.13)</b>	<b>(191,092)</b>	<b>(1)</b>	<b>(116,802)</b>	<b>(1)</b>
<b>Net Income for Current Period</b>	<b>737,438</b>	<b>5</b>	<b>338,121</b>	<b>2</b>
<b>Other Comprehensive Gains and Losses:</b>				
<b>Items not to be reclassified into profit or loss:</b>				
Remeasurements of defined benefit plans	(3,414)	-	(4,310)	-
Less: Income Tax	-	-	-	-
<b>Total Items not to be reclassified</b>	<b>(3,414)</b>	<b>-</b>	<b>(4,310)</b>	<b>-</b>
<b>Revaluation gain or loss arising from reclassification</b>				
Exchange Differences on Translation of Financial Statements of Foreign Operations	(73,255)	(1)	(45,687)	0
Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	8,711	0	9,117	0
Income Tax arising from revaluation gain or loss	5,098	0	6,101	-
<b>Total revaluation gain or loss arising from reclassification</b>	<b>(59,446)</b>	<b>(1)</b>	<b>(30,469)</b>	<b>-</b>
<b>Other Comprehensive Gains and Losses (Net of Tax)</b>	<b>(62,860)</b>	<b>(1)</b>	<b>(34,779)</b>	<b>-</b>
<b>Total Comprehensive Profit or Loss for Current Period</b>	<b>674,578</b>	<b>4</b>	<b>303,342</b>	<b>2</b>
<b>Net Income Attributable to:</b>				
Stockholders of Parent Company	878,853	6	506,101	3
Non-Controlling Equity	(141,415)	(1)	(167,980)	(1)
	<b>737,438</b>	<b>5</b>	<b>338,121</b>	<b>2</b>
<b>Comprehensive Profit or Loss Attributable to:</b>				
Stockholders of Parent Company	804,585	5	476,562	3
Non-Controlling Equity	(130,007)	(1)	(173,220)	(1)
	<b>674,578</b>	<b>4</b>	<b>303,342</b>	<b>2</b>
<b>Earnings per Share(Note6.16)</b>				
<b>Basic Earnings per Share (Unit: NT Dollar)</b>		<b>4.40</b>		<b>2.26</b>
<b>Diluted Earnings per Share (Unit: NT Dollar)</b>		<b>4.37</b>		<b>2.23</b>

The accompanying notes are an integral part of the financial statements.

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

English Translations of Consolidated Financial Statements Originally Issued in Chinese

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Statements of Changes in Stockholders' Equity**

For the years ended December 31, 2017, 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity Attributable to Stockholders of Parent Company							Non-Controlling Equity	Total Equity
	Retained Earnings				Other Equity		Total Equity Attributable to Stockholders of Parent Company		
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translation of Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Products			
<b>Beginning Balance, January 1, 2016</b>	\$ 2,242,154	3,608,244	1,161,732	1,150,743	45,807	156,047	8,364,727	637,266	9,001,993
Net Income for Current Period	-	-	-	506,101	-	-	506,101	(167,980)	338,121
Other Comprehensive Profit or Loss for Current Period	-	-	-	(4,310)	(32,527)	7,298	(29,539)	(5,240)	(34,779)
Total Comprehensive Profit or Loss for Current Period	-	-	-	501,791	(32,527)	7,298	476,562	(173,220)	303,342
Appropriations of Retained Earnings:									
Legal Capital Reserve	-	-	59,817	(59,817)	-	-	-	-	-
Cash Dividends to Shareholders	-	-	-	(560,538)	-	-	(560,538)	-	(560,538)
Profit(loss) of associates and joint ventures accounted for using equity method	-	(41,174)	-	-	-	-	(41,174)	-	(41,174)
Non-controlling Interests	-	-	-	-	-	-	-	129,257	129,257
<b>Beginning Balance, January 1, 2017</b>	2,242,154	3,567,070	1,221,549	1,032,179	13,280	163,345	8,239,577	593,303	8,832,880
Net Income for Current Period	-	-	-	878,853	-	-	878,853	(141,415)	737,438
Other Comprehensive Profit or Loss for Current Period	-	-	-	(3,414)	(71,134)	280	(74,268)	11,408	(62,860)
Total Comprehensive Profit or Loss for Current Period	-	-	-	875,439	(71,134)	280	804,585	(130,007)	674,578
Appropriations of Retained Earnings:									
Legal Capital Reserve	-	-	50,610	(50,610)	-	-	-	-	-
Cash Dividends to Shareholders	-	-	-	(448,431)	-	-	(448,431)	-	(448,431)
Other Changes to Additional Paid-In Capital:									
Capital reserve distribution of cash dividends	-	(112,107)	-	-	-	-	(112,107)	-	(112,107)
Exercise Employee Stock Warrants	10,400	38,376	-	-	-	-	48,776	-	48,776
Cash reduction	(672,646)	-	-	-	-	-	(672,646)	-	(672,646)
Profit(loss) of associates and joint ventures accounted for using equity method	-	51	-	-	-	-	51	-	51
Non-controlling Interests	-	-	-	-	-	-	-	199	199
<b>Ending Balance, Dec. 31, 2017</b>	<b>\$ 1,579,908</b>	<b>3,493,390</b>	<b>1,272,159</b>	<b>1,408,577</b>	<b>(57,854)</b>	<b>163,625</b>	<b>7,859,805</b>	<b>463,495</b>	<b>8,323,300</b>

