



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

TWSE: 3026

2016 Annual Report (Translation)

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Taiwan Stock Exchange Market Observation Post System: <http://newmops.twse.com.tw/>

Holy Stone's Website: <https://www.holystone.com.tw/>

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Deputy Spokesperson

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2. Headquarters, Branch Offices, and Factories

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No.15, Sec. 2, Ligong 1st Rd., Letzer Industrial Park, Wujie Township, Yilan County 268, Taiwan (R.O.C.) Tel: 886-3-499-5288

3. Institution Handling Stock Transfer Service

Company: ChinaTrust Commercial Bank, Transfer Agency Department
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Web Site: <http://www.chinatrust.com.tw/>
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4. Certified Public Accountants Auditing Financial Statements during recent years

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Company: KPMG
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5. Foreign Securities Trade & Exchange

No foreign securities are issued by the Company.

6. Company Website

<https://www.holystone.com.tw/>

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1. Letter to Shareholders

Dear Shareholders,

The global economy has been slowing clawing its way forward even with the influence of the black swan events taken place in 2016, Holy Stone (“the Company”, “we”) is no exception; The Company has been proactively transforming itself, and the sales for automotive and industrial use took up over 30% of total revenue. The Company reported consolidated revenue of NT\$13,167 million, and earnings after tax of NT\$2.26 per share.

Overall Performance

The Company’s house-brand product – Multilayer Ceramic Capacitor (MLCC) has gained in popularity in both of domestic and global market as we have devoted significantly to developing high-end product application, and reached a breakthrough for high capacitance MLCC. Holy Stone house brand product, MLCC, has also achieved ISO/TS16949 certification in late 2016, and this is another milestone set for Holy Stone after AEC-Q200 production. New products of system and module also found their way to gain market share in portable device market of IoT application. Revenue of sales from MLCC and system and module involved in industrial and automotive sectors contributed 32% of total revenue of 2016. Following the trend, these two markets will also be the direction and momentum of future growth for the year to come.

The Company has published Corporate Social Responsibility Report since 2008, with the aim of facilitating effective communication with employees, shareholders, and all of stakeholders and increasing corporate information transparency at the same time. In 2016, the Company made it to Taiwan Stock Exchange top 35% in Corporate Governance Evaluation.

Corporate Development

Over the years, the Company has been devoting substantial R&D expense in niche market. We have been sharpening automatic processing skills and staying on top of competition. Throughout the years of professional accumulation, the Company has acquired a number of patents, aiming to keep up sustainability, core competence and global competitiveness toward corporate preeminence.

While pursuing technical development as well as profitability, we will keep putting corporate governance into practice, adopting environmentally friendly measures, and working closely with suppliers to fulfill social responsibility; We will keep abiding by corresponding laws to provide a safe working environment and Health, hygiene and safety management in order to build a green enterprise.

Holy Stone appreciates dedication from employees, as well as support from customers, suppliers, and shareholders. We will keep the cornerstone in mind and hope to exceed expectation at the end of the road.

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

2. An Introduction to Holy Stone

2.1. Date of Foundation: June 1, 1981.

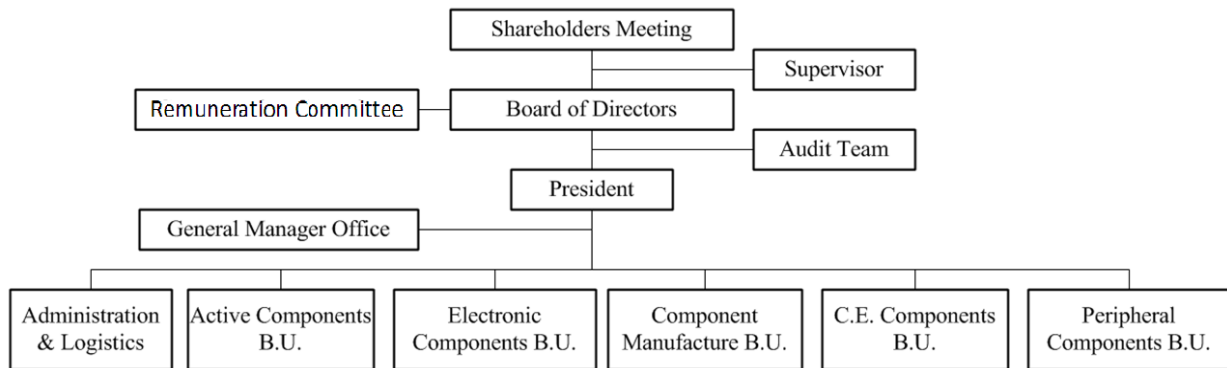
2.2. Milestone:

Jun.	1981	Holy Stone was founded in Taipei, Taiwan, with capital of NT\$2 million.
Feb.	1984	Holy Stone pioneered pension management regulation, annual health examination, annual overseas trip, and so on for employees in the trade industry.
Aug.	1988	Holy Stone acquired dealership of many well-known electronic component manufacturers in West Germany, USA, UK, Singapore, and Japan.
Jul.	1989	Holy Stone implemented Internet system throughout the company.
Feb.	1993	Holy Stone established the Semiconductor Business Department, contributing to the research, development and sales of multimedia-related products
Mar.	1995	Holy Stone founded GSI Technology, Inc. in the U.S.
Oct.	1997	Holy Stone established a materials R&D department and invested in manufacturing
Apr.	1998	Holy Stone was approved by the “Securities & Futures Institute” to public offering.
Apr.	1999	Holy Stone’s MLCC factory was established in Lungtan (Taiwan).
Jan.	2000	Holy Stone’s stock was officially listed in the OTC market.
Aug.	2001	Holy Stone’s second MLCC factory was established in Lungtan (Taiwan).
Jun.	2002	Holy Stone issued the first issue of domestically unsecured convertible corporate bond, and the lump sum was NT\$1 billion.
Aug.	2002	Holy Stone changed to list in TWSE.
Apr.	2004	Holy Stone issued the second issue of domestically unsecured convertible corporate bond, and the lump sum was NT\$1 billion.
Jun.	2004	INPAQ, the affiliate of Holy Stone, was officially listed in the OTC market.
Jul.	2004	Holy Stone merged with Infortech Co., Ltd, and established the Consumer Components Department.
Dec.	2004	Annual sales revenue surpassed NT\$10 billion.
May.	2005	Holy Stone bought a new office in Wenhui, Taipei.
Aug.	2005	Holy Stone’s third MLCC factory was established in Longtan (Taiwan).
Dec.	2005	Diostech Co., Ltd, the affiliate of Holy Stone, launched IPO in KOSDAQ.
Oct.	2006	Holy Stone bought a new office in Shanghai, China.
Mar.	2007	GSI Technology, Inc., the affiliate of Holy Stone, launched IPO in NASDAQ.
Nov.	2007	Holy Stone’s Chinese operating department was headquartered in Shanghai.
Apr.	2008	EETI, the affiliate of Holy Stone, was officially listed in the OTC market.
Jun.	2009	Holy Stone’s Letzer factory was established.
Apr.	2010	Holy Stone started production of tantalum capacitors.
Jun.	2010	Holy Stone issued the third issue of domestically unsecured convertible corporate bond, and the lump sum was NT\$700 million.
Jul.	2010	Holy Stone initiated capital increase by cash, totaled 33 million shares.
Aug.	2015	Holy Stone initiated capital reduction by cash, totaled 96,065,236 shares.

3. Corporate Governance

3.1. Organization System

3.1.1. Organization Structure:



3.1.2. Major Corporate Functions:

3.1.2.1. Audit Team:

- Internal audit regulations establishment, revision, and examination.
- Internal control regulations discussion, audition, and revision
- Overseas subsidiary regulations estimation, formulation, and examination

3.1.2.2. President Secretariat Office:

- Corporate operation development, consultation, and management

3.1.2.3. Active Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals

3.1.2.4. Electronic Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals

3.1.2.5. Component Manufacture B.U.:

- New products development, production, and manufacturing

3.1.2.6. C.E. Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals

3.1.2.7. Peripheral Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals

3.1.2.8. Administration & Logistics:

- Administrative Management Department: human resources planning, personnel management, welfare and affairs management, security protection, and so on
- Finance and Accounting Management Department: financing formulation, funds management and deployment, credit management, accounts settlement, and accounting operations
- Information Technology Department: systems development, and computer software and hardware installation and maintenance
- Logistics Department: import and export declaration, storage and delivery management

Information on Directors, Supervisors, President, Vice Presidents, Assistant Managers, Managers of Departments and Subsidiaries

3.2.1 Information on Directors and Supervisors

Title	Nationality	Name	Sex	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & children of minor age Shareholding	
							Shares	%	Shares	%	Shares	%
Chairman & President	Taiwan R.O.C.	Jing-Rong Tang	M	2015.06.09	3 years	1997.09.09	8,114,784	3.62	8,114,784	3.62	525,573	0.23
Director	Taiwan R.O.C.	Lin Tan Investment Co., Ltd.	-	2015.06.09	3 years	2003.05.28	10,295,336	4.59	10,295,336	4.59	-	-
Director.	Taiwan R.O.C.	Chyang Lo (Note 2)	M	2015.06.09	3 years	2010.01.01	1,683	0.00	1,683	0.00	3,356	0.00
Director	Taiwan R.O.C.	Yu-Min Wu (Note 2)	F	2015.06.09	3 years	1999.04.23	815,704	0.36	815,704	0.36	12,557	0.01
Director & Executive Vice President	Taiwan R.O.C.	Shih-Yun Sheng	M	2015.06.09	3 years	1997.09.09	3,111,896	1.39	3,111,896	1.39	1,021,661	0.46
Director & Vice President	Taiwan R.O.C.	Shao-Kuo Huang	M	2015.06.09	3 years	2006.06.09	1,728,504	0.77	1,658,504	0.74	-	-
Independent Director	Taiwan R.O.C.	Ken-Yi Cheng	M	2015.06.09	3 years	2003.05.28	-	-	-	-	-	-
Independent Director	Taiwan R.O.C.	Nai-Hua Wu	M	2015.06.09	3 years	2004.05.28	-	-	-	-	-	-
Supervisor	Taiwan R.O.C.	Tang-Ming Wu	M	2015.06.09	3 years	1999.04.23	676,634	0.30	716,634	0.32	-	-
Supervisor	Taiwan R.O.C.	Chung-Yi Yang	M	2015.06.09	3 years	1999.04.23	523,630	0.23	523,630	0.23	-	-

Note 1: Mainly publicly traded companies and branch offices in China.

Note 2: Representative of Lin Tan Investment Co., Ltd.

Shareholders that are institutional shareholders

as of 2017.04.09

Shareholders that are institutional shareholders	Major shareholders of the institutional shareholders	Shareholding %
Lin Tan Investment Co., Ltd.	Fang Hao Investment Co., Ltd.	25.00%
	Kai Shen Investment Co., Ltd.	16.07%
	Cheng Ya Investment Co., Ltd.	12.50%
	Pen Chueh Investment Co., Ltd.	10.71%
	Yang, Shi-Wei	5.36%
	Yang, Zi-Xin	5.36%
	Tang, Yu-Qing	4.29%
	Tang, Qi-Hao	4.11%
	Tang, Qi-Yao	4.11%
	Sheng, Kai-Li	3.57%

Unit: Shares as of 2017.04.09

Shareholding by Nominees		Principal Work Experience and Academic Qualifications	Position(s) held concurrently in the Company and/or in any other companies (Note 1)	Managers, Directors, and Supervisors who are spouse or within second-degree relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Bachelor, Electronic Engineering, Tatung University Manager, Panasonic Sales Taiwan Co., Ltd.	Representative of institutional shareholder, eGalax_eMPIA Technology Inc. Holy Stone Healthcare Co., Ltd.	-	-	-
-	-	-	-	-	-	-
-	-	Master, Graduate Institute of Management Sciences, Tamkang University Project Leader Engineer, Chung-Shan Institute of Science and Technology	-	-	-	-
-	-	Bachelor, Department of Accounting, Providence University	Supervisor, eGalax_eMPIA Technology Inc.	-	-	-
-	-	Bachelor, Department of Physics, Tamkang University Doctoral in Management, Macau University of Science and Technology	Representative of institutional shareholder and Chairman&President, Infotech (China) Co., Ltd Representative of institutional shareholder, Holy Stone International Trading (Shanghai) Co., Ltd. Independent director, Santai Wrapper Co., Ltd.	-	-	-
-	-	Bachelor, Business Management, Tatung University	Representative of institutional shareholder, Infotech International Trading (Shanghai) Ltd.	-	-	-
-	-	Bachelor, Accounting Department, Feng Chia University Assistant Manager, Taiwan International Securities Corporation Vice President, Hyield Venture Capital Co., Ltd. Director, Best Yield Development Consulting, Inc.	Director and President, Grand Fortune Securities Co., Ltd. Director, Wintech Microelectronics Co., Ltd. Director, Solytech Enterprise Co. Representative of institutional shareholder, Leader Electronics Inc. Supervisor, Foxlink Image Technology Co., Ltd. Independent Director, Prolific Technology Inc. Independent Director, Hi-trend Technology(shanghai)Co.,Ltd	-	-	-
-	-	Bachelor, Chemical Engineering, National Cheng Kung University Master of Management, National Chengchi University Vice Manager, Upking International Co., Ltd. General Manager, Teraspan Technologies, Corp.	Chairman, Instant-Dict Co., Ltd Holy Stone Healthcare Co., Ltd. Independent Director, Apex Science & Engineering Corp.	-	-	-
-	-	Bachelor, Accounting, Fu Jen Catholic University	Head Accountant, Honesty CPA Firm	-	-	-
-	-	Bachelor, Business Administration, National Taichung Institute of Technology	-	-	-	-

Major shareholders of Shareholders that are institutional shareholders

as of 2017.04.09

Shareholders that are institutional shareholders	Major Shareholders
Fang Hao Investment Co., Ltd.	Hau-Ming Lo
Kai Shen Investment Co., Ltd.	Li-Fang Chang
Cheng Ya Investment Co., Ltd.	Yueh-Hua Lin
Pen Chueh Investment Co., Ltd.	Mei-Yu Lin

Information on Directors and Supervisors

Name/Criteria	Meets One of the Following Professional Qualifications, and with at least Five Years Work Experience		
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department related to the business needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists who has passed a National Examination and been awarded a Certificate in a Profession necessary for the business of the Company	Have Work Experience in the area of Commerce, Law, Finance, or Accounting, or otherwise necessary for the Business of the Company
Jing-Rong Tang	-	-	✓
Representative of Lin Tan Investments Co., Ltd.: Chyang Lo	-	-	✓
Representative of Lin Tan Investments Co., Ltd.: Yu-Min Wu	-	-	✓
Shih-Yun Sheng	-	-	✓
Shao-Kuo Huang	-	-	✓
Ken-Yi Cheng	-	-	✓
Nai-Hua Wu	-	-	✓
Tang-Ming Wu	-	✓	✓
Chung-Yi Yang	-	-	✓

Note 1: Directors or Supervisors, during the two years before being elected or during the term of office, have been or be any of the following, please tick the appropriate corresponding boxes:

- (1) Not an employee of the company or any of its affiliates;
- (2) Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares;
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the company or ranking in the top 10 in holdings;
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs;
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the company or that holds shares ranking in the top five in holdings;
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the company;
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof;
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company;
- (9) Not been a person of any conditions defined in Article 30 of the Company Act;
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Note 2: Ken-Yi Cheng serves as independent director of Prolific Technology Co. concurrently and Hi-trend Technology (shanghai) Co, Ltd. while he individually serves as Holy Stone's independent director.
Nai-Hua Wu serves as an independent director of Holy Stone Healthcare Co., Ltd. and Apex Science & Engineering Corp.

as of 2017.04.09

Criteria (Note)										The number of other publicly traded companies in which directors or supervisors serves as independent director
1	2	3	4	5	6	7	8	9	10	
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	-	✓	✓	-	✓	✓	✓	✓	✓	-
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
-	-	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2 (Note 2)
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2 (Note 2)
✓	-	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

3.2.2 Information on the President, Vice President, Assistant Managers, and Managers of Departments and Subsidiaries

Title	Nationality	Name	Sex	Date Elected	Current Shareholding		Spouse & children of minor age Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%
Chairman & President	Taiwan R.O.C.	Jing-Rong Tang	M	1984.08.01	8,114,784	3.62	525,573	0.23	-	-
Director & Vice Executive President	Taiwan R.O.C.	Shih-Yun Sheng	M	2002.04.01	3,111,896	1.39	1,021,661	0.46	-	-
Director & Vice President	Taiwan R.O.C.	Shao-Kuo Huang	M	2004.07.01	1,658,504	0.74	-	-	-	-
Vice President	Taiwan R.O.C.	Sheng-Yao Lu	M	2009.01.15	310,564	0.14	88,927	0.04	-	-
Vice President	Taiwan R.O.C.	I-Ta Lee	F	2009.01.15	152,094	0.07	-	-	-	-
Vice President	Taiwan R.O.C.	Hui-Bang Yeh	M	2009.01.15	236,967	0.11	-	-	-	-
Manager of Finance and Accounting Department	Taiwan R.O.C.	Shu-Ying Chang	M	2003.05.02	166,984	0.07	-	-	-	-

Note: Mainly publicly traded companies and branch offices in China.

Unit: Shares as of 2017.04.09

Principal Work Experience and Academic Qualifications	Position(s) held concurrently in the Company and/or in any other companies (Note)	Managers, Directors, and Supervisors who are spouse or within second-degree relative of Consanguinity to Each Other		
		Title	Name	Relation
Bachelor, Electronic Engineering, Tatung University Manager, Panasonic Sales Taiwan Co., Ltd.	Representative of institutional shareholder, eGalax_eMPIA Technology Inc. Holy Stone Healthcare Co., Ltd.	-	-	-
Bachelor, Department of Physics, Tamkang University Doctoral in Management, Macau University of Science and Technology	Representative of institutional shareholder and President, Infortech (CHINA) Co., Ltd Representative of institutional shareholder, Holy Stone International Trading (Shanghai) Co., Ltd. Independent director, Santai Wrapper Co., Ltd.	-	-	-
Bachelor, Business Management, Tatung University	Representative of institutional shareholder, Infortech (CHINA) Co., Ltd	-	-	-
Bachelor, Information Engineering and Computer Science, Fung Chia University	President and Representative of incorporated directors, Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, De Francais, Chinese Culture University	-	-	-	-
Master, Mining, Metallurgy and Materials Science Institute, National Cheng Kung University	-	-	-	-
Master, Graduate Institute of Management Sciences, Tamkang University	Supervisor, Infortech (CHINA) Co., Ltd Representative of supervisors, eGalax_eMPIA Technology Inc.	-	-	-

3.2.3 Remuneration Paid to Directors (including Independent Directors), Supervisors, President, Vice Presidents

Remuneration Paid to Directors (including Independent Directors)

Title	Name	Compensation								Total Remuneration (A+B+C+D) as a % of Net Income (Note 3)	
		Base Remuneration (A)		Retirement Allowance (B) (Note 1)		Profit Sharing (C) (Note 2)		Allowance (D)		From Holy Stone	From All Companies within the Financial Report
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report		
Chairman	Jing-Rong Tang (a)										
Director	Shih-Yun Sheng (b)										
Director	Representative of Lin Tan Investment Co., Ltd.: Chyang Lo (c)										
Director	Representative of Lin Tan Investment Co., Ltd.: Yu-Min Wu (d)	-	-	-	-	11,364	11,364	720	1,060	2.39	2.45
Director	Shao-Kuo Huang (e)										
Independent Director	Ken-Yi Cheng (f)										
Independent Director	Nai-Hua Wu (gi)										

Remuneration Paid to Directors

Compensation Paid to Directors of Holy Stone	Directors' Name			
	Total Compensation (A+B+C+D)		Total Compensation (A+B+C+D+E+F+G)	
	From Holy Stone	From All Reinvested Co. (H)	From Holy Stone	From All Reinvested Co. (I)
Under NT\$2,000,000	b.c.d.e.f.g	b.c.d.e.f.g	c.f.g	c.f.g
NT\$2,000,000~NT\$5,000,000	a	a	-	-
NT\$5,000,000~NT\$10,000,000	-	-	b.d.e	b.d.e
NT\$10,000,000~NT\$15,000,000	-	-	a	a
NT\$15,000,000~NT\$30,000,000	-	-	-	-
NT\$30,000,000~NT\$50,000,000	-	-	-	-
NT\$50,000,000~NT\$100,000,000	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total (Number of person)	7	7	7	7

Unit: Thousand shares/ NT\$ thousands as of 2016.12.31

Compensation Earned as Employee of Holy Stone or of Holy Stone's Consolidated Entities								Total Compensation (A+B+C+D+E+F+G) as a % of Net Income (Note3)		Compensation Paid to Directors from Nonconsolidated Affiliates
Base Compensation, Bonuses, and Allowances (E)		Retirement Allowance (F)		Employee Profit Sharing (G) (Note 4)				From Holy Stone	From All Companies within the Financial Report	
From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone		From All Companies within the Financial Report				
				Cash	Stock	Cash	Stock			
18,140	18,140	-	-	8,000	0	8,000	0	7.55	7.62	658

Remuneration Paid to Supervisors

Unit: NT\$ thousands as of 2016.12.31

Title	Name	Remuneration Paid to Supervisors						Total Remuneration (A+B+C) as a % of Net Income (Note 2)		Remuneration Paid to Directors from Nonconsolidated Affiliates
		Base Remuneration (A)		Profit Sharing (B) (Note 1)		Allowance (C)		From Holy Stone	From All Companies within the Financial Report	
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report			
Supervisor	Tang-Ming Wu (a)	-	-	2,666	2,666	480	480	0.62	0.62	0
Supervisor	Chung-Yi Yang (b)	-	-	2,666	2,666	480	480	0.62	0.62	0

Remuneration Paid to Supervisors

Remuneration Paid to Supervisors of Holy Stone	Name of Supervisors	
	Total Remuneration (A+B+C)	
	From Holy Stone	From All Companies within the Financial Report (D)
Under NT\$2,000,000	a.b	a.b
NT\$2,000,000~NT\$5,000,000	-	-
NT\$5,000,000~NT\$10,000,000	-	-
NT\$10,000,000~NT\$15,000,000	-	-
NT\$15,000,000~NT\$30,000,000	-	-
NT\$30,000,000~NT\$50,000,000	-	-
NT\$50,000,000~NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total (Number of person)	2	2

Remuneration Paid to President and Vice Presidents

Unit: Thousand shares/ NT\$ thousands as of 2016.12.31

Title	Name	Salary(A)		Retirement Allowance (B) (Note 1)		Bonuses and Allowances (C)		Employee Profit Sharing (D) (Note 2)				Total Remuneration (A+B+C+D) as % of Net Income (%) (Note 3)		Remuneration Received from Non-Consolidated Affiliates
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone		From All Companies within the Financial Report		From Holy Stone	From All Companies within the Financial Report	
								Cash	Stock	Cash	Stock			
President	Jing-Rong Tang (a)	23,618	25,766	-	-	-	-	11,000	0	11,000	0	6.84	7.26	658
Vice Executive President	Shih-Yun Sheng (b)													
Vice President	Yu-Min Wu (c)													
Vice President	Shao-Kuo Huang (d)													
Vice President	Sheng-Yao Lu (e)													
Vice President	I-Ta Lee (f)													
Vice President	Hui-Bang Yeh (g)													

Remuneration Paid to President and Vice Presidents

Compensation Paid to President and Vice Presidents of Holy Stone	President's and Vice Presidents' Name	
	From Holy Stone	From All Companies within the Financial Report (D)
Under NT\$2,000,000	-	-
NT\$2,000,000~NT\$5,000,000	b.d.e.f.g	b.d.f.g
NT\$5,000,000~NT\$10,000,000	c	c.e
NT\$10,000,000~NT\$15,000,000	a	a
NT\$15,000,000~NT\$30,000,000	-	-
NT\$30,000,000~NT\$50,000,000	-	-
NT\$50,000,000~NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total (Number of person)	7	7

Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands as of 2016.12.31

	Title	Name	Stock	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of Net Income
MANAGERS	President	Jing-Rong Tang	-	12,000	12,000	2.37
	Vice Executive President	Shih-Yun Sheng				
	Vice President	Yu-Min Wu				
	Vice President	Shao-Kuo Huang				
	Vice President	Sheng-Yao Lu				
	Vice President	I-Ta Lee				
	Vice President	Hui-Bang Yeh				
	Manager of Finance and Accounting Department	Shu-Ying Chang				

Note: Profit sharing to the management was calculated by the same percentage of actual distribution of 2014.

3.2.4 Analysis of the percentage of total compensation paid to Holy Stone's Directors, Supervisors, President, and Vice President to net income from Holy Stone and all consolidated entities in the past two fiscal years and description on correlation between compensation paid process and operating performance, as well as future risks.

3.2.4.1. Analysis of the percentage of total compensation to net income

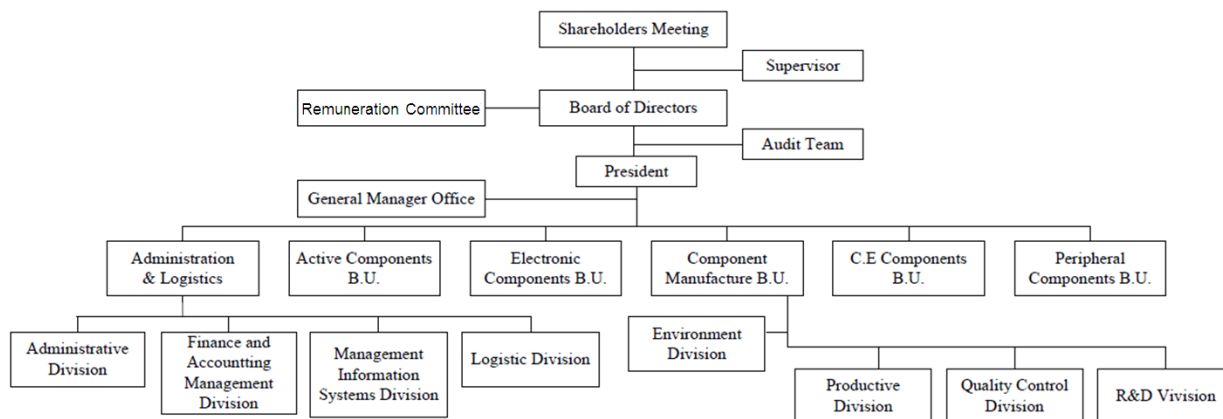
Item	Percentage of Total Compensation to Net Income (%)			
	2015		2016	
	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors	6.54	6.71	7.55	7.62
Supervisors	0.61	0.62	0.62	0.62
President & Vice Presidents	5.74	6.21	6.84	7.26

3.2.4.2. Correlation between compensation paid process and operating performance, as well as future risks

Holy Stone's compensation paid to directors and supervisors contains attendance fees and profit sharing. According to No.19 of Holy Stone's Articles of Incorporation, directors' and supervisors' compensation should not exceed 3 percent of any surplus in final account. Compensation for president and vice presidents, with the position of executive management, contains salaries and employees bonus under the consideration of employee's position, responsibilities, and performances, referring to peers' standard.

3.3 Risk Management Policy

3.3.1 Structure of Risk Management



3.3.2 Policy of Risk Management

Company operations are executed accordingly to short and long-term development strategies. Risks are unavoidable within the process of operations, therefore, before major decisions are made, evaluations on such matters are conducted cautiously by the management team. The Board of directors will exert knowledge in their field of profession whereas relevant management units will execute the plan to minimize potential risks.

3.3.3 Organization and Responsibilities of Risk Management

The Company divides risk management responsibilities among different management teams depending on the nature of business. This includes: market risks, financial risks, liquidity risks, credit risks, legal risks, strategic and operational risks:

3.3.3.1 General Manager Office

Responsible for planning business strategies and monitoring the operational results and efficiencies to lower strategic risks; also responsible for legal risks management through complying with governmental laws on supervisory measures and handling underlying contracts and litigations to lower legal risks.

3.3.3.2 Administrative Management Division

Set up the risk management for human sources in accordance with the relevant laws.

3.3.3.3 Finance & Accounting Division

Responsible for asset risk management, complying with relevant laws and regulations to ensure the sustainability of the Company and safeguarding of assets. The department is also responsible for evaluating middle- to long-term investment gains, conducting and controlling financial operations, and establishing hedging mechanisms. We shall lower financial risks through compliance with laws and regulations as well as ensuring reliable financial reporting.

3.3.3.4 IT Center

Responsible for building and maintaining ERP systems and network, ensuring network security through taking precaution measures to lower information and technology risks.

3.3.3.5 Logistic Management Division

Set up the overall and complete logistic operation to decrease the risk exposed during transportation products and the process of storage.

3.3.3.6 Production Department

Other than verifying production follows relevant SOP and procedures, the Production Unit is also responsible for avoiding any delays in production and delivery schedule and complying with ISO (International Organization for Standardization) standards to execute daily management.

3.3.3.7 E.H.S. Office

Responsible for the planning and execution of environmental, safety, and hygiene measures to comply with relevant laws and regulations and lower risks associated with environment, safety and health.

3.3.3.8 R&D Center

Responsible for research and development of new products, evaluate if there are risks of infringing existing patents or intellectual properties from the development of new products, and manage patents and intellectual properties.

3.3.3.9 Quality Assurance and Control Department

Ensure products are manufactured in accordance to standards of EIA (Electronics Industry Alliance) to lower risks related to quality and customer complaints.

3.3.3.10 Audit Team

Responsible for evaluating significant risks and placing these risks in the center of audit planning. The Audit Team shall submit a report regarding the risks.

3.4 Corporate Governance Status

3.4.1 The Operations Status of the Board of Directors

The State of Operations of the Board of Directors

The chairman convened 6 (A) board of directors meetings in 2016. The directors' attendance status is as follow:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate in Person (%) 【B/A】	Remarks
Chairman	Jing-Rong Tang	6	0	100.00	-
Director	Representative of Lin Tan Investment Co., Ltd.: Chyang Lo	6	0	100.00	-
Director	Representative of Lin Tan Investment Co., Ltd.: Yu-Min Wu	6	0	100.00	-
Director	Shih-Yun Sheng	5	1	83.33	-
Director	Shao-Kuo Huang	6	0	100.00	-
Independent Director	Ken-Yi Cheng	5	0	83.33	-
Independent Director	Nai-Hua Wu	5	0	83.33	-
Supervisor	Tang-Ming Wu	6	0	100.00	-
Supervisor	Chung-Yi Yang	6	0	100.00	-

Annotations:

- If any of the circumstances below happened during the board meeting, the meeting date, term, proposal contents, and all opinions of independent directors and handling of those opinions from the Company shall be specified:
 - Items specified in Securities Exchange Act Article 14-3: none.
 - Other than items stated above, any resolution that the independent directors objects or have reservations to, and that these resolutions are recorded or with written statement: none.
- Recusals of directors due to conflicts of interests should state directors' name, proposal contents, reasons to avoid interests, and participation in votes:

Article 5: In order to eliminate prohibition of participation in competitors for directors., Nai-Hua Wu did not participate in voting to avoid conflict of interests.
- Evaluation of measures taken to strengthen the profession competence of the Board and its implementation:

- (1) Independent directors and Compensation Committee are established and in place.
- (2) The operation of the Board of Directors is in accordance with relevant provisions, the Articles of Incorporation, the Board's Procedural Rules and the discussion rules of Shareholders' meetings.
- (3) To bring CSR into practices, the Board of Directors enacts several rules including Corporate Social Responsibility Best Practice Principle, Code of Ethics for Directors, Supervisors and Managers, Corporate Governance Best Practice Principles, and Rules Governing the Scope of Powers of Independent Directors.
- (4) Designated specialists are responsible to announce information required to be disclosed by law to ensure accurate information is uploaded to the Market Observation Post System in a timely manner, and disclose the information on the Company's website simultaneously. Such information includes directors' and supervisors' attendance, advanced studies, and functional committee's operational statuses.

3.4.2 The State of Operations of the Audit Committee or the State of Participation in Board Meetings by the Supervisors

- 3.4.2.1. The state of operations of the audit committee: Holy Stone has no Audit Committee.
- 3.4.2.2. The state of participation in board meetings by the supervisors

The State of Participation in Board Meetings by the Supervisors

The chairman convened 6 (A) board of directors meetings in 2016. The directors' attendance status is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate in Person (%) 【B/A】	Remarks
Supervisor	Tang-Ming Wu	6	-	100.00	
Supervisor	Chung-Yi Yang	6	-	100.00	

Annotations:

1. Composition and responsibilities of supervisors:

- (1) The communication between supervisors and employees and stockholders
 - i. Conduct inspection in the Company irregularly and communicate with employees whenever necessary.
 - ii. Regularly attend the Board meetings, shareholders' meeting, and other important conferences as an observer to communicate with employees and stockholders.
- (2) The communication between supervisors, internal audit manager, and CPA
 - i. Communication with internal audit manager
 - (i). The next month following the completion of an audit project, an audit report is submitted to the supervisors and discussed by both parties.
 - (ii). An audit report is submitted preceding a regular board meeting, and two-way communication is needed.
 - ii. Communication with CPA

Regularly communicate with accountants focusing on financial statements and corporate governance as well as acknowledging the latest financial and tax information

2. There were no comments stated by a supervisor that should state date, term, proposal contents, and all opinions of supervisors and handling of those opinions from the corporate.

3.4.3 Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission:

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1.Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	√		The Company has established the Corporate Governance Best-Practice Principles. The information has been disclosed on the Company’s website and TWSE.	None
2.Shareholding structure & shareholders’ rights (1)Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure? (2)Does the company possess the list of its major shareholders as well as the ultimate owners of those shares? (3)Does the company establish and execute the risk management and firewall system within its conglomerate structure?		√	1.The Company has designated spokesperson, deputy spokesperson, Public Relations, Investor Relations and stock affairs office, to communicate with shareholders. 2.Shareholders’ meetings are held in accordance with corresponding discussion rules. Other than analyzing the distribution profile of share ownership after the last day for stock transfer, the Company also has stock affairs office and specialists to be in touch with stock transfer institution to maintain the list of main shareholders and its main controllers and to declare net change in shares pledged by insiders and main shareholders according to regulations. The Company has established and managed in conformity to the internal control system, such as “Procedures Governing Related Parties Transactions,” “Regulations on Supervising Subsidiaries,” “Endorsement / Guarantee Procedures,” “Procedures on Loans to others,” and “Procedures Governing the Acquisition and Disposal of Assets,” to manage risks between the Company and subsidiaries.	The Company has not established corresponding regulations yet, but do have internal procedure in place. Regulations and related measure may be formed depending on future needs. None None

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Does the company establish internal rules against insiders trading with undisclosed information?	V		The Company has established “Operating Procedures for Handling Internal Material Information” and “Internal Control System” to forbid insiders trading on undisclosed information. The Company has also strongly advocated these rules in order to prevent any violations.	None
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members?	V		Member diversification is considered by the Board members. Factors taken into account include. Apart from fully experienced of industry and accounting, the Board of Directors includes 2 independent directors and 1 female director.	None
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?		V	In order for the sound supervision and reinforcement of management, the Company established the Remuneration Committee. Other functions are provided and managed by different departments in the Company.	The Company has not established other functional committees other than Remuneration Committee. We will take the upcoming laws and Company scale into consideration to develop these committees.
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?		V	The Company evaluates the Board’s performance and regularly, but has not formulated rules and procedures.	The Company has not formulated rules and procedures. We will take laws and Company scale into consideration to develop these evaluating methods.
(4) Does the company regularly evaluate the independence of CPAs?	V		The Company evaluates the experience and academic experience, current visa, whether there are conflict of interest between their customers, CPA certification, non-auditing service, the reasonability of auditing fee, and independence of CPAs, ensuring that that they are not stakeholders such as a Board member, supervisor, shareholder or person paid by the Company.	None

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
4. Does the company establish a division for handling corporate governance matters?	V		Dedicated personnel in General Manager Office are designated to hold concurrent post to execute corporate governance matters.	None
5. Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	V		(1) Designated personnel handle related matters. (2) Independent directors and supervisors shall contact stakeholders directly when necessary. Provide latest information through the Market Observation Post System and Holy Stone’s website. Any stakeholders who are in need could contact the Company anytime through e-mail, phone, fax, or letter. Contact information is listed on M.O.P.S. and the Company’s website.	None
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company designates CTBC Commercial Bank Co., Ltd. to deal with shareholder affairs. The Company has established “Regulations Governing Handling of Stock Affairs” to deal with the corresponding issues.	None
7. Information Disclosure (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		The Company has set up a website in Chinese which is updated regularly with the latest information on products, corporate introduction, and financial statements.	None
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	V		1. The Company has appointed a spokesperson. In addition, designated personnel are responsible for information collection and disclosure. Investor conference materials, if any, are declared on the M.O.P.S. before and after the event as well as on the Company’s website for the investors. 2. The Company has set up English website as well where product, company overview and financial information can be found. The information and data are updated regularly.	None

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>8. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</p> <p>(1) Employee rights and employee wellness</p> <ul style="list-style-type: none"> i. Forced labor and child labor are prohibited. Workers are free to leave upon reasonable notice. Workers under the age of 18 shall not perform hazardous work, and the Company conforms to the local restriction of evening shifts. ii. Holy Stone adopts the Equal Employment Opportunity Rules. Any employee or applicant shall not be discriminated based on sex, age, race, religion, color, national origin, disability or other factors. The workforce shall be free of harassment and unlawful discrimination. iii. Compensation paid to workers shall comply with all applicable wage laws and local practices to protect human rights and employee benefits. This includes those related to minimum wage, overtime hour, etc. iv. Holy Stone always takes safety into first consideration when designing factories or buildings. In addition to comfortable and safe working environment, employee health examinations and fire and emergency drills are conducted regularly. Holy Stone not only reminds employees to take care of their own health, but also teaches them to protect themselves upon hazardous situations. In compliance with the Labor Safety and Health Law, Holy Stone has technician manager of labor health and safety who is responsible for conducting work environment safety examinations and raising awareness of employees’ safety. Industrial safety is always a priority in Holy Stone internal audit for employee management; therefore, every employee and management team set self-expectations for “Zero Accidents.” v. The achievements of corporate goals rely on each employee’s effort. Under such circumstances, employees and management are able to perform their specialty. Consequently, the relationship between employees and management plays an important role for the Company. As of today, there is no dispute between employees and management. <p>(2) Investor relations: Holy Stone’s website provides updated sales revenue as well as the latest corporate news in both Chinese and English. Moreover, spokespersons and designated personnel are appointed to set up effective communication channels with investors and customers. The e-mail address is listed below: IR@holystone.com.tw</p> <p>(3) Supplier relations: Besides executing Green Management, the Company also manages supplier relations actively with good strategic cooperation. Please refer to the Company’s CSR Report for more detail. Website: www.holystone.com.tw</p> <p>(4) Stakeholder rights: The Company has designated employees to take different positions to communicate with stakeholder and protect stakeholders’ rights. Please refer to the Company’s CSR Report for more detail.</p> <p>(5) Directors’ and supervisors’ attendance and continuing education:</p> <ul style="list-style-type: none"> i. The Company’s directors and supervisors have backgrounds and work experiences in the area of commerce, law, finance, accounting, and business management. ii. The Company provides information on relevant courses to directors and supervisors irregularly. These courses cover the latest financial reporting standards, regulations on Securities and Exchange Act, taxes, roles of independent directors and other corporate governance and risk management topics. 				

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
iii. Website: http://mops.twse.com.tw .				
(6) Policies and implementation of risk management: Please refer to page 15 and 81-84 of this Annual Report.				
(7) The implementation of customer policies: The Company complies with ISO 9001, ISO/TS16949, and ISO 14001 and offers complete services to customers. The Company not only makes improvements on quality but also has technical discussions with customers depending on their requirements. The yearly customer satisfaction survey serves to improve customer relations. Please refer to the Company’s CSR Report for more detail.				
(8) Liability insurance for directors and supervisors: Holy Stone has bought liability insurance for directors and supervisors, and the maximum amount of compensation is US\$5 million per case, a yearly accumulative total.				
9. Please elaborate the improvements the Company has made to reinforce corporate governance, and priority list and measures for what needs to be improved. 2016 is the first year that the Company adopted online voting and voting by poll at the annual general shareholders’ meeting, and we made adjustment to communication channel on our website as well. The Company is planning to develop strategies for effectively reinforcing BOD structure and operation, and keeps advocating CSR and enhancing information transparency at the same time.				