The accompanying notes are an integral part of the financial statements.

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

**English Translations of Consolidated Financial Statements Originally Issued in Chinese**  
**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows**  
**For the years ended December 31, 2017, 2016**

(Expressed in Thousands of New Taiwan Dollars)

	<u>2017</u>	<u>2016</u>
<b>Cash Flows generated from Operating activities:</b>		
<b>Income before Income Tax</b>	\$ 928,530	454,923
<b>Adjusted Items:</b>		
Incomes or Expenses		
Depreciation	282,465	285,733
Bad Debt(Turnover)	3,702	3,310
Interest Expense	1,565	(368)
Interest Income	20,714	16,143
Dividend Income	(14,299)	(17,668)
Gains or Losses from Subsidiary Using Equity Method	(25,342)	(23,787)
Gain or Losses on Disposal and Scrap of Property, Plant and Equipment	252	-
Gain on Disposal of Investment	(6,444)	(7,642)
Gain or Losses on Non-Financial Assets	(53,861)	-
Unrealized Gains and Losses on Sales	48,690	56,535
Total Incomes or Expenses	<u>257,442</u>	<u>312,256</u>
Change in Assets and Liabilities related to Operating Activities:		
Change in Assets related to Operating Activities:		
Financial Assets at Fair Value through Profit or Loss - Current	25,498	526,199
Account and Notes Payable	291,884	(350,199)
Other Receivables	37,165	(98,385)
Inventory	(387,266)	(100,327)
Prepaid Expenses and Other Current Assets	(27,605)	(5,899)
Total	<u>(60,324)</u>	<u>(28,611)</u>
Change in Liabilities related to Operating Activities:		
Accounts Payable	305,747	12,729
Accounts Payable - Related Parties	(11,602)	6,710
Other Payables	259,857	(18,675)
Net Defined benefit liability-Noncurrent	(1,444)	(1,346)
Total	<u>552,558</u>	<u>(582)</u>
Total Adjustment from Change in Assets and Liabilities related to Operating Activities	<u>492,234</u>	<u>(29,193)</u>
Total Adjusted Items	<u>749,676</u>	<u>283,063</u>
Cash Flow generated from Operations	1,678,206	737,986
Interest Collected	15,394	17,774
Dividends Collected	25,342	23,787
Interest Paid	(21,513)	(15,346)
Income Tax Paid	(114,141)	(161,359)
<b>Net Cash Flows generated from Operating activities</b>	<u>1,583,288</u>	<u>602,842</u>
<b>Cash Flows generated from Investing Activities:</b>		
Disposal of Available-for-Sale Financial Assets	109,160	-
Acquisition of Property and Equipments	(26,500)	(5,991)
Disposal of Financial Assets Carried at Cost	-	15,000
Cash Refund from Capital Reduction Derived from Financial Assets Carried at Cost	20,148	42,340
Acquisition of Investments Accounted for Using Equity Method	(1,000)	-
Acquisition of Property and Equipments	(337,820)	(66,544)
Disposal of Property and Equipments	14,589	8,209
Acquisition of Intangible Assets	(936)	(541)
Decrease (Increase) in Other Noncurrent Assets	(1,061)	49,573
<b>Net Cash Flows generated from (used in) Investing Activities</b>	<u>(223,420)</u>	<u>42,046</u>
<b>Cash Flows generated from Financing Activities:</b>		
Increase (Decrease) in Short-term Loans	(570,009)	362,872
Increase in Long-term Loans	52,973	-
Increase in Non-current Liability	(1,989)	(2,133)
Increase (Decrease) in Other Noncurrent Liabilities	(557)	567
Cash Dividend Distribution	(560,538)	(560,538)
Cash reduction	(672,646)	-
Exercise Employee Stock Warrants	48,776	-
Changes in Non-Controlling Equity	250	78,702
<b>Net Cash Flows used in Financing Activities</b>	<u>(1,703,740)</u>	<u>(120,530)</u>
Effect of Exchange Rate Changes in Cash and Cash Equivalents	<u>(52,509)</u>	<u>(23,601)</u>
<b>Increase (Decrease) in Cash and Cash in Banks of Current Period</b>	<u>(396,381)</u>	<u>500,757</u>
<b>Cash and Cash in Banks at Beginning of the Period</b>	<u>3,406,289</u>	<u>2,905,532</u>
<b>Cash and Cash in Banks at End of the Period</b>	<u>\$ 3,009,908</u>	<u>3,406,289</u>