Disclosure, if any, on Compensation Committee’s formation, responsibilities and operational status

3.4.4.1. Formation and Responsibilities

Information on Remuneration Committee Members

Title	Criterion Name	Meets the qualifications as stated below and at least 5 years of work experience			Meets independence requirement								Number of other publicly traded companies in which members serve in compensation committees	Remarks
		An Instructor in college or higher education in the department of commerce, law, finance, accounting, or other profession necessary for the business of the Company	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other professional or technical specialists who has passed a National Examination and been awarded a Certificate in a profession necessary for the business of the Company	Have work experience in the area of commerce, law, finance, accounting, or others necessary for the business of the Company	1	2	3	4	5	6	7	8		
Chairman	Ken-Yi Cheng	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	2 (Note)	
Member	Nai-Hua Wu	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	2 (Note)	-
Member	Chu-Yang Chien	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	-	-

Note: Ken-Yi Cheng serves as independent director of Prolific Technology Co. concurrently and Hi-trend Technology (shanghai) Co, Ltd. while he individually serves as Holy Stone’s independent director.
Nai-Hua Wu serves as an independent director of Holy Stone Healthcare Co., Ltd. and Apex Science & Engineering Corp.

3.4.4.2. Operational Status

Operating Information on Remuneration Committee Members

3.4.4.2.1 There are a total of 3 members in Holy Stone’s Compensation Committee.

3.4.4.2.2 The term for committee members: 2015.07.09 to 2018.06.08

There were 2 (A) compensation committee meeting(s) in 2015. The members’ attendance is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate in Person (%) (B/A)	Remarks
Chairman	Ken-Yi Cheng	2	-	100.00	-
Member	Nai-Hua Wu	2	-	100.00	-
Member	Chu-Yang Chien	2	-	100.00	-

Annotations:

- 1.If the Board of directors refused to accept or revise suggestions from the Compensation Committee, the Board meeting date, term., content of proposals discussed, resolutions of the Board, and the procedures taken towards the Compensation Committee’s suggestions are stated as follow (if compensation passed by the Board is higher than the amount suggested by the Compensation Committee, the difference and reason for difference shall be stated): None.
- 2.If any members had a dissenting or reserved opinion during meeting that is written or other recorded, the meeting date, term, content of proposals discussed, opinions of all members and the procedures taken towards the member’s opinion are stated as follows: None.

3.4.5. Corporate Social Responsibility Management

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation ²	
1. Corporate Governance Implementation (1) Does the company declare its corporate social responsibility policy and examine the results of the implementation?	V		The Company has collected and disclosed the results of corporate social responsibility activities in the CSR report. As posted on the Company’s website, CSR policies were as follow: 1. Adhering to governmental laws and statutes and setting higher standards of code of conduct. 2. Practice strong corporate governance, actively build corporate value and protect the rights and interests of our investors. 3. Follow relevant laws, regulations and ISO 14001 requirements, engage in environmentally-friendly practices and create a green corporation. 4. All operation units regardless of geographic area must be in compliance with applicable laws (“Labor Law”) in the employment of staff. 5. Caring for employees’ safety and health by providing a comprehensive work environment in which safety and hygiene is upheld. 6. Attending to the minorities through encouraging employees’ participation in community services.	None
(2) Does the company provide educational training on corporate social responsibility on a regular basis?	V		The Company carries out regular trainings sessions and propaganda on corporate social responsibility with its employees every year. In addition, we invite external experts to share the up-the-dates of CSR with us periodically.	None
(3) Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?		V	We designated dedicated personnel in General Office, while employees were designates to hold concurrent post to promote CSR in each department, to which the result and review are reported.	The Company has promoted CSR for several years, yet has not been authorized through Board of Directors. We will take the upcoming laws and Company scale into consideration to develop the corresponding methods.

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation ²	
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		The salary remuneration policy has been established and based on the employee performance appraisal system which includes our corporate social responsibility policy as one of the most important criteria for evaluation.	None
2. Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		Implement waste management, reuse waste solvents, reduce amount of purchase, and ultimately ease the impact of environmental harm.	None
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	V		The Company has established environmental safety management operation and is Qualified for ISO 14001 Environmental Management System certificate in the purpose of reaching environmental safety, reducing CO2, and forming a green enterprise.	None
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		The Company reviews environmental-wise regulations on a periodic basis in hopes of making sure of the impact that could have on the Company. Activities that saves energy and electricity have been carried out and a wide variety of pollution-free equipments are purchased. 1. Managerial Strategies: Carbon dioxide is the main source of green house gas emission emitted by the Company. Therefore, the plan to reduce carbon footprint mainly focuses on saving energy. As for 2016, each and every staff participated in activities that increased manufacturing efficiency, reduced consumption of raw materials, and	None

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation ²	
			<p>plant inspection for saving power by designated personnel.</p> <p>2. Goals: Solvents recycled were increased by 5.16% to 84,915 liters during 2016, and electroplating high concentration of liquid waste also decreased by 57.51% to 29,170 kilograms, which indirectly lowered use of energy and emission of green house gas.</p> <p>3. Budgets and Plans: Carrying on the plan to reduce ratio of cleansing recycled solvents and to lower consumption of solvents and raw materials.</p> <p>4. Results of downsizing carbon footprint: The main product the Company manufactured is MLCC, and we have successfully developed a wide variety of new product lines, which can be applied to industry of lighting, power supply and industrial electronic components. It is proven that our products have efficiently increased product reliability and reduced GHG. In addition, the new product line of ceramic substrate is also the perfect material for lighting industry.</p>	
3. Preserving Public Welfare (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		<p>1. The Company has established Service Regulation in accordance with Labor Standards Law, Gender Equality in Employment Act, etc. to protect employees’ rights. The salary is adjusted in accordance with the Labor Act.</p> <p>2. The Company has set up grievance committee and other procedures to prevent sexual harassment in accordance with Gender Equality in Employment Act to protect employees’ rights.</p>	None
(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		The Company has set up meeting between employees and employers, Employee Welfare Committee, etc. Apart from that, the Company offers an Employee Relations Mailbox that provides a channel for employees to express their opinions regarding their work and the overall work environment.	None
(3) Does the company provide a healthy and safe working	V		i. Conduct regular health examinations, hold health promotional activities, strengthen employees’ knowledge on health issues.	None

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation ²	
environment and organize training on health and safety for its employees on a regular basis?			<p>New employees in factories are required to attend Labor safety lessons and safety training education, participate in fire safety drills every six months. Within this year, arrange emergency procedures training for both hazardous chemical awareness and chemical, DEHP leakage & handling of gases.</p> <p>ii. Form suitable emergency response teams according to each geographic area and strengthen security protection in workplaces.</p> <p>iii. Conduct trainings for related professional staff according to Occupational Safety and Health Act.</p>	
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		The Company set up dedicated grievance mailbox for employees. Communication with employees is carried out through regular departmental meetings, the Company’s Quarterly Journal, and telecommunications (through email or internal communication system). We also encourage employees to communicate with management team and directors directly in reflection of opinions on business operations, financial status and employee wellness, etc.	None
(5) Does the company provide its employees with career development and training sessions?	V		The Company provides employees on-job training and development activities that match their career development objectives and job needs, in the aim of growing along with the Company.	None
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		<p>1.As s the professional agent of electronic components and parts, the Company has a good communication with both suppliers and customers.</p> <p>2.The Company has established operating methods in R&D, procurement, production and customer service to insure product quality.</p> <p>3.The Company offers transparent process of grievance service for material procurement, product and service.</p>	None
(7) Does the company advertise and label its goods and services	V		The Company labels and advertises its products worldwide in accordance with corresponding law and international	None

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation ²	
according to relevant regulations and international standards?			regulations.	
(8) Does the company evaluate the records of suppliers’ impact on the environment and society before taking on business partnerships?	V		The Company has suppliers that engage in the areas of social and environmental matters.	None
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	V		The Company adopts CSR and EICC to agreement in the purpose of help suppliers inspect their own regulations.	None
4. Enhancing Information Disclosure (1) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?			1 Website Disclose commitments on corporate social responsibility under “Corporate Social Responsibility” section on the corporate website 2. MOPS Disclosure of Directors and Supervisors’ participation at meeting and training, regulations of corporate governance, operation of each functional committees, CSR report, employees’ welfare policy and interests, and information about emissions and reduction of greenhouse gas.	None
5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation: None.				
6. Other important information to facilitate better understanding of the company’s corporate social				

Evaluation Item	Implementation Status ¹			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation ²	
responsibility practices :				
All information regarding CSR is fully disclosed in each year’s CSR Report; please refer to the Company’s website.				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: None.				

3.4.6. Ethical Corporate Management

Evaluation Item	Implementation Status ¹			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1.Establishment of ethical corporate management policies and programs (1)Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		1. The Company’s “Ethical Corporate Management Best-Practice Principles” is a guideline to provide high ethical standards for all employees. The principles are disclosed in the annual report and on the company website in both Chinese and English. 2. To better allow Directors, Supervisors and Officers to act ethically, the Company established “Code of Ethics for Directors, Supervisors and Executive Officers” 3. The Company has set up “Rules and Procedures of Board of Directors Meeting”, “Operating Procedures for Handling Internal Material Information” and “Ethical Corporate Management Best-Practice Principles” for recusal of conflict of interest and information disclosure system. The “Accounting System”, “Internal Control System”, and other methods are for Board of Directors to better fulfill ethical management.	None
(2)Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	V		The Company has established “Procedures for Ethical Management and Guidelines for Conduct” and internal audit system to prevent unethical conduct.	None.
(3)Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?	V		The Company has established “Procedures for Ethical Management and Guidelines for Conduct” to prevent unethical conducts from happening.	None
2.Fulfill operations integrity policy (1)Does the company evaluate business partners’ ethical records and include	V		The Company holds an ethic-related clause and “CSR agreement” is included in every business contract.	None

Evaluation Item	Implementation Status ¹			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
ethics-related clauses in business contracts?				
(2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?	V		General Manager Office is designated unit, and the Human Resources Department and Audit Team will collaboratively assist in implementing and promoting business ethics. In the case where business ethics is violated, the corresponding unit shall report to the Board.	General Office will report to the Board on a periodic basis regarding ethical management results starting from 2016.
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		i. The Company has established policies for recusal of directors in the event where conflict of interest occurs and recorded in “Ethical Corporate Management Best-Practice Principles”, “Board of Directors Discussion Rules”, “Operating Procedures for Handling Internal Material Information” and “Procedures for Ethical Management and Guidelines for Conduct”. The same applies to those involved within internal operations. ii. Employees can report such matters during regular departmental meetings, and through email or internal communication system. We also encourage employees to communicate with management team and directors directly.	None.
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		Established “Accounting Policies” and “Internal Control Policies” based on ethical business practices. Through internal audit team, appointed accountant and internal control self-assessment, compliance with these policies will be regularly checked and reported to the Board.	None.
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	V		1. The Company carries out regular training for employees every quarter, training on ethical rules, conflicts of interest, business morals, and all other related subjects. 2. The Company signs the agreement of CSR and EICC commitment with Suppliers about countering bribery while advocates policies of ethical management. 3. Ethical management philosophy is disclosed on the Company’s website.	None.
3. Operation of the integrity channel (1) Does the company establish both a reward/punishment system	V		1. Aside from “Procedures for Ethical Management and Guidelines for Conduct”	None

Evaluation Item	Implementation Status ¹			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?</p> <p>(2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?</p> <p>(3) Does the company provide proper whistleblower protection?</p>			<p>established, any meetings with ethical management advocacy, information on reporting procedures, channels, and departments in charge is also be elaborated at the meeting.</p> <p>2. The Company has placed a grievance inbox on the website for stakeholders to provide opinions.</p> <p>The Company has designated department to deal with such matter and it will be reported to the Board if necessary, can directly review and determine appropriate actions against reprisal of complaints.</p> <p>The Company takes whistleblower protection seriously since the core purpose is protection from unlawful reprisal for diligent employees who step forward to identify potential wrongdoing.</p>	<p>None</p> <p>None</p>
<p>4.Strengthening information disclosure</p> <p>(1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?</p>	V		<p>The Company’s Ethical Corporate Management Best-Practice Principles and the results of our implementation have been posted on the Company’s Chinese / English website and MOPS after resolved by Board of Directors on March, 18. 2015.</p>	None
<p>5.If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation. There have been no differences.</p>				
<p>6.Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).</p> <p>The Company has established “Procedures for Ethical Management and Guidelines for Conduct” on March 15th 2016, and designated General Office to carry out related procedures.</p>				

i. If Corporate Governance and relevant policies are available to the public, the inquiry methods should be disclosed

1. Holy Stone's regulations:

- (1) Articles of Incorporation
- (2) Shareholders Meeting Discussion Rules
- (3) Directors' and Supervisors' Voting System
- (4) Board of Directors Discussion Rules
- (5) Endorsement / Guarantee Procedures
- (6) Procedures Governing the Acquisition and Disposal of Assets
- (7) Procedures Governing the Loan of Funds
- (8) Procedures for Important Internal Information Management
- (9) Corporate Social Responsibility Best Practice Principles
- (10) Code of Ethics for the Directors, Supervisors, and Executive Officers
- (11) Corporate Governance Principles
- (12) Regulation of the Scope and Responsibilities of Independent Directors
- (13) Rules Governing the Scope of Powers of Supervisors
- (14) Code of Corporate Ethics

2. Inquiry website: <http://www.holystone.com.tw>

ii. Other Information that would increase the understanding of the Corporate governance operation should be disclosed

The Company has published CSR Report since 2008, and can be found at www.holystone.com.tw

iii. Internal Control System Execution Status Items

1. Statement of Internal Control System

Holy Stone Enterprise Co., Ltd.
Statement of Internal Control System

Date: March 15, 2017

Based on the findings from self-assessment, Holy Stone states the following with regard to its internal control system during the period from January 1, 2016 to December 31, 2016:

1. Holy Stone is fully aware that establishing, operating, and maintaining an internal control system are the responsibilities of its Board of Directors and management. Holy Stone has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of Holy Stone contains self-monitor mechanisms, and Holy Stone takes corrective actions whenever a deficiency is identified.
3. Holy Stone evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, "the Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items, please refer to the Regulations for details.
4. Holy Stone has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Holy Stone believes that, during the year 2016, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be an integral part of Holy Stone's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 15, 2017, with zero out of the seven attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Holy Stone Enterprise Co., Ltd.

Chairman of the Board of Directors:

Jing-Rong Tang

President:

2. The disclosure of the external auditors' opinion on Holy Stone's internal control: Not applicable.

iv. Punishment of the Corporate or its internal staff upon violation of the law, and internal control regulations, the main drawbacks, and improvements made during the most recent fiscal year and as of the printed date of this Annual Report: None.

v. Important decisions made by shareholders' meeting and the Board during the most recent fiscal year and as of the printed date of this Annual Report.

Major resolutions of Shareholders' Meeting and Board Meetings during the most recent fiscal year and as of the printed date of this Annual Report are summarized as follow:

Date	Decided by	Major Resolutions	Implementation Status
2016.06.07	Shareholders' Meeting	<ol style="list-style-type: none"> 1. The approval for revision of "Article of Corporation". 2. The ratification for 2016 business report and financial statements. 3. The ratification for the distribution of 2016 profits. 4. The approval for "Guidelines for Lending of Capital". 5. Resolution to eliminate prohibition of participation in competitors for directors. 	<ol style="list-style-type: none"> 1. All resolutions have been passed and fully implemented accordingly. 2. The BOD set record date for cash dividend \$2.5/share as 08/20/2016, and payment date as 09/09/2016. 3. The rest of the resolutions has been executed.
2016.03.15	BOD Meeting	<ol style="list-style-type: none"> 1. The approval for revision of "Article of Corporation". 2. The approval for distribution of 2015 employee bonus and remuneration of directors, supervisors and managers. 3. The approval for 2015 business report and financial statements (consolidated report included) 4. The approval for the distribution of 2015 profits. 5. Resolution to eliminate prohibition of participation in competitors for directors. 6. The approval for convening annual general meeting of 2016. 7. The approval for validity of 2015 "Internal Control System Statement". 8. The approval for business plan of 2016. 9. The approval for change in accountants auditing financial statements. 10. The approval for assessment of compiling financial statements. 11. The approval for establishing "Procedures for Ethical Management and Guidelines for Conduct". 12. The approval of remuneration of directors, supervisors and managers. 	<ol style="list-style-type: none"> 1. All resolutions have been passed and fully implemented accordingly. 2. No. 2-5 have been passed at the general shareholders' meeting. 3. No. 6 has been completed on June 7th, 2016. 4. No. 7 has been put on 2015 annual report. 5. The rest of the resolutions has been executed.
2016.06.07	BOD Meeting	<ol style="list-style-type: none"> 1. The approval for cash dividend payout 	<ol style="list-style-type: none"> 1. All resolutions have been passed and fully implemented accordingly. 2. Record date of August 20th and payment date of September 9th 2016 were set.
2016.08.01	BOD Meeting	<ol style="list-style-type: none"> 1. The approval for remuneration of directors, supervisors and managers. 	All resolutions have been passed and fully implemented accordingly.
2016.11.09	BOD Meeting	<ol style="list-style-type: none"> 1. The approval for extension of endorsement and guarantees for Everplus Material Co., Ltd, amounting to 200 million by Mizuho Bank, Ltd. 	All resolutions have been passed and fully implemented accordingly.
2016.12.21	BOD Meeting	<ol style="list-style-type: none"> 1. The approval for assessment of independency and competency of CPA for 2016 financial statements. 2. The approval for revision of "internal control system". 3. The approval for internal audit plan for fiscal year of 2017. 4. The approval for remuneration of directors, supervisors and managers. 	<ol style="list-style-type: none"> 1. All resolutions have been passed and fully implemented accordingly. 2. No. 3 has been filed by December 2016. 3. The rest of the resolutions has been executed.

2016.03.15	BOD Meeting	<ol style="list-style-type: none"> 1.The approval for distribution of 2016 employee bonus and remuneration of directors, supervisors and managers. 2.The approval for 2016 business report and financial statements (consolidated report included). 3.The approval for the distribution of 2016 profits. 4.The approval for cash dividend paid from APIC. 5.The approval for capital reduction. 6.The approval for business plan of 2017. 7.The approval for “Guidelines for Handling Acquisition and Disposal of Assets”. 8.The approval for revision of “CSR Best Practices”. 9.The approval for “Corporate Governance Best Practice Principles”. 10.The approval for revision of “Application for suspending and resuming trading procedures”. 11.The approval for convening annual general meeting of 2017. 12.The approval for validity of 2016 “Internal Control System Statement”. 	<ol style="list-style-type: none"> 1.All resolutions have been passed and fully implemented accordingly. 2.No. 2-5 and 7 will be brought up at 2017 annual general shareholders’ meeting. 3.No. 11 will be held on June 7th 2017 and the procedures are being executed. 4.No. 12 has been put on 2016 annual report. 5.The rest of the resolutions has been executed.
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vi.Directors or Supervisors who have different opinions to major resolutions passed by the Board and with records or written declarations during the most recent fiscal year and as of the printed date of this Annual Report.

None.

vii.During the most recent fiscal year and as of the printed date of this Annual Report, resignation and dismissal of the Chief Executive Officer, Chief Financial or Accounting Officer, manager of internal audit, and manager of research and development

None.

3.5. Information on Independent Auditors

Audit Fee

Accounting Firm	Names of CPA		Auditing Term	Remarks
KPMG	Pei-Chi Chen	Ching-Song Wang	2016	-

Unit: NT\$ thousands

Items of Fee		Audit Fee	Non-Audit Fee	Total
Range of Amount				
1	Less than 2,000		V	V
2	2,000~4,000	V		V
3	4,000~6,000			
4	6,000~8,000			
5	8,000~10,000			
6	10,000 or more			

Note: The non-audit fee was used in book bonding, which cost NTDS 40,000.

3.5.1.Non-audit fee accounts for over a quarter of audit fee or over NT\$500 thousand: None.

3.5.2.The change in accounting firms and audit fee paid is less than that paid in the year before the change: None.

3.5.3.Audit fee is fifteen percent less compared with the past fiscal year: None.

3.6. Change of Auditors

3.6.1. Information about former auditor

Date	None		
Reason for the change of reporting accountant			
Did the company terminates or decide not to renew appointment on its own accord; or did the former accountant terminates or refuse to accept renewal of appointment?	Condition	People Involved	Accountant
	The Company initiates the termination of the appointment		Appointer
	The accountant refuse to accept renewal of appointment	None	None
The reason that auditors issue unqualified-modified opinion	None.		
Did the published issue different opinion?	Y		Accounting standard or practice
			Disclosure of financial statement
			Auditing range or procedure
			Other
	N	None.	
	Reason		
Other disclosure	None.		

3.6.2. Information about new accountant

Reporting accountant	None
Signing Accountant	
Date of appointment	
Prior to the new appointment, did the company discuss and ask for comments of new accountant, regarding the adjustments, suggestions and possible sign-off of financial reports by the former accountant? (If yes, please state subject matter enquired and results)	None.
Did the former and new account have different opinion toward financial statement?	None.

3.7. Holy Stone's Chairman, Chief Executive Officer, Chief Financial or Accounting Officer, and managers in charge of its finance and accounting operations who have held any position within Holy Stone's independent audit firm or its affiliates within the past year, should disclose his name, title, and term.

None.

3.8. Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholdings or More

3.8.1. Status of Net Change in Shares Pledged by Directors, Supervisors, Managers, and Prime Shareholders during the most recent fiscal year and as of the printed date of the Annual Report

Unit: Shares

Title	Name	2016		2017.01.01~2017.04.09	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & President	Jing-Rong Tang	0	0	0	0
Director	Lin Tan Investment Co., Ltd. Representative: Chyang Lo	0	0	0	0
	Lin Tan Investment Co., Ltd. Representative: Yu-Min Wu				
Director & Executive Vice President	Shih-Yun Sheng	0	0	0	0
Director & Vice President	Shao-Kuo Huang	(70,000)	0	0	0
Independent Director	Nai-Hua Wu	0	0	0	0
Independent Director	Ken-Yi Cheng	0	0	0	0
Supervisor	Chung-Yi Yang	0	0	0	0
Supervisor	Tang-Ming Wu	0	0	40,000	0
Vice President	Sheng-Yao Lu	0	0	0	0
Vice President	I-Ta Lee	0	0	0	0
Vice President	Hui-Bang Yeh	0	0	0	0
Vice President	Shu-Ying Chang	0	0	0	0

3.8.2.Information on Share Transfer: None.

3.8.3.Information on Pledged Shares: None.

3.9.Information on the Ten Largest Shareholders who is a Related Party or a Relative within the Second Degree of Kinship of Another

Name	Shareholding		Spouse & Minor Shareholding		Shares Held through Other Parties		Names and Relationship of Any of the Top Ten Shareholders being A elated Party as Defined in Statement of Financial Accounting Standards No. 6 or spouse or relatives within 2nd degree of relationship (Note 3)		Remarks
	Shares	Shareholdings	Shares	Shareholdings	Shares	Shareholdings	Name	Relationship	
Fubon Life Insurance Co., Ltd. Representative: TSAI,MING-SHIN	13,115,000	5.85%	N/A	N/A	N/A	N/A	None	None	-
Nan Shan Life Insurance Co., Ltd. Representative: YIN-ZHONG DU	13,009,733	5.8%	N/A	N/A	N/A	N/A	None	None	-
Lung Ko Investment Co., Ltd. Representative: YANG,SIN-YI	10,774,717	4.81%	N/A	N/A	N/A	N/A	Lin Tan Investment Co., Ltd. Representative: YANG,SIN-YI	Same Chairman of Board of Directors	-
Lin Tan Investment Co., Ltd. Representative: YANG,SIN-YI	10,295,336	4.59%	N/A	N/A	N/A	N/A	Lung Ko Investment Co., Ltd. Representative: YANG,SIN-YI	Same Chairman of Board of Directors	-
Jing-Rong Tang	8,114,784	3.62%	N/A	N/A	N/A	N/A	None	None	-
Shin Kong Life Insurance Co., Ltd. Representative: WU,DONG-JIN	6,902,489	3.08%	N/A	N/A	N/A	N/A	None	None	-
Fang Hao Investment Co., Ltd. Representative: LUO,JING-LIN	5,605,209	2.50%	N/A	N/A	N/A	N/A	None	None	-
Fund Investment Account on Dimensional Emerging Markets Evaluation managed by Citibank	3,113,650	1.39%	N/A	N/A	N/A	N/A	None	None	-
Shih-Yun Sheng	3,111,896	1.39%	N/A	N/A	N/A	N/A	None	None	-
Public Service Pension Fund	2,618,728	1.17%	N/A	N/A	N/A	N/A	None	None	-

3.10.The total number of shares and total equity stake held in any single enterprise by the Company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the Company

Unit: shares / % as of 2016.12.31

Enterprise Invested	Investment by Holy Stone		Direct/Indirect Ownership by Directors, Supervisors and Management		Total Ownership	
	Shares	%	Shares	%	Shares	%
Holy Stone Enterprise (H.K.) Co., Ltd.	11,500,000	100.00%	-	-	11,500,000	100.00%
Holy Stone Holdings Co., Ltd.	26,976,000	100.00%	-	-	26,976,000	100.00%
Uholy Investment Co., Ltd.	22,500,000	57.69%	-	-	22,500,000	57.69%
Mayatek Co., Ltd.	8,500,000	100.00%	-	-	8,500,000	100.00%
Rong Jhan Investment Co., Ltd.	57,900,000	100.00%	-	-	57,900,000	100.00%

4. The Status of Fund Raising

4.1. Capital and Shares

4.1.1. Capitalization

4.1.1.1 The process of capitalization

Unit: Shares / NT\$

Month / Year	Issue Price	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
06/1981	10,000	200	2,000,000	200	2,000,000	Cash Incorporation	None	None
07/1984	10,000	300	3,000,000	300	3,000,000	Cash NT\$1 million	None	None
07/1987	10,000	2,000	20,000,000	2,000	20,000,000	Cash NT\$17 million	None	None
10/1990	10,000	2,800	28,000,000	2,800	28,000,000	Cash NT\$8 million	None	None
08/1995	10,000	6,000	60,000,000	6,000	60,000,000	Retained earnings NT\$3.5 million and cash NT\$28.5 million	None	None
12/1997	10	19,800,000	198,000,000	19,800,000	198,000,000	Retained earnings NT\$72 million and cash NT\$66 million	None	None
07/1998	10	30,000,000	300,000,000	30,000,000	300,000,000	Retained earnings NT\$29.7 million and cash NT\$72.3 million	None	None
10/1999	10	55,000,000	550,000,000	36,690,000	366,900,000	Retained earnings NT\$54.9 million and capital surplus NT\$12 million	None	None
07/2000	10	59,500,000	595,000,000	56,174,133	561,741,330	Retained earnings NT\$150.17 million, capital surplus NT\$7.388 million, and cash NT\$37.333 million (Note 1)	None	None
07/2001	10	291,600,000	2,916,000,000	112,530,852	1,125,308,520	Retained earnings NT\$563.567 million (Note 2)	None	None
09/2002	10	291,600,000	2,916,000,000	127,955,555	1,279,555,550	Retained earnings NT\$97.982 million and capital surplus NT\$56.265 million (Note 3)	None	None
06/2003	10	291,600,000	2,916,000,000	127,978,095	1,279,780,950	Convertible bond for stock NT\$0.225 million (Note 4)	None	None
09/2003	10	291,600,000	2,916,000,000	140,099,983	1,400,999,830	Retained earnings NT\$121.219 million (Note 5)	None	None
09/2003	10	291,600,000	2,916,000,000	143,520,916	1,435,209,160	Convertible bond for stock NT\$34.209 million (Note 4)	None	None
12/2003	10	291,600,000	2,916,000,000	147,065,726	1,470,657,260	Convertible bond for stock NT\$35.448 million (Note 4)	None	None
03/2004	10	291,600,000	2,916,000,000	150,700,193	1,507,001,930	Convertible bond for stock NT\$36.345 million (Note 4)	None	None
07/2004	10	291,600,000	2,916,000,000	181,483,126	1,814,831,260	Retained earnings NT\$120.678 million, capital surplus NT\$59.1 million, convertible bond for stock NT\$9.17 million and merge NT\$118.881 million (Note 4, 7 and 9)	None	None
09/2004	10	291,600,000	2,916,000,000	181,577,222	1,815,772,220	Convertible bond for stock NT\$0.941 million (Note 4)	None	None

Month / Year	Issue Price	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
12/2004	10	291,600,000	2,916,000,000	182,805,842	1,828,058,420	Convertible bond for stock NT\$1.036 million and exercise of stock options NT\$11.25 million (Note 4, 6 and 8)	None	None
03/2005	10	291,600,000	2,916,000,000	183,202,780	1,832,027,800	Convertible bond for stock NT\$1.119 million and exercise of stock options NT\$2.85 million (Note 4 and 8)	None	None
06/2005	10	291,600,000	2,916,000,000	185,987,480	1,859,874,800	Convertible bond for stock NT\$15.787 million and exercise of stock options NT\$12.06 million (Note 4, 6 and 8)	None	None
08/2005	10	291,600,000	2,916,000,000	200,211,772	2,002,117,720	Retained earnings NT\$142.243 million (Note 10)	None	None
09/2005	10	291,600,000	2,916,000,000	203,447,283	2,034,472,830	Convertible bond for stock NT\$24.795 million and exercise of stock options NT\$7.56 million (Note 4, 6 and 8)	None	None
12/2005	10	291,600,000	2,916,000,000	210,997,513	2,109,775,130	Convertible bond for stock NT\$62.742 million and exercise of stock options NT\$12.56 million (Note 4, 6 and 8)	None	None
03/2006	10	291,600,000	2,916,000,000	221,660,149	2,216,601,490	Convertible bond for stock NT\$87.571 million and exercise of stock options NT\$19.255 million (Note 4, 6 and 8)	None	None
06/2006	10	291,600,000	2,916,000,000	223,232,683	2,232,326,830	Convertible bond for stock NT\$8.435 million and exercise of stock options NT\$ 7.29 million (Notes 4, 6 and 8)	None	None
08/2006	10	291,600,000	2,916,000,000	240,481,019	2,404,810,190	Retained earnings NT\$172.483 million (Note 11)	None	None
09/2006	10	291,600,000	2,916,000,000	244,923,762	2,449,237,620	Convertible bond for stock NT\$30.197 million and exercise of stock options NT\$14.230 million (Note 4, 6 and 8)	None	None
12/2006	10	291,600,000	2,916,000,000	245,974,190	2,459,741,900	Convertible bond for stock NT\$7.044 million and exercise of stock options NT\$3.46 million (Note 6 and 8)	None	None
03/2007	10	291,600,000	2,916,000,000	249,333,118	2,493,331,180	Convertible bond for stock NT\$30.689 million and exercise of stock options NT\$2.9 million (Note 6 and 8)	None	None
06/2007	10	350,000,000	3,500,000,000	250,882,162	2,508,821,620	Convertible bond for stock NT\$15.295 million and exercise of stock options NT\$0.195 million (Note 6 and 8)	None	None
08/2007	10	350,000,000	3,500,000,000	267,232,348	2,672,323,480	Retained earnings NT\$139.126 million and capital surplus NT\$24.375 million (Note 12)	None	None
09/2007	10	350,000,000	3,500,000,000	269,466,015	2,694,660,150	Convertible bond for stock NT\$22.337 million (Note 6)	None	None
12/2007	10	350,000,000	3,500,000,000	270,327,399	2,703,273,990	Convertible bond for stock NT\$8.614 million (Note 6)	None	None
03/2008	10	350,000,000	3,500,000,000	270,360,006	2,703,600,060	Convertible bond for stock NT\$0.326 million (Note 6)	None	None
06/2008	10	350,000,000	3,500,000,000	270,395,331	2,703,953,310	Convertible bond for stock NT\$0.353 million (Note 6)	None	None
08/2008	10	350,000,000	3,500,000,000	278,748,849	2,787,488,490	Retained earnings NT\$83.535 million (Note 13)	None	None

Month / Year	Issue Price	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
09/2008	10	350,000,000	3,500,000,000	280,645,587	2,806,455,870	Convertible bond for stock NT\$18.967 million (Note 6)	None	None
08/2009	10	450,000,000	4,500,000,000	287,217,454	2,872,174,540	Retained earnings NT\$65.719 million (Note 14 and 16)	None	None
08/2010	10	450,000,000	4,500,000,000	320,217,454	3,202,174,540	Capital Increase by cash - NT\$330 million (Note 15)	None	None
08/2013	10	450,000,000	4,500,000,000	224,152,218	2,241,522,180	Capital Reduction by cash - NT\$960.653 million (Note 16)	None	None
05/2014	10	450,000,000	4,500,000,000	223,548,118	2,235,481,180	Treasury stock write-off - NT\$6.041 million	None	None
03/2015	10	450,000,000	4,500,000,000	223,951,267	2,239,512,670	Conversion of convertible bond – NT\$4.031 million (Note 17)	None	None
07/2015	10	450,000,000	4,500,000,000	224,215,398	2,242,153,980	Conversion of convertible bond – NT\$2.641 million (Note 17)	None	None

Note 1: Approval on April 7, 2000 and by SFE Ruling (89) Tai-Tsai-Cheng (1) No. 28097. Approval on April 12, 2000 and by SFE Ruling (89) Tai-Tsai-Cheng (1) No. 30269.

Note 2: Approval on June 4, 2001 and by SFE Ruling (90) Tai-Tsai-Cheng (1) No. 134451.

Note 3: Approval on August 30, 2002 and by SFE Ruling Tai-Tsai-Cheng (1) 0910147849.

Note 4: Approval on May 16, 2002 and by SFE Ruling Tai-Tsai-Cheng (1) No. 116296.

Note 5: Approval on August 4, 2003 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0920154915.

Note 6: Approval on March 29, 2004 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0930109717.

Note 7: Approval on June 9, 2004 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0930125605.

Note 8: Approval on June 25, 2002 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0910133029.

Note 9: Approval on May 25, 2004 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0930121923.

Note 10: Approval on June 22, 2005 and by FSC Ruling Chin-Kuan-Cheng (1) 0940125011.

Note 11: Approval on July 6, 2006 and by FSC Ruling Chin-Kuan-Cheng (1) 0950128860.

Note 12: Approval on June 27, 2007 and by FSC Ruling Chin-Kuan-Cheng (1) 0960032456.

Note 13: Approval on June 20, 2008 and by FSC Ruling Chin-Kuan-Cheng (1) 0970030925.

Note 14: Approval on July 1, 2009 and by FSC Ruling Chin-Kuan-Cheng 0980032787.

Note 15: Approval on May 28, 2010 and by FSC Ruling Chin-Kuan-Cheng 0990025827.

Note 16: Approval on July 11, 2014 and by FSC Ruling Chin-Kuan-Cheng 1020026067

Note 17: Approval on March 28, 2000 and by FSC Ruling Chin-Kuan-Cheng 09900258271.

Note 18: Authorized share capital is the registered data in item card of Ministry of Economic Affairs, R.O.C.

4.1.1.2 Types of Stocks

Unit: Shares as of 04.09.2017

Type of Stocks	Authorized Share Capital			Note
	Outstanding Shares (Listed) (Note)	Unissued Shares	Total	
Common Stock	224,215,398	225,784,602	450,000,000	-

4.1.2. Shareholder Structure

Unit: Shares as of 2017.04.09

Structure Amount	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	2	8	85	29,834	128	30,057
Number of Shareholding	44	34,890,240	39,738,256	123,365,342	26,221,516	224,215,398
Ownership	0.00%	15.56%	17.72%	55.02%	11.70%	100.00%

4.1.3. Distribution of Ownership

As of 2017.04.09

Shareholder Ownership	Number of Shareholders	Ownership	Ownership (%)
1-999	14,896	3,242,665	1.45%
1,000-5,000	11,177	25,052,431	11.17%
5,001-10,000	2,160	16,396,286	7.31%
10,001-15,000	628	7,833,681	3.49%
15,001-20,000	347	6,243,870	2.78%
20,001-30,000	302	7,603,940	3.39%
30,001-50,000	250	9,745,815	4.35%
50,001-100,000	153	10,945,349	4.88%
100,001-200,000	65	9,150,432	4.08%
200,001-400,000	30	8,143,887	3.63%
400,001-600,000	14	6,924,478	3.09%
600,001-800,000	2	1,512,116	0.68%
800,001-1000,000	5	4,296,411	1.92%
Over 1,000,001	28	107,124,037	47.78%
Total	30,057	224,215,398	100.00%

4.1.4. List of Principal Shareholders

As of 2017.04.09

Shareholders	Shares	Total Shares Owned	Ownership
Fubon Life Assurance Co.,Ltd.		13,115,000	5.85%
Nan Shan Life Insurance Co., Ltd.		13,009,733	5.80%
Lung Ko Investment Co., Ltd.		10,774,717	4.81%
Lin Tan Investment Co., Ltd.		10,295,336	4.59%
Jing-Rong Tang		8,114,784	3.62%
Shin Kong Life Insurance Co., Ltd.		6,902,489	3.08%
Fang Hao Investment Co., Ltd.		5,605,209	2.50%
Fund Investment Account on Dimensional Emerging Markets Evaluation managed by Citibank		3,113,650	1.39%
Shih-Yun Sheng		3,111,896	1.39%

Public Service Pension Fund	2,618,728	1.17%
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4.1.5.Share Price, Net Worth, Earnings, Dividends per Common Share, and Relevant Information

Unit: Thousand of shares / NT\$

Item		Fiscal Year	2015	2016	01/01/2017 -04/30/2017
Market price per share	Highest market price		46.50	36.55	44.20
	Lowest market price		27.45	30.90	31.95
	Average market price		38.47	32.97	35.85
Net worth per share	Before distribution		37.31	36.75	37.14(Note 5)
	After distribution		34.81	34.25(Note 1)	-
Earnings per share	Weighted average shares		224,215	224,215	224,215(Note 5)
	Earnings per share		2.67	2.26	0.56(Note 5)
Dividends per share	Cash dividends		2.5	2.5(Note 1)	-
	Stock dividends	From Earnings	-	-	-
		From APIC	-	-	-
	Accumulated undistributed dividends		-	-	-
Returns on investment	Price / Earnings Ratio (Note 2)		14.48	14.59	-
	Price / Dividend Ratio (Note 3)		15.46	13.19	-
	Cash Dividend Yield (Note 4)		6.47%	7.58%	-

Note 1: Finalized at the shareholders' meeting

Note 2: Profit ratio = Closing price per share of the year / Earnings per share.

Note 3: Earning ratio = Closing price per share of the year / Cash dividend per share.

Note 4: Cash dividend yield rate= Cash dividend per share/ Closing price per share of the year.

Note 5: As of first quarter of 2017

4.1.6.Company's Dividend Policy and Implementation

4.1.6.1. Dividend Policy

For the Company's mid-term and long-term operating growth and capital needs for investing activities, together with the goal of a healthy financial structure, the distribution of profits is proposed to the Annual Shareholders' Meeting by the Board. The appropriation of the Company's net income may be distributed by ways of cash dividend and/or stock dividends taking into consideration the future capital demand and stock dilution. Stock dividends are to be within 0% to 50% of total dividends, while cash dividends are to be within 50% to 100% of total dividends.

4.1.6.2 Dividends Distribution Proposal

1. On March 15, 2017, Holy Stone's Board of Directors approved a proposal for distribution of 2016 profits with a cash dividend as follows:

A. From 2016 earnings: NT\$2 per share.

B. From APIC: NT\$0.5 per share.

Total cash dividend of NT\$2.5 per share will be proposed at the Annual Shareholders' Meeting, and the Board will decide on the date of payment.

2. The remaining cash dividends rounded a whole digit down, will be allocated to the Other Income of the Company.
3. Dividends allocation approved during the shareholders' meeting could be adjusted by the Board of Directors based on the Company's outstanding shares before the distribution date given that any changes in current outstanding shares cause the payout ratio to change. The Board will be authorized by the shareholders meeting to execute the adjustment based on approval during the Annual

Shareholders' Meeting. Causes of changes in current outstanding shares include, but not limited to, cash capital increase or reduce, repurchase of treasury stock, transfer and cancellation of treasury stock, the exercise of convertible corporate bond, the exercise of employee stock option, and so on.

4.1.7. Effect upon business performance and EPS of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting: The Company proposed to allocate all dividends in cash, therefore not applicable.