The accompanying notes are an integral part of the financial statements.

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

**【Attachment 5】****Holy Stone Enterprise Co., Ltd.****Earnings Distribution Table**

December 31, 2017

Unit: NT\$

Item	Amount	Total Amount
Net Income of 2017	878,853,022	
Less : Legal Reserve	87,885,302	
Earning in 2017 Available for Distribution		790,967,720
Beginning Unappropriated retained earnings	533,137,134	
Plus : Other comprehensive loss for current period	( 3,413,616 )	
Plus : Beginning Unappropriated retained earnings		529,723,518
Total Earning in 2017 Available for Distribution		1,320,691,238
Less : Distribution Item		
Cash Dividends		789,953,895
Ending Unappropriated retained earnings		530,737,343

1. The outstanding shares are 157,990,779 shares which are based on February 28, 2018.

2. As a result of the cash capital increase, treasury shares buy back or to transfer and cancellation of treasury shares, convertible bonds creditor to perform the conversion rights, or employees by way of warrants execution rights, and or other factors, so that when the impact of the company's total outstanding number of shares, the Board of Directors under this resolution of the meeting of shareholders will adjust the distribution ratio, according to the actual number of outstanding shares of the distribution record date.

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

**【Attachment 6】**

**Holy Stone Enterprise Co., Ltd.**

**The list of the supervisor and director (including independent director) candidates**

Title	Name	Shareholding When Elected	Academic Qualification	Principal Work Experience	Position(s) held concurrently in the Company and/or in any other companies
Director	Jing-Rong Tang	5,680,348	Bachelor, Electronic Engineering, Tatung University	Manager, Panasonic Sales Taiwan Co., Ltd.	1.Chairman and President, Holy stone Enterprise Co., Ltd. 2.Representative of institutional shareholder, eGalax_eMPIA Technology Inc. 3.Chairman, Holy Stone Healthcare Co., Ltd.
Director	Lin Tan Investment Co., Ltd. Representative : Chyang Lo	7,206,735	Master, Graduate Institute of Management Sciences, Tamkang University	Project Leader Engineer, Chung-Shan Institute of Science and Technology	Representative of institutional shareholder, Holy stone Enterprise Co., Ltd.
Director	Lin Tan Investment Co., Ltd. Representative : Yu-Min Wu	7,206,735	Bachelor, Department of Accounting, Providence University	Vice President, Holy stone Enterprise Co., Ltd.	1. Representative of institutional shareholder, Holy stone Enterprise Co., Ltd. 2. Supervisor,eGalax_eMPIA Technology Inc.
Director	Shih-Yun Sheng	2,178,327	1. Bachelor, Department of Physics, Tamkang University	Chairman, Westech Electronics Co, Ltd.	1. Chairman and Vice President, Holy stone Enterprise Co., Ltd. 2. Representative of institutional shareholder