4.1.8. Employee bonuses and compensation of directors and supervisors:

4.1.8.1. The percentages or ranges with respect to employee bonuses and director/supervisor compensation, as set forth in Holy Stone's Articles of Incorporation

The remainder of the unappropriated retained earnings, deducting the abovementioned items 1 to 4 from earnings, shall be distributed to directors, supervisors, and employees as follows:

- i. Directors and supervisors' compensations are no more than 3%.
- ii. Employee bonus is no less than 7%.

Bonus to employees, distributed in stock dividends, shall be allocated to qualified employees according to the Board of Directors and the authorized members.

4.1.8.2. The basis for estimating the amount of employee bonuses and director/supervisor compensation, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

1. According to the operating forecast of 2016 made by the Board and past distribution, deducting 10% of legal reserve and the special reserve from net income, employees' bonus and directors'/supervisors' compensation were 10.5 percent and 2 percent respectively.
2. The issued stock shares will be calculated using the closing price on the day before Annual Shareholders' Meeting taking the effect of ex-dividend into consideration.
3. The discrepancy between actual distribution amount and the proposed distribution amount shall be recognized as change in accounting estimates and recorded on the Statement of Income.

4.1.8.3. Information on any employee bonus distribution proposal approved by the Board of Directors

1. Distribution of cash bonuses or stock bonuses to employees, and compensation for directors/supervisors. If there is any discrepancy between such an amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed. On March 15, 2017, the Board approved for the distribution of NT\$73,655 thousand of employee bonus and NT\$14,030 thousand of directors' and supervisors' compensation, which will be paid in cash and is consistent with the actual amount forecast in 2016. Subsequently, if there is discrepancy after the Annual Shareholders' Meeting, the difference shall be recognized as expenses in the next fiscal year.
2. The number of shares in any proposed distribution of employee stock dividends, and the size of such distribution as a percentage of capital increase paid out of earnings: Not applicable to the Company because no stock dividend was distributed.
3. The effect upon imputed earnings per share of any proposed distribution of employee dividends and director/supervisor compensation: Not applicable because both employee bonus and director/supervisor compensation have been expensed.

4.1.8.4. The actual distribution of employee bonuses and Directors and Supervisors Compensation in 2016

The Company distributed NT\$88,148 thousand of employee bonuses, and NT\$16,790 thousand of directors' and supervisors' compensation in 2016, both amount is consistent with the proposed amount by the Board.

4.1.9. Buyback of Common Stock

None.

4.2. Issuance of Corporate Bonds

4.2.1. Issuance of Corporate Bonds : None.

4.2.2. Information on Convertible Bonds: Not applicable.

4.2.1. Information on Exchangeable Bonds: Not applicable.

4.2.2. Summary of Issuance of Corporate Bonds: Not applicable

4.2.3. Information on Warrants: Not Applicable

4.3. Issuance of Preferred Shares

None.

4.4. Issuance of Global Depositary Shares

None.

4.2. Issuance of Employee Stock Options

4.5.1. Issuance of Employee Stock Options during the most recent fiscal year and as of the printed date of the annual report and its Impact to Equity.

as of 2017.04.30

Employee Share Subscription Warrants	Fourth Warrant
Approval Date by the Securities & Futures Bureau	2007.11.21
Issuance Date	2007.12.03
Number of Options Granted	7,002,200 (Note)
Percentage of Shares Exercisable to Outstanding Common Shares	3.12%
Option Term	2009.12.03 2017.12.02
Source of Option Shares	New Common Share
Vesting Schedule (%)	2 nd Year: up to 15% 3 rd Year: up to 15% 4 th Year: up to 25% 5 th Year: up to 25% 6 th Year: up to 20%
Shares Exercised	-
Value of Shares Exercised	-
Shares Unexercised	7,002,200 shares
Grant Price Per Share	NT\$34.90
Percentage of Shares Unexercised to Outstanding Common Shares (%)	3.12%
Impact to Stockholders' Equity	The dilution ratio to original common stock stockholders' equity is 3.12%; therefore, there is limited dilution effect.

Note: The Company issued 10,000,000 units originally. Due to initiation of a 30% of capital reduction, 2,997,800 units were cancelled.

4.5.2. Employee Stock Options Granted to Management Team and to Top 10 Employees.

Unit: Thousand shares/ Thousands of NT\$ as of 2017.04.30

Title	Name	Number of Options Granted	% of Shares Exercisable to Outstanding Common Shares	Exercised				Unexercised			
				Shares Exercised	Exercise Price Per Share	Value of Shares Exercised (NT\$)	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share (Note 4)	Value of Shares Unexercised	% of Shares Unexercised to Outstanding Common Shares
President	Jing-Rong Tang	1,442	0.64	0	0	0	0	1,442	34.9	50,341	0.64
Vice Executive President	Shih-Yun Sheng										
Vice President	Yu-Min Wu										
Vice President	Shao-Kuo Huang										
Vice President	Sheng-Yao Lu										
Vice President	I-Ta Lee										
Vice President	Hui-Bang Yeh										
Manager of Finance and Accounting Department	Shu-Ying Chang										
Top 10 Employees	Jing-Rong Tang	2,107	0.94	0	0	0	0	2,107	34.9	73,557	0.94
	Shih-Yun Sheng										
	Yu-Min Wu										
	Shao-Kuo Huang										
	Sheng-Yao Lu										
	I-Ta Lee										
	Hui-Bang Yeh										
	Shu-Ying Chang										
	Fang-Ming Lo										
Jyun-Ping Ma											

4.6. Employee Restricted Stock

None.

4.7. Mergers and Acquisitions

None.

4.8. Status of New Share Issuance in Connection with Acquisitions

None.

4.9. Financing Plans and Implementation

None.

5. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

Holy Stone and Subsidiaries keep a steady pace in electronics industry through diverse development. On top of that, as an electronic components retailer, we constantly reveal to produce green components and system product. We have bestridden health-care industry in the purpose of developing promising health-care products. The Company and Subsidiaries' scope of business includes R&D and manufacturing (MLCC, ceramic substrate, electrical and electronic system module, other electronic components, and medical products) and wholesale and retail (Electronic components and other products).

5.1.1.1 Relative weight of each core product (2016)

Item	Shares of Sales Revenue
Passive Components	25.09%
Active Components	36.19%
System & Module	26.03%
Others	12.69%
Total	100.00%

5.1.1.2 Products and service items

- (1) Capacitors and other passive components
- (2) IC and other active components
- (3) System and modules
- (4) Others

5.1.1.3 New products to develop

- (1) Highly reliable and large sized new MLCC
- (2) Middle & high voltage MLCC for industrial and power supplies application
- (3) High efficient MLCC with wireless charging circuit
- (4) COB substrate
- (5) Metal substrate
- (6) Medical products

5.1.2 Industry Overview

Current status and future outlook of the industry, developmental trends and competition:

Looking back on the year of 2016, the global economy has entered a period of continuous slowdown. IMF revised global growth rate down to 3.1% in response to greater political uncertainty rising from voting for Brexit and the weak note emerging market starting the year of 2016.

In terms of global electronic products shipment in 2016, the momentum of 4G Smartphone growth comes mostly from emerging markets, and the rest of products have been on the verge of maturity. Current market for Holy Stone products is segmented as follows:

Unit: million of pieces	2015	2016	Growth Rate of 2016	Growth Rate of 2017 (forecast)
PC	281	266	(5.3%)	(2.6%)
Laptop	157	149	(5.1%)	(0.6%)
Smartphone	1,327	1,367	3.0%	4.3%
LED Lighting (million of USD)	14,325	14,850	3.7%	4.0%

Source : DIGITIMES 、 Gartner 、 IDC 、 MIC 、 LEDinside 、 TrendForce; Compiled by Holy Stone

Gartner revised global growth rate of IT expenditure in 2017 down to 2.7%, amounting to 3,500 billion dollars. According to Gartner, the growth of server would come from cloud computing, and enterprise investments would be driven up by digitalized business and artificial intelligence. See details below:

Unit: billion of USD	2016	Growth Rate of 2016	2017	Growth Rate of 2017 (forecast)
Device	588	(8.9%)	589	0.1%
Information center system	170	(0.6%)	175	2.6%
Software	333	5.9%	355	6.8%
IT service	900	3.9%	938	4.2%
Communication service	1,385	(1.0%)	1,408	1.7%
Overall IT expenditure	3,375	(0.6%)	3,464	2.7%

Source: Gartner (2017.01)

The market of Smartphone has been cooling and slackening off the growth rate, and the growth rate of global shipment in 2016 shows single digit for the first time in years. The future growth relies on Smartphone upgrade. The market of PC and laptop may continue to decrease. Average selling price for LED in 2016 decreased owing to over-supply. However, we may be able to see the profit growth because of the increasing needs for custom product driven by special application.

According to IHS, IoT and artificial intelligence are the next big things throughout 2017, and all together these two trends will bring forth more innovative application and service. The application of IoT includes VR, AR, drone, service robots and smart city. According to Gartner, annual growth rate of IoT-connected devices is forecast to reach 31%, and those of consumer electronics would account for over 60% of total market. IoT would also propel the development of 5G mobile communication; according to IDC, the global IoT market is forecast to reach 930 billion dollars, and to reach 1,460 billion dollars in the next 3

years. Holy Stone has deployed for IoT demand since 2014, and we have seen noticeable contribution in 2016. This contribution will continue to grow this year (2017).

Holy Stone has devoted itself to advancing core competence in hopes of staying competitive to provide value-added service. According to IEK, the electronic components driven by smart vehicle increased by 10% in 2016, amounting to 182 billion dollars. The market of automotive electronic components in 2015 is 184 billion dollars, and is forecast to reach 380 billion dollars in the next 5 years, equivalent to CAGR 10.8%. The trend for automotive electronic components would be increase in energy efficiency and safety reinforcement from combining AI and ADAS. Holy Stone has acquired ISO/TS16949 certificate in late 2016, hoping to help domestic electronics manufacturers enter the prospering car market.

Market analysis of Holy Stone product lines is listed as follows:

Passive Components: Holy Stone house-brand products take up the majority, including MLCC and ceramic substrate metallization, and we are raw material supplier in supply chain. Ceramic substrate can be mostly used in LED lighting, and MLCC application is available across a wide variety of electronic products ranging from cell phone, communication equipments, computer, home appliances, game console, digital camera, to industrial and automotive electronics. Sluggish growth rate for ceramic substrate in 2016 is attributable to pricing competition against the others. In the year to come, output should be able to ramp up from new product introduction and new customer development. As for MLCC, new product lines for lighting, power supply, industrial and automotive needs would be increasing. In the year to come, we will also keep rolling out new product lines for niche market in hopes of driving momentum for sales and marketing.

Active components: With sluggish growth of Smartphone in communication industry, revenue of distributing and selling relevant semiconductors decreased by 7.26% in 2016. Growth of global Smartphone business would increase by single digit in 2017. However, with increasing demand driven by IoT, active components would still take up considerable share of total revenue.

System and module: In system and module, we mainly focus on providing total solutions coming with value-added micro-controller. With shift of downstream customers, revenue coming from system and module increased by 23.90% in 2016. With development of next opportunity of IoT, the Company will continue to provide total solutions and key components and applications can be found across consumer electronics, industry, medical, automotive markets. Growth of revenue is expected in years to come.

Others: The Company and Subsidiaries distribute various components such as motored fan, electric filters, batteries, switches, motor fan, mechanical components, DVD players, and mechanical components. With strategic adjustment, revenue from others dropped by 26% approximately from 2015, and share of revenue also dropped to 13% from 17%. Revenue share of 2017 for others' products should be the same as that of 2016.

5.1.3. Research and Development

5.1.3.1 R&D expenditures during the last fiscal year and as of the first quarter of 2017

Unit: Thousands of NT\$

Item	2016	As of March 31, 2017
R&D expenditures	304,832	74,982
Gross Revenue	13,166,572	3,138,194
Percentage	2.32%	2.39%

5.1.3.2 Successful development of technologies and products

In connection with industry demand in LED lighting, wireless charging module, high-end power supply, the Company develops customized specifications on MLCC, related powder materials, manufacturing technologies to reduce energy consumption and waste creation. Furthermore, thin film ceramic substrate has been adopted by customers successfully.

5.1.3.3 Future R&D Plans and Expected R&D Spending

With the growth of industry and market demand, the Company and Subsidiaries continues to invest in R&D of products and production process to satisfy customers' requirements and to strengthen corporate competency. Future investment in R&D is estimated to be NT\$500,000 thousand.

5.1.4. Short-term and Long-term Development Strategies

5.1.4.1 Promotion Strategies

(1) Short-term

- A. React promptly to different applications in the market and provide customer development of LED, power supply, network communication.
- B. Expend products for main customers in the United States and European, and offer One-stop shopping.

(2) Long-term

- A. Accelerate setup for dealer and agent in Pan-Asian Region.
- B. Strengthen dealer and agent services and product support in Greater China.
- C. Develop industrial client group for medical industry.

5.1.4.2 Production Policies

(1) Short-term

- A. Adjust product portfolio and lower production cost.
- B. Increase and stabilize yield rate on niche products.
- C. Lower WIP inventory, and shorten the time of production.

(2) Long-term

- A. Optimize production line by increasing automatic equipment, debottlenecked station detection and workflow efficiency.
- B. Determine production / quality by annual plan and fulfill KPI management and staff training, cost enhancement management.
- C. Eliminate or transform worn producing machines to enhance production and lower staff costs.

5.2. Market and Sales Overview

5.2.1. Market Analysis

5.2.1.1 Sales by geographical area

The Company sells products to customers in telecommunications, information, consumer electronics, automotives and industrial electronics markets. We continue to target the United States and European markets to increase exporting capacity; whereas our health-care product eyes on European market mostly.

Sales Revenue by Geography in 2015 and 2016

Unit: Thousands of NT\$

Area \ Year	2015		2016	
	Gross Revenue	Percentage	Gross Revenue	Percentage
Taiwan	3,318,818	24.41%	2,339,257	17.77%
China	9,148,056	67.29%	9,850,311	74.81%
U.S.A.	337,992	2.48%	349,834	2.66%
Others	790,953	5.82%	627,170	4.76%
Total	13,595,819	100.00%	13,166,572	100.00%

*calculated based on consolidated sales

5.2.1.2 Market share

The Company's main products are active components, passive components, and system modules. Net sales totaled NT\$13,166,572 thousand in 2016. These products contribute significant shares in the market.

5.2.1.3 Supply and demand status and growth of future market

Holy Stone's products are broadly applied to telecommunications, information, consumer electronics, automotives and industrial electronics markets. End products include mobile phones, networks equipment, computers, consumer products, automotives, power supply, home appliances, industrial equipments and so on. Figures in the following chart are 2017 forecasted growth in shipments made by international research institutions.

Product	2016	2017
Personal Computer	(5%)	(2%)
Tablet	(8%)	(5%)
Cell Phone (Feature & Smart phone)	1%	1%
LED Lighting	4%	4%
Automobile Industry	7%	8%

*Source: Digitimes、Gartner、IDC、IEK; compiled by Holy Stone

Market analysis of Holy Stone's main product lines is as follows:

Passive Components: Holy Stone's main product in passive components is capacitors. In terms of the proportion, the house-brand MLCC takes up the highest share; whereas distribution and franchising of aluminum capacitor and tantalum capacitors which produced and manufactured at Miharu plant in Japan. Downstream application industry includes varies market such as communication, industrial electronics, automotive electronics and consumer electronics market.

Gartner, the international technology research firm, says the total shipment of personal computer in 2016 totaled 415 million units, a decline of 5% compared to 2015. PCs are expected to continue to decline with the total expected shipment of 400 million units approximately. Shipment of tablet reached 150 million units, a decrease of 8% from the same period last year. As for 2017, the annual decrease rate is forecast to be 5%. The effect of growth and decline in niche market as well as the Company and Subsidiaries' major techniques allow us to focus on developing niche products for customers.

Active components: The Company and Subsidiaries distribute and franchise various components like power amplifier, switching diode, and touch integrated circuit that are mainly applied to communication market such as mobile phone and network communication market. LTE has been built up in several countries. This leads the Smartphone to emerge. In 2016, shipment of mobile phone had reached 1,420 million units. Smartphone is forecast to grow at single digit after the peak.

System module: Our main product in system module is value-added micro-controller. IC Insights stated that the total market value of micro-controller was USD 165 million or so, and was expected to reach USD 177 million in 2016 with an annual growth rate of 7%. The Company and Subsidiaries not only provide a diversity of scale of product types but a complete solution in order to meet customers' demand. After years dedicating in industrial control, automotive electronics, home appliance and medical electronics, we have earned reputation and credibility among the industry. As the rapid development of communication industry, the wearable devices and internet-on-thing will shed the light and lead the whole electronic industry. In response to that, Holy Stone shall provide all manner of relevant solution for customers.

Others: The Company and Subsidiaries franchises and distribute batteries, switches, motor fan, mechanical components for information and communication industry. The above components are mainly applied to high-level application market.

5.2.1.4 Core competences, advantages and disadvantages of future prospects and responsive strategies

(1) Core competences and Advantages

- A. Penetrative sales channels and complete promotion services
- B. Technologies of developing high voltage, high capacitance, and special capacitors
- C. Technology of developing polymer tantalum capacitors

(2) Disadvantages and responsive strategies

- A. Main materials rely on imports

Responsive strategies:

- (A) Invest in upstream raw materials development, and communicate with overseas factory with the expectation of possessing capabilities to test and improve materials, as well as the ability to design capacitors with various specifications.
 - (B) Increase the number of suppliers and maintain good relationship with existing suppliers in order to reduce risks of raw materials shortage.
- B. Increasingly intense market competition
- Responsive strategies:
- (A) Produce high level and high ASP products to extend new applications.
 - (B) Distribute competitive products, expand new distribution lines, and provide integrated solutions to maintain stable sales revenue and product diversification.
- C. Inventory pressure formed easily due to great volatilities in the market.
- Responsive strategies:
- (A) Develop customer pool; aside from applications in information and communication, expand military, automotives, lighting, and green markets.
 - (B) Establish BI System, closely control and monitor inventory levels.

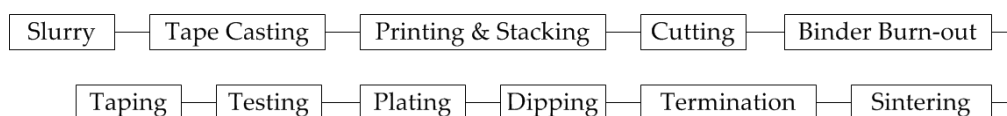
5.2.2. Application of Major Products and its Production Process

5.2.2.1 Major products and its application

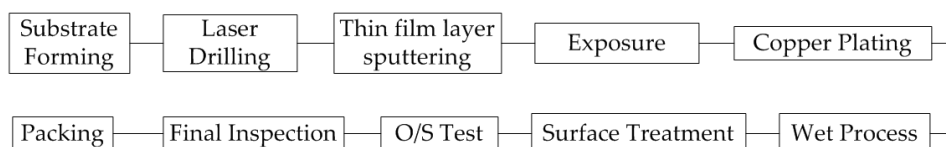
Capacitors are basic components in 3C electronics. In information industry, capacitors are applied to motherboards, VCG cards, sound cards, CD/DVD ROMs and so on. In communications industry, they are applied to mobile phones, fax machines, digital internet services, and modems and so on. Furthermore, in consumer electronics industry, they are applied to video cameras, CD audios, optical disk driver's set-top boxes and so on. In the industrial electronics industry, they are applied to power supplies, inverters, converters and so on. In photonics industry, they are mainly applied to LED lightings. Finally, newly-developed special capacitors are used mainly in military and industrial applications, for example, aerospace.

5.2.2.2 Production process

Surface-Mounted MLCC



Thin Film Ceramic Thermal Substrate



5.2.3. Suppliers of Major Materials

In order to ensure steady supply of electronic components, the Company not only maintains good relationship with existing vendors but also actively develops new vendors to increase supply sources and cut down costs. Current list of major products/raw materials and its suppliers were as follows:

Types of Major Products	Supplier Name
Capacitor	Hitachi, Nichicon
Integrated Circuit	Microchip, Skyworks
Inner Electrode	Ferro, Shoei
Silver-palladium and Metal Powder	Cermet, FWH
Electronic Components	Panasonic

5.2.4. Major Suppliers and Customers List

5.2.4.1 Major suppliers list (Suppliers making up over 10% of total purchase)

Unit: Thousands of NT\$/ %

Item	2015				2016				First quarter of 2017			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	F	1,648,527	17.05	None	B	1,900,256	18.45	None	B	473,956	19.10	None
2	D	1,596,820	16.51	None	A	1,896,560	18.41	None	D	311,095	12.53	None
3	B	1,576,596	16.30	None	D	1,564,682	15.19	None	A	283,491	11.42	None
4	A	1,437,464	14.86	None	-	-	-	-	-	-	-	-
	Others	3,411,010	35.28	—	Others	4,939,481	47.95	-	Others	1,413,308	56.95	-
	Total	9,670,417	100.00	—	Total	10,300,979	100.00	-	Total	2,481,850	100.00	-

*The figures above are supplier information from the consolidated company.

5.2.4.2 Major customers list (Customers making up over 10% of total sales)

None

5.2.5. Production Quantity & Value

Unit: KPCS/ Thousands of NT\$

	2015			2016		
	Capacity	Production Quantity	Production Value	Capacity	Production Quantity	Production Value
Capacitor	10,000,000	6,769,776	1,366,428	10,000,000	7,297,160	1,537,745

*The figures above are production information from the consolidated company; production quantity is calculated according to large size capacitors.

5.2.6. Sales Quantity & Value Table

Unit: KPCS/ Thousands of NT\$

Items & Amount	2015		2016		2015		2016	
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components	1,490,249	675,264	5,884,005	2,490,040	1,577,226	571,339	6,264,124	2,507,401
Active Components	242,484	1,073,198	439,291	4,036,685	225,495	795,541	544,124	3,940,299
System & Modules	29,620	597,182	111,946	1,871,881	33,240	606,633	129,336	1,894,317
Others	116,087	330,755	361,261	1,079,319	38,425	39,175	458,987	1,191,695
Total	1,878,440	2,676,399	6,796,503	9,477,925	1,874,386	2,012,688	7,396,571	9,533,712

*The figures above are sales information from the consolidated company.

5.3. Employee Demographic Data

Year		2015	2016	As of April 30, 2017
Number of Employees	Direct Employees	374	365	361
	Indirect Employees	422	429	427
	Total	796	794	788
Average Age		37.59	38.37	38.70
Average Years of Employment		8.48	9.00	9.21
Level of Education (%)	Ph.D.	0.13	0.13	0.13
	Master's Degree	6.78	7.43	7.36
	Bachelor's & Associate Degree	51.01	50.50	50.51
	Senior High School	39.45	39.04	38.83
	Others	2.64	2.90	3.17

*The figures above are from the parent company.

5.4. Disbursements for Environmental Protection

As of the printed date of this Annual Report, the total amount of loss and disciplinary action from environmental pollution were as follows, along with the description of future responsive strategies and possible expenditures.

5.4.1. Total loss and fines for environmental pollution for the most recent fiscal year and as of the date of this Annual Report

NT\$0.

5.4.2. Measures and improvements to be made in the future

5.4.2.1 Continue to exercise environmental protection policies:

Comply with legal requirements and fulfill social corporate responsibility; establish a green corporation and develop green products; protect the environment and reduce processed wastes; continue to improve the environment and prevent environmental pollution; exercise environmental education and foster quality life.

5.4.2.2 Disposal of waste: The Company entrusts the certified waste management organization to process waste and disposals, so there is no environmental pollution made by the Company.

5.4.2.3 Disposal of polluted water: The Company not only conducts periodic examinations on the disposal of polluted water but also renews water disposal systems and acquires the "Discharge Permit."

5.4.2.4 Disposal of exhaust gases: The Company has complete emission control systems. With new acquisitions on production equipments, the Company also strengthens its pollution prevention projects accordingly and acquires the "Stationary Pollution Source Installation Permit."

5.4.2.5 In order to exercise environmental protection and raise environmental quality, the Company plans to invest NT\$37.5 million in pollution prevention equipment to meet higher control standards.

5.4.2.6 The Company is attentive to environmental protection. It not only hires designated people to supervise, but also improve its software and hardware systems. Currently, the Company is in conformity to government regulation; therefore, it has limited influence on the Company's net income and competitiveness.

Please refer to the Company's online CSR Report for more details at www.holystone.com.tw

5.4.3. Expenditures on environmental protection in the next three years

Unit: Thousands of NT\$

<u>Item</u>	<u>Content of Expenditure</u>	<u>Estimated Funds</u>
1	Exhaust gas and polluted water disposal equipment	\$ 37,500
2	Testing fees for exhaust gas	1,200
3	Testing fees for polluted water emission	500
4	Disposal fees for polluted water	14,000
5	Disposal fees for waste	20,000
6	Environmental testing fees	2,000
7	Replacement fees for consumptive materials from exhaust gas	19,000
8	Others	6,000
		\$ 100,200

5.5. Labor and Management Relationship

5.5.1. Employee benefit plans, continuing education, training, retirement systems, and status of their implementation, and status of labor management agreements and measures for preserving employee rights and interests:

5.5.1.1 Employee's welfare package: The Company provides regular health checks and so on.

5.5.1.2 Employee Welfare Committee: The Company provides financial aids for wedding, funeral, maternity, hospitalization, festivals, company trips and club activities; encourages art and cultural seminars and employee outings to strengthen employee relationship and relax employees' body and mind.

5.5.1.3 Education and training: The Company sees its employees as valuable assets. We develop an active learning environment for employees to take on important roles in the top teams. From a single course to series of courses, the Company continuously raises employees' overall competitiveness. These includes: developmental courses and channels for diversified learning experiences, and cooperative education system.

5.5.1.4 Retirement plan: In order for employees to work contently without having to worry about future uncertainties, the Company's retirement policy is in accordance with the provisions in the Labor Standards Law and Labor Pension Act of the Republic of China. The Company also distributes pension funds to Bank of Taiwan or employee's personal pension fund accounts.

5.5.1.5 Agreement between labor and management: The achievement of enterprise's goal relies on each employee's effort. Under such circumstances, labor and management are able to exercise their talents. Therefore, the relationship between labor and management plays an important role for the Company at all times. As of today, there has been no dispute between labor and management.

5.5.2. As of today, the loss caused by disputes between labor and management: None.

5.6. Major Contracts

As of 2017.04.30

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	Hitachi	2015.04.01-2018.03.31	Capacitor	None
Distributorship and Agent Agreement	Skyworks	2012.10.01-2017.09.30	IC	None
Distributorship and Agent Agreement	Microchip	2014.04.01-2018.03.31	IC	None

6. Financial Highlights

6.1. Condensed Balance Sheet and Condensed Income Statement

6.1.1. Condensed Balance Sheet—International Financial Reporting Standards - Consolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016					As of March 31, 2017 (Note)
		2012	2013	2014	2015	2016	
Current assets		8,965,666	9,521,533	9,024,952	8,368,392	8,898,816	8,999,096
Property, plant and equipment		3,035,586	3,084,655	2,833,549	2,629,430	2,406,685	2,364,718
Intangible assets		575,084	563,222	480,814	314,614	254,298	238,673
Other assets		1,314,925	1,078,067	956,932	862,802	764,685	797,974
Total assets		13,891,261	14,247,477	13,296,247	12,175,238	12,324,484	12,400,461
Current liabilities	Before distribution	3,972,492	4,287,535	3,841,732	3,049,178	3,383,476	3,392,135
	After distribution	4,611,201	4,913,469	4,579,441	3,609,716	Not distributed yet	Not distributed yet
Noncurrent liabilities		350,260	671,290	139,294	124,067	108,128	121,418
Total liabilities	-	4,322,752	4,958,825	3,981,026	3,173,245	3,491,604	3,513,563
	-	4,961,461	5,584,759	4,718,735	3,733,783	Not distributed yet	Not distributed yet
Equity attributable to parent company		8,977,287	8,268,574	8,508,552	8,364,727	8,239,577	8,326,478
Common stock		3,202,175	2,241,522	2,235,481	2,242,154	2,242,154	2,242,154
Capital surplus		3,681,259	3,572,820	3,588,009	3,608,244	3,567,070	3,567,098
Retained earnings	Before distribution	1,954,775	2,173,679	2,453,917	2,312,475	2,253,728	2,379,249
	After distribution	1,475,743	1,547,745	1,716,208	1,751,937	Not distributed yet	Not distributed yet
Other equity		169,920	308,806	231,145	201,854	176,625	137,977
Treasury stock		(30,842)	(28,253)	-	-	-	-
Non-controlling equity		591,222	1,020,078	806,669	637,266	593,303	560,420
Total stockholders' equity	Before distribution	9,568,509	9,288,652	9,315,221	9,001,993	8,832,880	8,886,898
	After distribution	8,929,800	8,662,718	8,577,512	8,441,455	Not distributed yet	Not distributed yet

Note : The financial information of Q1 2017 financial statements have been audited by CPA.

6.1.2. Condensed Income Statement—International Financial Reporting Standards - Consolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016					As of March 31, 2017 (Note 1)
		2012	2013	2014	2015	2016	
Net sales		14,607,834	15,898,687	16,024,893	13,595,819	13,166,572	3,138,194
Gross profit		1,868,724	1,974,026	2,044,319	1,965,882	1,904,910	433,156
Operating income (loss)		633,275	664,463	702,685	634,494	441,458	104,733
Non-operating income and expenses		126,607	137,822	250,325	(19,856)	13,465	8,082
Income before income tax		759,882	802,285	953,010	614,638	454,923	112,815
Net income from continuing operations		620,425	627,746	795,204	471,786	338,121	86,542
Loss from discontinued operations		-	-	-	-	-	-
Net income (loss)		620,425	627,746	795,204	471,786	338,121	86,542
Other comprehensive gains and losses (net amount after tax)		(136,316)	241,181	(144,412)	(60,474)	(34,779)	(32,653)
Total comprehensive profit or loss		484,109	868,927	650,792	471,312	303,342	53,889
Net income attributable to stockholders of parent company		639,620	695,665	904,408	598,178	506,101	125,521
Net income attributable to non-controlling equity		(19,195)	(67,919)	(109,204)	(126,392)	(167,980)	(38,979)
Comprehensive gains and losses attributable to stockholders of parent company		507,752	836,822	828,511	566,976	476,562	86,873
Comprehensive gains and losses attributable to non-controlling equity		(26,463)	32,105	(177,719)	(155,664)	(173,220)	(32,984)
Earnings per share (NT\$) (Note 2)		2.00	2.44	4.05	2.67	2.26	0.56

Note 1: The financial information of Q1 2017 financial statements have been audited by CPA.

Note 2: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

6.1.3. Condensed Balance Sheet—International Financial Reporting Standards - Unconsolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016					As of March 31, 2017
		2012	2013	2014	2015	2016	
Current assets		7,233,077	7,191,263	7,094,516	6,608,318	7,201,393	-
Property, plant and equipment		2,547,730	2,523,726	2,332,883	2,131,464	2,138,335	-
Intangible assets		-	-	-	-	-	-
Other assets		2,796,267	2,673,897	2,690,832	2,459,485	2,078,716	-
Total assets		12,577,074	12,388,886	12,118,231	11,199,267	11,418,444	-
Current liabilities	Before distribution	3,338,286	3,530,624	3,494,535	2,732,039	3,090,681	-
	After distribution	3,976,995	4,156,558	4,232,244	3,292,578	Not distributed yet	-
Noncurrent liabilities		261,501	589,688	115,144	102,501	88,186	-
Total liabilities	Before distribution	3,599,787	4,120,312	3,609,679	2,834,540	3,178,867	-
	After distribution	4,238,496	4,746,246	4,347,388	3,395,078	Not distributed yet	-
Equity attributable to parent company		8,977,287	8,268,574	8,508,552	8,364,727	8,239,577	-
Common stock		3,202,175	2,241,522	2,235,481	2,242,154	2,242,154	-
Capital surplus		3,681,259	3,572,820	3,588,009	3,608,244	3,567,070	-
Retained earnings	Before distribution	1,954,775	2,173,679	2,453,917	2,312,475	2,253,728	-
	After distribution	1,475,743	1,547,745	1,716,208	1,751,937	Not distributed yet	-
Other equity		169,920	308,806	231,145	201,854	176,625	-
Treasury stock		(30,842)	(28,253)	-	-	-	-
Non-controlling equity		-	-	-	-	-	-
Total stockholders' equity	Before distribution	8,977,287	8,268,574	8,508,552	8,364,727	8,239,577	-
	After distribution	8,338,578	7,642,640	7,770,843	7,804,189	Not distributed yet	-

6.1.4. Condensed Income Statement—International Financial Reporting Standards

- Unconsolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016					As of March 31, 2017
		2012	2013	2014	2015	2016	
Net sales		12,454,958	13,681,808	14,565,348	12,154,324	11,546,400	-
Gross profit		1,395,599	1,443,559	1,600,032	1,607,953	1,474,231	-
Operating income (loss)		651,761	680,112	841,941	886,503	694,070	-
Non-operating income and expenses		105,414	150,690	203,011	(151,936)	(80,277)	-
Income before income tax		757,175	830,802	1,044,952	734,567	613,793	-
Net income from continuing operations		639,620	695,665	904,408	598,178	506,101	-
Loss from discontinued operations		-	-	-	-	-	-
Net income (loss)		639,620	695,665	904,408	598,178	506,101	-
Other comprehensive gains and losses (net amount after tax)		(131,868)	141,157	(75,897)	(31,202)	(29,539)	-
Total comprehensive profit or loss		507,752	836,822	828,511	566,976	476,562	-
Net income attributable to stockholders of parent company		639,620	695,665	904,408	598,178	506,101	-
Net income attributable to non-controlling equity		-	-	-	-	-	-
Comprehensive gains and losses attributable to stockholders of parent company		507,752	836,822	828,511	566,976	476,562	-
Comprehensive gains and losses attributable to non-controlling equity		-	-	-	-	-	-
Earnings per share (NT\$) (Note 1)		2.00	2.44	4.05	2.67	2.26	-

Note 1: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

6.1.5. Condensed Balance Sheet—Taiwan's General Accepted Accounting Principles

- Consolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016					As of March 31, 2017
		2012	2013	2014	2015	2016	
Current assets		8,994,689		-	-	-	-
Fund and long-term investment		1,048,276		-	-	-	-
Fixed assets		3,245,579		-	-	-	-
Intangible assets		575,084		-	-	-	-
Other assets		18,513		-	-	-	-
Total assets		13,882,141		-	-	-	-
Current liabilities	Before distribution	3,965,510		-	-	-	-
	After distribution	4,604,219		-	-	-	-
Long-term liabilities		238,596		-	-	-	-
Other liabilities		82,530		-	-	-	-
Total liabilities	Before distribution	4,286,636		-	-	-	-
	After distribution	4,925,345		-	-	-	-
Parent Company's shareholder's equity		9,004,283		-	-	-	-
Common stock		3,202,175		-	-	-	-
Capital surplus		3,622,923		-	-	-	-
Retained earnings	Before distribution	2,077,233		-	-	-	-
	After distribution	1,598,202		-	-	-	-
Unrealized gain or loss on financial instruments		196,930		-	-	-	-
Cumulative translation adjustments		(27,010)		-	-	-	-
Net loss not recognized as Pension Cost		(37,126)		-	-	-	-
Treasury stock		(30,842)		-	-	-	-
Minority interest		591,222		-	-	-	-
Total stockholders' equity	Before distribution	9,595,505		-	-	-	-
	After distribution	8,956,796		-	-	-	-

6.1.6. Condensed Income Statement—Taiwan's General Accepted Accounting Principles - Consolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016 (Note 1)					As of March 31, 2017
		2012	2013	2014	2015	2016	
Net sales		14,607,834	-	-	-	-	-
Gross profit		1,868,724	-	-	-	-	-
Operating income		648,778	-	-	-	-	-
Non-operating income and gains		247,154	-	-	-	-	-
Non-operating expenses and losses		120,547	-	-	-	-	-
Income before income tax from continuing operations		775,385	-	-	-	-	-
Net income from continuing operations		635,928	-	-	-	-	-
Income from discontinued operations		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		635,928	-	-	-	-	-
Net profit attributable to shareholders of the parent company		655,123	-	-	-	-	-
Minority interest income		(19,195)	-	-	-	-	-
Earnings per share (NT\$) (Note 1)		2.05	-	-	-	-	-

Note 1: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

6.1.7. Condensed Balance Sheet—Taiwan's General Accepted Accounting Principles - Unconsolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016					As of March 31, 2017
		2012	2013	2014	2015	2016	
Current assets		7,260,809	-	-	-	-	-
Fund and long-term investment		2,627,763	-	-	-	-	-
Fixed assets		2,700,909	-	-	-	-	-
Intangible assets		-	-	-	-	-	-
Other assets		2,038	-	-	-	-	-
Total assets		12,591,519	-	-	-	-	-
Current liabilities	Before distribution	3,351,281	-	-	-	-	-
	After distribution	3,989,990	-	-	-	-	-
Long-term liabilities		150,000	-	-	-	-	-
Other liabilities		85,955	-	-	-	-	-
Total liabilities	Before distribution	3,587,236	-	-	-	-	-
	After distribution	4,225,945	-	-	-	-	-
Common stock		3,202,175	-	-	-	-	-
Capital surplus		3,622,923	-	-	-	-	-
Retained earnings	Before distribution	2,077,233	-	-	-	-	-
	After distribution	1,598,201	-	-	-	-	-
Unrealized gain or loss on financial instruments		196,930	-	-	-	-	-
Cumulative translation adjustments		(27,010)	-	-	-	-	-
Net Loss Unrecognized as Pension Cost		(37,126)	-	-	-	-	-
Treasury stock		(30,842)	-	-	-	-	-
Total stockholders' equity	Before distribution	9,004,283	-	-	-	-	-
	After distribution	8,365,574	-	-	-	-	-

6.1.8. Condensed Income Statement—Taiwan’s General Accepted Accounting Principles - Unconsolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2012 to 2016 (Note 1)					As of March 31, 2017
		2012	2013	2014	2015	2016	
Net sales		12,454,958	-	-	-	-	-
Gross profit		1,397,759	-	-	-	-	-
Operating income		667,264	-	-	-	-	-
Non-operating income and gains		194,046	-	-	-	-	-
Non-operating expenses and losses		88,632	-	-	-	-	-
Income before income tax from continuing operations		772,678	-	-	-	-	-
Net income from continuing operations		655,123	-	-	-	-	-
Income from discontinued operations		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		655,123	-	-	-	-	-
Earnings per share (NT\$) (Note 1)		2.05	-	-	-	-	-

Note 1: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

Auditors' Opinions

Year	Accounting Firm	CPA	Audit Opinion
2011	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified Opinion
2012	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified Opinion
2013	KPMG	Pei-Chi Chen and Chia-Hsin Chang	A Modified Unqualified Opinion
2014	KPMG	Pei-Chi Chen and Chia-Hsin Chang	A Modified Unqualified Opinion
2015	KPMG	Pei-Chi Chen and Heng-Sheng Lin	A Modified Unqualified Opinion
2016	KPMG	Ching-Sung Wang and Pei-Chi Chen	Unqualified Opinion

6.2. Financial Analysis

6.2.1. International Financial Reporting Standard - Consolidated

Item (Note 2)		Year	Financial Analysis from 2012 to 2016					As of March 31, 2017(Note 1)
		2012	2013	2014	2015	2016		
Capital Structure Analysis (%)	Debt Ratio	31.12	34.80	29.94	26.06	28.33	28.33	
	Long-term Fund to Fixed Assets Ratio	326.75	322.89	333.66	347.07	371.51	380.95	
Liquidity Analysis %	Current ratio	225.69	222.07	234.92	274.45	263.01	265.29	
	Quick Ratio	172.37	164.40	180.28	217.30	208.38	206.95	
	Times Interest Earned	31.88	33.18	23.87	39.76	29.18	24.23	
Operating Performance Analysis	Average Collection Turnover (Times)	4.18	4.71	4.57	4.21	4.09	3.97	
	Days Sales Outstanding	87	77	80	87	89	92	
	Average Inventory Turnover (Times)	5.91	6.21	6.24	6.19	6.41	5.85	
	Average Payment Turnover (Times)	9.25	11.27	11.70	10.63	10.41	9.92	
	Average Inventory Turnover Days	62	59	59	59	57	62	
	Fixed Asset Turnover (Times)	4.69	5.20	5.42	4.98	5.23	5.26	
	Total Asset Turnover (Times)	1.05	1.12	1.21	1.12	1.07	1.01	
Profitability Analysis	Return on Total Assets (%)	4.52	4.60	6.03	3.80	2.86	2.92	
	Return on Equity (%)	6.45	6.66	8.55	5.15	3.79	3.91	
	Income before Income Tax to Paid-In Capital Ratio (%)	23.73	35.79	42.63	27.41	20.29	20.13	
	Net Margin (%)	4.25	3.95	4.96	3.47	2.57	2.76	
	Earnings Per Share (NT\$) (Note 2)	2.00	2.44	4.05	2.67	2.26	0.56	
Cash Flow (%)	Cash Flow Ratio (%)	30.65	3.65	40.43	57.82	17.82	14.95	
	Cash Flow Adequacy Ratio (%)	60.70	49.61	66.36	82.80	113.59	123.88	
	Cash Flow Reinvestment Ratio (%)	5.34	(4.31)	8.47	9.32	0.38	4.50	
Leverage	Operating Leverage	1.00	1.00	1.00	1.00	1.00	1.00	
	Financial Leverage	1.04	1.04	1.06	1.03	1.04	1.05	

Note 1: The financial information of Q1 2017 financial statements have been audited by CPA.