Title	Name	Shareholding When Elected	Academic Qualification	Principal Work Experience	Position(s) held concurrently in the Company and/or in any other companies
			2. Doctoral in Management, Macau University of Science and Technology		and Chairman&President, Infortech (China) Co., Ltd 3. Representative of institutional shareholder&Chairman, Holy Stone International Trading (Shanghai) Co., Ltd. 4. Independent director, Santai Wrapper Co., Ltd.
Director	Shao-Kuo Huang	1,063,952	Bachelor, Business Management, Tatung University	Chairman, Infortech (China) Co., Ltd	1. Chairman & Vice President, Holy stone Enterprise Co., Ltd. 2. Representative of institutional shareholder , Infortech (China) Co., Ltd
Independent Director	Ken-Yi Cheng	0	Bachelor, Accounting Department, Feng Chia University	1.Assistant Manager, Taiwan International Securities Corporation 2.Vice President, Hyield Venture Capital Co., Ltd. 3.Director, Best Yield Development Consulting, Inc.	1. Director and President, Grand Fortune Securities Co., Ltd 2. Director, Wintech Microelectronics Co., Ltd. 3. Director, Solytech Enterprise Co. 4. Director, Shieh Yih Machinery Industry Co., Ltd. 5. Representative of institutional shareholder, Leader Electronics Inc 6. Independent Director, Holy stone Enterprise Co., Ltd.



Title	Name	Shareholding When Elected	Academic Qualification	Principal Work Experience	Position(s) held concurrently in the Company and/or in any other companies
					7. Independent Director, Prolific Technology Inc. 8. Independent Director, Hi-trend Technology(shanghai)Co.,Ltd
Independent Director	Nai-Hua Wu	0	1. Bachelor, Chemical Engineering, National Cheng Kung University 2. Master of Management, National Chengchi University	1. Vice Manager, Upking International Co., Ltd. 2. General Manager, Teraspan Technologies, Corp.	1. Chairman and President, Instant-Dict Co., Ltd 2. Independent Director, Holy stone Enterprise Co., Ltd. 3. Independent Director, Holy Stone Healthcare Co., Ltd. 4. Independent Director, Apex Science & Engineering Corp.
Supervisor	Tang-Ming Wu	536,043	Bachelor, Accounting, Fu Jen Catholic University	Accountant, Touche CPA Firm	1. Head Accountant, Honesty CPA Firm 2. Supervisor, Holy stone Enterprise Co., Ltd.
Supervisor	Chung-Yi Yang	412,041	Bachelor, Business Administration, National Taichung Institute of Technology	Chairman, Lin Tan Investment Co., Ltd.	Supervisor, Holy stone Enterprise Co., Ltd.

**【Attachment 7】**

**Holy Stone Enterprise Co., Ltd.**

**the director (including independent director) candidates' concurrent holding of positions in other companies**

Title	Name	Position held concurrently in any other companies	
		Company Name	Title
Director	Jing-Rong Tang	eGalax_eMPIA Technology Inc	Representative of institutional shareholder
Director	Shih-Yun Sheng	Santai Wrapper Co., Ltd.	Independent Director
Independent Director	Ken-Yi Cheng	Wintech Microelectronics Co., Ltd.	Director
		Solytech Enterprise Co.	Director
		Shieh Yih Machinery Industry Co., Ltd.	Director
		Prolific Technology Inc.	Independent Director
		Hi-trend Technology(shanghai)Co.,Ltd	Independent Director
Independent Director	Nai-Hua Wu	Instant-Dict Co., Ltd	Chairman and President
		Apex Science & Engineering Corp.	Independent Director