Note 2: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

6.2.2. International Financial Reporting Standards - Unconsolidated

Item (Note 2)		Year	Financial Analysis from 2012 to 2016 (Note 1)					As of March 31, 2017
			2012	2013	2014	2015	2016	
Capital Structure Analysis (%)	Debt Ratio		28.62	33.26	29.79	25.31	27.84	-
	Long-term Fund to Fixed Assets Ratio		358.25	346.31	364.72	392.44	422.54	-
Liquidity Analysis %	Current ratio		216.67	203.68	203.02	241.88	233.00	-
	Quick Ratio		165.97	143.76	150.88	187.59	182.39	-
	Times Interest Earned		41.40	48.15	54.45	61.78	46.82	-
Operating Performance Analysis	Average Collection Turnover (Times)		4.11	4.20	4.30	3.90	3.78	-
	Days Sales Outstanding		89	87	85	94	97	-
	Average Inventory Turnover (Times)		6.65	6.49	6.61	6.43	6.68	-
	Average Payment Turnover (Times)		10.23	10.64	11.29	10.32	10.19	-
	Average Inventory Turnover Days		55	56	55	57	55	-
	Fixed Asset Turnover (Times)		4.89	5.40	6.00	5.45	5.66	-
	Total Asset Turnover (Times)		0.99	1.10	1.20	1.09	1.01	-
Profitability Analysis	Return on Total Assets (%)		5.21	5.69	7.52	5.22	4.57	-
	Return on Equity (%)		7.12	8.07	10.78	7.09	6.10	-
	Net Income before tax to Paid-In Capital Ratio (%)		23.65	37.06	46.74	32.76	27.38	-
	Net Margin (%)		5.14	5.08	6.21	4.92	4.38	-
	Earnings Per Share (NT\$) (Note 1)		2.00	2.44	4.05	2.67	2.26	-
Cash Flow (%)	Cash Flow Ratio (%)		30.28	10.28	42.02	60.01	30.39	-
	Cash Flow Adequacy Ratio (%)		107.36	61.68	90.79	202.68	181.14	-
	Cash Flow Reinvestment Ratio (%)		3.51	(2.64)	8.08	8.59	3.59	-
Leverage	Operating Leverage		1.00	1.00	1.00	0.99	1.01	-
	Financial Leverage		1.03	1.03	1.02	1.01	1.02	-

Note 1: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to PP&E Ratio = (Equity + Long-term Liabilities) / Net PP&E

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current liabilities

(3) Times Interest Earned = Earnings before Interest and Tax / Interest Expenses]

3. Operating Performance Analysis

(1) Average Collection Turnover = Net Sales / Average Trade Receivables

(2) Days Sales Outstanding = 365 / Average Collection Turnover

(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Payment Turnover = Cost of Sales / Average Trade Payables

(5) Average Inventory Turnover Days = 365 / Average Inventory Turnover

(6) PP&E Turnover = Net Sales / Net PP&E

(7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

(1) Returns on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Returns on Equity = Net Income / Average Equity

(3) Net Margin = Net Income / Net Sales

(4) Earnings Per Share = (Net Income attributable to shareholders of parent company - Preferred Stock Dividend) /
Weighted Average Number of Shares Outstanding (Note 4)

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures,
Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross PP&E +
Investments + Other Noncurrent Assets + Working Capital (Note 5))

6. Leverage:

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 6)

(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

Note 4: Special notices of the calculating formula for EPS:

(1) Based on weighted average shares in common stock, not on shares issued at the end of year.

(2) For corporate with cash capital increase and treasury stock trading, the weighted average shares calculation should consider outstanding period.

(3) For corporate with capitalization of profits and capital surplus, the annual and semiannual EPS should be adjusted with ratio of capital increase, but period of capital increase issued needn't consider.

(4) If it is unconvertible accumulated preferred stock, the annual dividends should be subtracted from net income or added to net loss. If it is unaccumulated preferred stock, dividends should also be subtracted from net income when there is positive net income, but needn't be adjusted when there is net loss.

Note 5: Special notices of cash flow analysis measurements:

(1) Net cash provided by operating activities is cash inflow provided by operating activities in Statement of Cash Flow.

(2) Capital Expenditure is cash outflow provided by capital investment yearly.

(3) Inventory additions are taken into account only when the balance in the end is more than that in the beginning, and it will be zero when there is a decrease in inventory.

(4) Cash dividends include those on common stock and preferred stock.

(5) Gross PP&E is total PP&E before accumulated depreciation.

Note 6: Issuers should distinguish every operating costs and operating expenses to the fixed-property or the varied-property, and maintain their rationality and consistency if there is any estimation or subjective judgment.

Note 7: For foreign companies, aforementioned "ratio to paid-in capital" shall be calculated as "ratio to net value."

6.2.3. Taiwan's General Accepted Accounting Principles - Consolidated

Item (Note 2)		Year	Financial Analysis from 2012 to 2016 (Note 1)					As of March 31, 2017	
			2012	2013	2014	2015	2016		
Capital Structure Analysis (%)	Debt Ratio		30.88	-	-	-	-	-	
	Long-term Fund to Fixed Assets Ratio		303.00	-	-	-	-	-	
Liquidity Analysis %	Current ratio		226.82	-	-	-	-	-	
	Quick Ratio		173.41	-	-	-	-	-	
	Times Interest Earned		32.51	-	-	-	-	-	
Operating Performance Analysis	Average Collection Turnover (Times)		4.11	-	-	-	-	-	
	Days Sales Outstanding		89	-	-	-	-	-	
	Average Inventory Turnover (Times)		5.91	-	-	-	-	-	
	Average Payment Turnover (Times)		9.25	-	-	-	-	-	
	Average Inventory Turnover Days		62	-	-	-	-	-	
	Fixed Asset Turnover (Times)		4.54	-	-	-	-	-	
	Total Asset Turnover (Times)		1.05	-	-	-	-	-	
Profitability Analysis	Return on Total Assets (%)		4.63	-	-	-	-	-	
	Return on Equity (%)		6.60	-	-	-	-	-	
	To Paid-in Capital Ratio (%)	Operating Income		20.26	-	-	-	-	-
		Income before income tax		24.21	-	-	-	-	-
	Net Margin (%)		4.35	-	-	-	-	-	
Earnings Per Share (NT\$) (Note 1)		2.05	-	-	-	-	-		
Cash Flow (%)	Cash Flow Ratio (%)		30.96	-	-	-	-	-	
	Cash Flow Adequacy Ratio (%)		70.71	-	-	-	-	-	
	Cash Flow Reinvestment Ratio (%)		5.43	-	-	-	-	-	
Leverage	Operating Leverage		1.00	-	-	-	-	-	
	Financial Leverage		1.04	-	-	-	-	-	

Note 1: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

Note 2: Glossary: please see below.

6.2.4. Taiwan's General Accepted Accounting Principles - Unconsolidated

Item (Note 2)		Year	Financial Analysis from 2012 to 2016 (Note 1)					As of March 31, 2017	
			2012	2013	2014	2015	2016		
Capital Structure Analysis (%)	Debt Ratio		28.49	-	-	-	-	-	
	Long-term Fund to Fixed Assets Ratio		338.93	-	-	-	-	-	
Liquidity Analysis %	Current ratio		216.66	-	-	-	-	-	
	Quick Ratio		166.16	-	-	-	-	-	
	Times Interest Earned		42.22	-	-	-	-	-	
Operating Performance Analysis	Average Collection Turnover (Times)		3.79	-	-	-	-	-	
	Days Sales Outstanding		96	-	-	-	-	-	
	Average Inventory Turnover (Times)		6.57	-	-	-	-	-	
	Average Payment Turnover (Times)		9.54	-	-	-	-	-	
	Average Inventory Turnover Days		56	-	-	-	-	-	
	Fixed Asset Turnover (Times)		4.61	-	-	-	-	-	
	Total Asset Turnover (Times)		0.99	-	-	-	-	-	
Profitability Analysis	Return on Total Assets (%)		5.27	-	-	-	-	-	
	Return on Equity (%)		7.24	-	-	-	-	-	
	To Paid-in Capital Ratio (%)	Operating Income		20.84	-	-	-	-	-
		Income before income tax		24.13	-	-	-	-	-
	Net Margin (%)		5.26	-	-	-	-	-	
Earnings Per Share (NT\$) (Note 1)		2.05	-	-	-	-	-		
Cash Flow (%)	Cash Flow Ratio (%)		30.25	-	-	-	-	-	
	Cash Flow Adequacy Ratio (%)		73.28	-	-	-	-	-	
	Cash Flow Reinvestment Ratio (%)		3.54	-	-	-	-	-	
Leverage	Operating Leverage		1.00	-	-	-	-	-	
	Financial Leverage		1.03	-	-	-	-	-	

Note 1: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

Note 2: Glossary: please see below.

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current liabilities

(3) Times Interest Earned = Earnings before Interest and Tax / Interest Expenses]

3. Operating Performance Analysis

(1) Average Collection Turnover = Net Sales / Average Trade Receivables

(2) Days Sales Outstanding = 365 / Average Collection Turnover

(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Payment Turnover = Cost of Sales / Average Trade Payables

(5) Average Inventory Turnover Days = 365 / Average Inventory Turnover

(6) Fixed Assets Turnover = Net Sales / Net Fixed Assets

(7) Total Assets Turnover = Net Sales / Total Assets

4. Profitability Analysis

(1) Returns on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Returns on Equity = Net Income / Average Shareholders' Equity

(3) Net Margin = Net Income / Net Sales

(4) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
(Note 4)

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures,
Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets +
Investments + Other Assets + Working Capital (Note 5))

6. Leverage:

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 6)

(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

Note 4: Special notices of the calculating formula for EPS:

(1) Based on weighted average shares in common stock, not on shares issued at the end of year.

(2) For corporate with cash capital increase and treasury stock trading, the weighted average shares calculation should consider outstanding period.

(3) For corporate with capitalization of profits and capital surplus, the annual and semiannual EPS should be adjusted with ratio of capital increase, but period of capital increase issued needn't consider.

(4) If it is unconvertible accumulated preferred stock, the annual dividends should be subtracted from net income or added to net loss. If it is unaccumulated preferred stock, dividends should also be subtracted from net income when there is positive net income, but needn't be adjusted when there is net loss.

Note 5: Special notices of cash flow analysis measurements:

(1) Net cash provided by operating activities is cash inflow provided by operating activities in Statement of Cash Flow.

(2) Capital Expenditure is cash outflow provided by capital investment yearly.

(3) Inventory additions are taken into account only when the balance in the end is more than that in the beginning, and it will be zero when there is a decrease in inventory.

(4) Cash dividends include those on common stock and preferred stock.

(5) Gross fixed assets is total fixed assets before accumulated depreciation.

Note 6: Issuers should distinguish every operating costs and operating expenses to the fixed-property or the varied-property, and maintain their rationality and consistency if there is any estimation or subjective judgment.

6.3. Supervisors' Report

Holy Stone Enterprise Co., Ltd. Supervisors' Report

The Board of Directors has prepared the Company's 2016 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, 2017

Supervisor: Tang-Ming Wu

Chung-Yi Yang

March 15, 2017

- 6.4. Financial Report of 2016:** Please refer to P.88 to P.154 in this report.
- 6.5. Consolidated Financial Report of 2016:** Please refer to P.155 to P.218 in this report.
- 6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2016 and as of the date of this Annual Report:** None.

7. Financial Status and Operating Results Analysis and Risk Events

7.1. Financial Status

Financial Status Analysis Table

Unit: Thousands of NT\$

Item	Year	2016	2015	Difference	
				Amount	%
Current asset		8,898,816	8,368,392	530,424	6.34
Financial assets – non-current		699,149	741,526	(42,377)	(5.71)
Property, plant and equipment		2,406,685	2,629,430	(222,745)	(8.47)
Other assets		319,834	435,890	(116,056)	(26.63)
Total assets		12,324,484	12,175,238	149,246	1.23
Current liabilities		3,383,476	3,049,178	334,298	10.96
Long-term liabilities		17,058	19,240	(2,182)	(11.34)
Other liabilities		91,070	104,827	(13,757)	(13.12)
Total liabilities		3,491,604	3,173,245	318,359	10.03
Capital stock		2,242,154	2,242,154	0	0.00
Capital surplus		3,567,070	3,608,244	(41,174)	(1.14)
Retained earnings		2,253,728	2,312,475	(58,747)	(2.54)
Unrealized gain or loss on financial instruments available-for-sale		163,345	156,047	7,298	4.68
The translation of financial statements for foreign operations		13,280	45,807	(32,527)	(71.01)
Treasury stock		0	0	0	0
Uncontrollable equity		593,303	637,266	(43,963)	(6.90)
Total shareholders' equity		8,832,880	9,001,993	(169,113)	(1.88)
<p>Note: Analysis of significant changes in assets, liabilities and stockholders' equity accounts (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000) :</p> <p>(1) A decrease of NT\$116,056 thousand in other assets: Loss from goodwill impairment and cash deposit limit.</p> <p>(2) A decrease of NT\$32,527 thousand in the translation of financial statements for foreign operations: Difference of exchange rate of subsidiaries.</p>					

7.2. Operating Results

Operating Results Analysis Table

Unit: Thousands of NT\$

Item \ Year	2016	2015	Amount increased (decreased)	Changing ratio%
Net sales	13,166,572	13,595,819	(429,247)	(3.16)
Cost of goods sold	(11,261,662)	(11,629,937)	(368,275)	(3.17)
Gross profit	1,904,910	1,965,882	(60,972)	(3.10)
Operating expenses	(1,463,452)	(1,331,388)	132,064	9.92
Operating income	441,458	634,494	(193,036)	(30.42)
Non-operating expenses and income	13,465	(19,856)	33,321	167.81
Income before income tax from continuing operations	454,923	614,638	(159,715)	(25.99)
Income tax expenses	(116,802)	(142,852)	(26,050)	(18.24)
Net Income from continuing operations	338,121	471,786	(133,665)	(28.33)
Other comprehensive income (Net value after tax)	(34,779)	(60,474)	(25,695)	(42.49)
Total other comprehensive income for current period	303,342	411,312	(107,970)	(26.25)
<p>Note 1: Analysis of significant changes between 2015 and 2016 (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000):</p> <ol style="list-style-type: none"> (1) A decrease of NT\$193,036 thousand in operating income: Decrease in net sales and increase in operating expense. (2) An increase of NT\$33,321 thousand in non-operating expense and income: Increase in other income. (3) A decrease of NT\$159,715 and 133,665 thousand in net income before/after tax from continuing operations: Decrease in net income. (4) An increase of NT\$25,695 thousand in other comprehensive income: Change in Exchange Differences on Translation of Financial Statements of Foreign Operations and valuation of Available-for-sale financial asset. (5) A decrease of NT\$107,970 thousand in total other comprehensive income for current period: Decrease in net income. <p>Note 2: Probable impact on company's financial business: No significant impacts.</p> <p>Note 3: Sales quantity forecast and related information : Not applicable.</p>				

7.3. Cash Flow Analysis

Analysis of Cash Flow

Unit: Thousands of NT\$

Beginning cash balance	Net cash provided by operating activities in 2016	Net cash outflow in 2016	Ending cash balance	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
2,905,532	602,842	(102,085)	3,406,289	-	-

1. Analysis of cash flow:

(1) Net cash inflow generated from operation: Resulting from profit and current financial assets.

(2) Net cash outflow: Mainly resulted from investing and financing to estimate net cash outflows which is summarized as follows.

a. Net cash generated from investing: Net cash inflow in investing activities resulting from cash return from investing in financial asset carried at cost.

b. Net cash generated from financing: Resulting from paying cash dividend.

2. Analysis of liquidity:
A decrease of NT\$1,160,144 thousand in net cash inflow from operation in 2016 on a year-over-year basis.
Cash flow ratio: 17.82%. Cash adequacy ratio: 113.59%. Cash reinvestment ratio: 0.38%.

3. Cash flow projection for next year:

Beginning cash balance	Expected net cash provided by operating activities	Expected net cash outflow of the year	Expected ending cash balance	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
2,350,568	1,204,047	(1,415,089)	2,139,526	-	-

Note: The aforementioned are analysis of cash flow of the Company for next year

7.4. Major Capital Expenditure: None

7.5. Long-term Investment Policy and Results

Item	Amount (Thousands of NT\$)	Policy	Root Cause of Profit or Loss	Improvement Action	Investment Plans
Holy Stone Holdings Co., Ltd.	Loss of NT\$96,786 thousand	Invested to enter into other industry.	Recognition of Loss of reinvestment	NA	Assessing the necessity of increasing investment considering operating scale.
Uholy Investment Co., Ltd.	Loss of NT\$26,698 thousand	Invested to enter into other industry.	Recognition of Loss of reinvestment	NA	Assessing the necessity of increasing investment considering operating scale.

Note: The investment amount of the year exceeds 10% of the capital collected.

7.6. Risk Management and Analysis

7.6.1. Impact Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation on Corporate Net Income and Responsive Actions

Holy Stone's interest expense and loss on foreign exchange in 2016 and as of printed date of this Annual Report:

Unit: NT\$ thousands

Item	2016	As of March 31, 2017
Interest Expense	16,143	4,856
Loss on Foreign Exchange	20,763	15,088

Source: Consolidated Financial statement of 2016 has been audited by CPA, and the first-quarter of 2017 Consolidated Financial statement has been reviewed by CPA.

Due to low interest rate in the currency market, the Company and Subsidiaries will evaluate its borrowing interest rates frequently and keep close contact with banks to acquire lower interest rate. The interest expenses were 0.12% and 0.15% of net sales in 2016 and as of March 31, 2017; therefore, interest rate fluctuation has limited influence on the Company and Subsidiaries' net income. Holy Stone hedges its foreign exchange exposure mainly through hedging derivatives. The Company and Subsidiaries will pay close attention to changes in net income, caused by interest rate fluctuation, foreign exchange volatility and inflation, and will adopt the following measures:

7.6.1.1 Assign professional personnel to manage foreign exchange risk.

7.6.1.2 Strategies of hedging foreign exchange risk:

(1) Forecast foreign exchange rates trend and purchase or sell foreign currencies in advance through

currency forward contracts.

- (2) Increase strong currencies held in the assets account (accounts receivable and bank deposits) and weak currencies held in the liabilities account (accounts payable and bank debt payable).
- (3) Purchase department purchases from suppliers on a weak currency basis.
- (4) Consult foreign exchange rate hedging strategies irregularly with international financial institutions.
- (5) Application of several real time quotation systems for foreign exchange rate; such as, SysJust and XQ.

7.6.2. Risks Associated with High-risk/High-leveraged Investment; Endorsements, Guarantees, and Derivatives trading, Main Reasons for Gains or Losses and Responsive Actions

7.6.2.1 The Company and Subsidiaries made no high-risk or high-leveraged financial investments during 2016. The Company and Subsidiaries' Endorsement & Guarantee were NT\$366,370 thousand and NT\$355,850 thousand on December 31, 2016 and as of the printed date of this annual report, respectively-less than the maximum amount regulated by the Company and Subsidiaries' "Procedures governing loaning of funds" and "Endorsement & Guarantee Procedures".

7.6.2.2 Make derivatives transactions by contracting foreign exchange options and sell currency forward contracts in advance to hedge foreign exchange rate risk on bonds payable.

7.6.2.3 Relevant policies execution based on cautious evaluation, periodical report and monthly control, and the regulation of "Procedures for Acquisition or Disposal of Assets" and "Procedures for Lending Funds to Other Parties."

7.6.3. Future R&D Plans and Expected R&D Spending

With the growth of industry and market demand, the Company and Subsidiaries continues to invest in R&D of products and production process to satisfy customers' requirements and to strengthen corporate competency. Future investment in R&D is estimated to be NT\$500,000 thousand.

7.6.4. Risks Associated with Changes in the Political and Regulatory Environment

There was limited impact associated with changes in the political and regulatory environment on the Company and Subsidiaries during the most recent fiscal year. The Company and Subsidiaries will continue to acquire relevant information and make essential measures without delay to satisfy company's operating demand.

7.6.5. Impact on corporate finance associated with changes in technology

The Company and Subsidiaries will maintain high sensitivity to industrial technology changes to reduce market risk and to meet customers' demand.

7.6.6. Changes in Corporate Image and Impact on Company's Crisis Management

The Company and Subsidiaries holds the principle of integrity as the basis of management guidance to strengthen corporate competency and pursue enterprise sustainable development; therefore, there was no such impact on the Company and Subsidiaries.

7.6.7. Risks Associated with Mergers and Acquisitions

During the most recent fiscal year and as of the date of this Annual Report, the Company and Subsidiaries had no such risk. The Company and Subsidiaries will assess benefits from any plans to merger or acquisition cautiously to assure stockholders' equity.

7.6.8. Risks Associated with Capacity Expansion

During the most recent fiscal year and as of the date of this Annual Report, the Company and Subsidiaries had no plans in expanding capacity.

7.6.9. Risks Associated with Purchase or Sales Concentration

The Company and Subsidiaries procures raw materials and commodities from multiple vendors to ensure sufficient supply and to mitigate purchase concentration risks. Major customers are domestic renowned companies, and the Company and Subsidiaries diversifies sales to customers as shipments increases. Consequently, there was no such risk to the Company and Subsidiaries.

7.6.10. Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by Holy Stone's Directors, and Major Shareholders Who Own 10% or More of Holy Stone's Total

Outstanding Shares

During the most recent fiscal year and as of the date of this Annual Report, the Company and Subsidiaries had no such risk.

7.6.11. Risks Associated with Change in Management

During the most recent fiscal year and as of the date of this Annual Report, the Company and Subsidiaries had no such risk.

7.6.12. Risks Associated with Litigations

There were no directors, supervisors, president, managers, shareholders with 10% shareholdings or more, and affiliates involving in any litigation during the two most recent fiscal years and as of the date of this Annual Report.

7.6.13. Other Material Risks

During the most recent fiscal year and as of the date of this Annual Report, the Company and Subsidiaries' management is not aware of any other risks with potentially material impact on the Company and Subsidiaries.

7.7. Other vital items: None

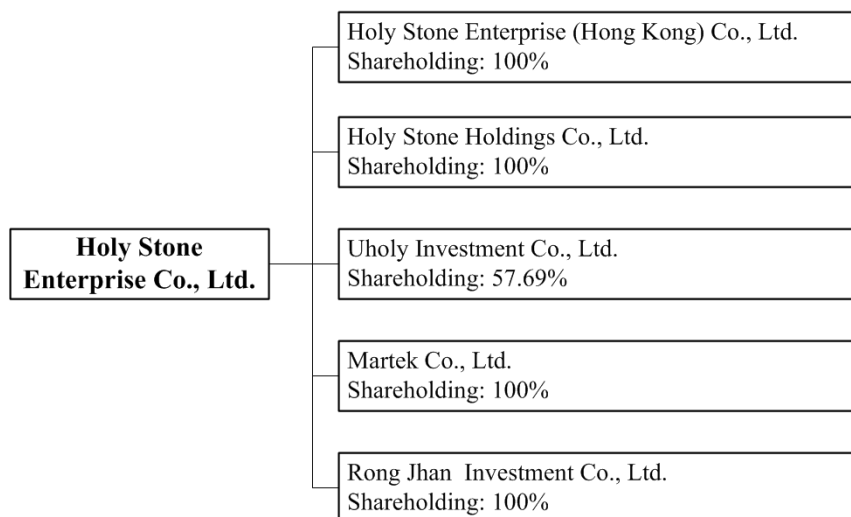
8. Special Notes

8.1. Affiliates

8.1.1. Affiliates Consolidated Operating Report

8.1.1.1 Holy Stone affiliated companies chart

as of 2016.12.31



8.1.1.2 Holy Stone affiliated companies

Unit: NT\$

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Holy Stone Enterprise (Hong Kong) Co., Ltd.	1998.12	Unit C, 7/F, Niche Centre, 14 Wang Tai Road, Kowloon Bay, Hong Kong	HKD 11,500,000	MLCC and electronic components business
Holy Stone Holdings Co., Ltd.	2000.07	Level 5, Development Bank of Samoa Building, Beach Road, Apia, Samoa	USD 26,976,000	Investment activities
Uholy Investment Co., Ltd.	2000.07	10F-10, No. 57, Lane 69, Jingyèèr Rd. Zhongshan District, Taipei City, Taiwan	NTD 390,000,000	Investment activities
Mayatek Co., Ltd.	2008.02	3F-1, No. 329, Lung Jiang Road, Zhong Shan District, Taipei City, Taiwan	NTD 85,000,000	Wholesaling of electronic appliances, precision instruments, communication equipment, and electronic materials
Rong Jhan Investment Co., Ltd.	2008.02	1F., No.56, Sec. 2, Huanshan Rd., Neihu District, Taipei City, Taiwan	NTD 579,000,000	Investment activities

8.1.1.3 Common shareholders of Holy Stone and its subsidiaries or its affiliates with actual deemed control: Not applicable.

8.1.1.4 Business scope of Holy Stone and its affiliated companies

Business scope of Holy Stone and the Subsidiaries include manufacturing and trading of MLCC, tantalum/niobium capacitor, import and export of ICs, modules, and other electronic components, and wholesale of medicine and medical instruments.

8.1.1.5 Information on directors, supervisors, and presidents of Holy Stone's affiliated companies

Unit: dollars/ shares/ % as of 2016.12.31

Company	Title	Name	Shareholding	
			Investment Amount / Shares	Investment Holding %
Holy Stone Enterprise (Hong Kong) Co., Ltd.	Director	Representative of Holy Stone: Jing-Rong Tang and Yu-Min Wu	HKD 11,500,000/ 11,500,000	100%
Holy Stone Holdings Co., Ltd.	Director	Representative of Holy Stone: Jing-Rong Tang, Yu-Min Wu and Fang-Ming Lo	USD 26,976,000/ 26,976,000	100%
Uholy Investment Co., Ltd.	Director	Jing-Rong Tang	0	0%
	Director	Representative of Holy Stone: Fang-Ming Lo and Shing-Yi Yang	225,000,000/ 22,500,000	57.69%
	Supervisor	Shu-Ying Chang	0	0%
Mayatek Co., Ltd.	Director	Representative of Holy Stone: Jen-Shing Lee, Jing-Rong Tang and Fang-Ming Lo	85,000,000/ 8,500,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	85,000,000/ 8,500,000	100%
Rong Jhan Investment Co., Ltd.	Director	Representative of Holy Stone: Jing-Rong Tang, Fang-Ming Lo and Shih-Yun Sheng	579,000,000/ 57,900,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	579,000,000/ 57,900,000	100%

8.1.2. Operational Highlights of Holy Stone Affiliated Companies

Unit: Thousands of NT\$

Company	Paid-in Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (NT\$) (Net of Tax)
Holy Stone Enterprise (Hong Kong) Co., Ltd.	49,046	743,864	433,408	310,456	1,851,632	29,205	31,020	2.70
Holy Stone Holdings Co., Ltd. (Note 2)	841,951	1,672,107	723,072	949,035	2,509,746	-81,812	-95,568	(3.54)
Uholy Investment Co., Ltd. (Note 2)	390,000	918,958	61,222	857,736	350,020	-193,624	-198,720	(5.10)
Mayatek Co., Ltd. (Note 2)	85,000	88,901	7,259	81,642	36,247	-14,307	-13,784	(1.62)
Rong Jhan Investment Co., Ltd. (Note 2)	579,000	632,639	54,265	578,374	272,333	2,862	-3,658	(0.06)

Note 1: Foreign exchange rates were NT\$32.25 and NT\$32.2625 for US \$1 in Balance Sheet and Income Statement, respectively.

Note 2: Information from affiliated companies is consolidated.

8.2. Private Placement Securities in the most recent fiscal year and as of the Date of this Annual Report

None.

8.3. Status of Holy Stone Common Shares Acquired, Disposed of, and Held by Subsidiaries in the most recent fiscal year and as of the Date of this Annual Report

None.

8.4. Other Necessary Supplement: None.

8.5. Any Events in the most recent fiscal year and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 3 of Article 36 of Securities and Exchange Law of Taiwan

None.

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 2016, and 2015, 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 2016 and 2015 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, 2016 and 2015, the investment amounts accounted under equity method made up 2.61% and 2.44% of total assets, respectively; the gains or losses from subsidiaries using equity method for the year ended December 31, 2016 and 2015 made up 0.27% and 0.11% 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 6.16 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 rationality 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

rationality 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, 2016 made up 19% 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 rationality 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 15, 2017

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

Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

Assets	2016.12.31		2015.12.31		Liabilities and Equity	2016.12.31		2015.12.31	
	Amount	%	Amount	%		Amount	%	Amount	%
Current Assets:					Current Liabilities:				
1100 Cash and Cash Equivalents (Note6.1)	\$ 2,350,568	21	1,649,931	15	2100 Short-term Loans (Note6.9)	\$ 1,633,059	14	1,260,187	11
1110 Financial Assets at Fair Value through Profit or Loss - Current (Note6.2)	15,157	-	478,636	4	2170 Notes and Accounts Payable	951,469	9	917,803	8
1150 Notes and Accounts Receivable, net (Note6.5)	2,267,708	20	2,178,533	20	2180 Accounts Payable - Related Parties (Note7)	56,863	-	50,821	-
1180 Account Receivable - Related Parties (Note6.4&7)	887,324	8	772,961	7	2200 Other Receivables	410,746	4	432,600	4
1200 Other Receivables (Note6.5)	116,329	1	44,936	-	2230 Current Period Income Tax Liability	38,544	-	70,628	1
130X Inventories (Note6.6)	1,544,119	14	1,472,818	13	Total Current Liabilities*	<u>3,090,681</u>	<u>27</u>	<u>2,732,039</u>	<u>24</u>
1410 Prepaid Expenses and Other Current Assets	20,188	-	10,503	-	Noncurrent Liabilities:				
Total Current Assets	<u>7,201,393</u>	<u>64</u>	<u>6,608,318</u>	<u>59</u>	2570 Deferred Income Tax Liabilities (Note6.12)	28,429	-	45,711	-
Noncurrent Assets:					2640 Accrued Pension Liabilities (Note6.11)	59,738	1	56,774	1
1523 Available-for-sale Financial Assets - Noncurrent (Note6.3)	49,570	-	30,272	-	2670 Other Noncurrent Liabilities - Others	19	-	16	-
1543 Financial Assets Carried at Cost - Noncurrent (Note6.4)	24,246	-	24,246	-	Total Noncurrent Liabilities	<u>88,186</u>	<u>1</u>	<u>102,501</u>	<u>1</u>
1550 Investments under Equity Method (Note6.7)	2,138,335	19	2,343,030	21	Total Liabilities	<u>3,178,867</u>	<u>28</u>	<u>2,834,540</u>	<u>25</u>
1600 Property, Plant and Equipment (Note6.8 & 7)	1,950,016	17	2,131,464	20	Equity (Note6.10 & 6.11 & 6.13):				
1840 Deferred Income Tax Assets (Note6.12)	31,563	-	28,660	-	3110 Common Stock	2,242,154	20	2,242,154	20
1915 Prepaid Expense on Equipment	10,051	-	18,057	-	3200 Capital Surplus	3,567,070	31	3,608,244	32
1990 Other Noncurrent Assets - Others (Note8)	13,270	-	15,220	-	Retained Earnings:				
Total Noncurrent Assets	<u>4,217,051</u>	<u>36</u>	<u>4,590,949</u>	<u>41</u>	3310 Legal Reserve	1,221,549	11	1,161,732	11
					3350 Unappropriated Earnings	1,032,179	9	1,150,743	11
					Total Retained Earnings	<u>2,253,728</u>	<u>20</u>	<u>2,312,475</u>	<u>22</u>
					Other Equity:				
					3410 Exchange Differences on Translation of Financial Statements of Foreign Operations	13,280	-	45,807	-
					3425 Unrealized Gains and Losses on Available-for-sale Financial Assets	163,345	1	156,047	1
					Total Other Equity	<u>176,625</u>	<u>1</u>	<u>201,854</u>	<u>1</u>
					Total Equity	<u>8,239,577</u>	<u>72</u>	<u>8,364,727</u>	<u>75</u>
Total Assets	<u>\$ 11,418,444</u>	<u>100</u>	<u>11,199,267</u>	<u>100</u>	Total Liabilities and Equity	<u>\$ 11,418,444</u>	<u>100</u>	<u>11,199,267</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, 2016 and 2015

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

		2016		2015	
		Amount	%	Amount	%
4000	Net Sales (Note6.16&7)	\$ 11,546,400	100	\$ 12,154,324	100
5000	Cost of Goods Sold (Note6.11&7&12)	(10,072,169)	(87)	(10,553,722)	(87)
	Gross Profit	1,474,231	13	1,600,602	13
5910	Unrealized Gains and Losses on Sales	(5,751)	-	7,351	-
	Gross Profit	1,468,480	13	1,607,953	13
	Operating Expense (Note6.11&7&12)				
6100	Selling and Administrative*	(630,385)	(5)	(601,899)	(5)
6300	Research and Development	(144,025)	(1)	(119,551)	(1)
	Total Operating Expense	(774,410)	(6)	(721,450)	(6)
	Operating Income	694,070	7	886,503	7
	Non-Operating Income and Expenses (Note6.10&7):				
7020	Other Gains and Losses	29,341	-	57,872	-
7050	Financial Costs	(13,396)	-	(12,085)	-
7070	Gains of Losses from Subsidiary Using Equity Method	(107,142)	(1)	(211,400)	(1)
7100	Interest Income	10,920	-	13,677	-
	Total Non-Operating Income and Expenses	(80,277)	(1)	(151,936)	(1)
7900	Income before Income Tax	613,793	6	734,567	6
7950	Less: Income Tax Expense (Note6.12)	107,692	1	136,389	1
	Net Income for Current Period	506,101	5	598,178	5
8300	Other Comprehensive Gains and Losses:				
8310	Revaluation income				
8311	Defined benefit plan	(4,310)	-	(1,911)	-
8349	Income Tax incurred	-	-	-	-
	Total Revaluation income	(4,310)	-	(1,911)	-
8360	Revaluation income arising from reclassification				
8361	Exchange Differences on Translation of Financial Statements of Foreign Operations	(41,909)	-	25,495	-
8362	Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	10,579	-	(51,962)	-
8399	Income Tax related to reclassification	6,101	-	(2,824)	-
	Total Revaluation income arising from reclassification	(25,229)	-	(29,291)	-
8300	Other Comprehensive Income for Current Period (after tax)	(29,539)	-	(31,202)	-
	Total Comprehensive Income for Current Period	\$ 476,562	5	\$ 566,976	5
	Earnings per Share (Note 6.15)				
9750	Basic Earnings per Share (Unit: NT Dollar)*	\$ 2.26		\$ 2.67	
9850	Diluted Earnings per Share (Unit: NT Dollar)*	\$ 2.23		\$ 2.61	

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 Changes in Stockholders' Equity

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Equity Attributable to Stockholders of Parent Company						Total Equity
	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	
Beginning Balance, January 1, 2015	\$ 2,235,481	3,588,009	1,071,291	1,382,626	24,645	206,500	8,508,552
Net Income	-	-	-	598,178	-	-	598,178
Other Comprehensive Income	-	-	-	(1,911)	21,162	(50,453)	(31,202)
Total Comprehensive Income	-	-	-	596,267	21,162	(50,453)	566,976
Appropriation of Retained Earnings							
Provision for Legal Reserve	-	-	90,441	(90,441)	-	-	-
Cash Dividend for Common Stock	-	-	-	(737,709)	-	-	(737,709)
Conversion of Convertible Bond	6,673	20,100	-	-	-	-	26,773
Share of profit (loss) of associates and joint ventures accounted for using equity method	-	135	-	-	-	-	135
Ending Balance, December 31, 2015	<u>2,242,154</u>	<u>3,608,244</u>	<u>1,161,732</u>	<u>1,150,743</u>	<u>45,807</u>	<u>156,047</u>	<u>8,364,727</u>
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)
Share of profit (loss) of associates and joint ventures accounted for using equity method	-	(41,174)	-	-	-	-	(41,174)
Ending Balance, December 31, 2016	<u>\$ 2,242,154</u>	<u>3,567,070</u>	<u>1,221,549</u>	<u>1,032,179</u>	<u>13,280</u>	<u>163,345</u>	<u>8,239,577</u>

Note: Remuneration of directors and supervisors of NT\$14,030, NT\$16,790 and employee benefit of NT\$73,655 and NT\$88,148 as of 2016 and 2015, 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, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	<u>2016</u>	<u>2015</u>
Cash Flows generated from Operating activities:		
Income before Income Tax	\$ 613,793	734,567
Adjusted Items:		
Incomes or Expenses		
Depreciation	244,984	267,244
Bad Debt(Turnover)	-	506
Interest Expense	13,396	12,085
Interest Income	(10,920)	(13,677)
Gains or Losses from Subsidiary Using Equity Method	107,142	211,400
Gain or Losses on Disposal and Scrap of Property, Plant and Equipment	(7,657)	1,934
Gain or Losses on Non-Financial Assets	4,915	-
Unrealized Gains and Losses on Sales	5,751	(7,351)
Total Incomes or Expenses	<u>357,611</u>	<u>472,141</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	463,479	39,107
Account and Notes Payable	(89,175)	507,919
Accounts Payable - Related Parties	(114,363)	(173,399)
Other Receivables	(72,257)	10,951
Inventory	(71,301)	338,481
Prepaid Expenses and Other Current Assets	(9,685)	2,518
Total	<u>106,698</u>	<u>725,577</u>
Change in Liabilities related to Operating Activities:		
Accounts Payable	33,666	(115,532)
Accounts Payable - Related Parties	6,042	6,767
Other Payables	(22,638)	(24,699)
Accrued Pension Liabilities	(1,346)	(900)
Total	<u>15,724</u>	<u>(134,364)</u>
Total Adjustment from Change in Assets and Liabilities related to Operating Activities	<u>122,422</u>	<u>591,213</u>
Total Adjusted Items	<u>480,033</u>	<u>1,063,354</u>
Cash Flow generated from Operations	1,093,826	1,797,921
Interest Collected	11,784	14,575
Dividends Collected	-	15,250
Interest Paid	(12,612)	(11,934)
Income Tax Paid	(153,860)	(176,395)
Net Cash Flows generated from Operating activities	<u>939,138</u>	<u>1,639,417</u>
Cash Flows generated from Investing Activities:		
Sale of Financial Assets carried at Cost	-	(24,246)
Acquisition of Property and Equipments	(60,991)	(64,240)
Sale of Property and Equipments	8,203	1,959
Decrease in Other Noncurrent Assets	1,950	(56)
Net Cash Flows generated from (used in) Investing Activities	<u>(50,838)</u>	<u>(86,583)</u>
Cash Flows generated from Financing Activities:		
Increase (Decrease) in Short-term Loans	372,872	(496,687)
Repayments on Corporate Bonds	-	(75,699)
Increase (Decrease) in Other Noncurrent Liabilities	3	1
Cash Dividend Distribution	(560,538)	(737,709)
Net Cash Flows used in Financing Activities	<u>(187,663)</u>	<u>(1,310,094)</u>
Increase (Decrease) in Cash and Cash in Banks of Current Period	700,637	242,740
Cash and Cash in Banks at Beginning of the Period	1,649,931	1,407,191
Cash and Cash in Banks at End of the Period	<u>\$ 2,350,568</u>	<u>1,649,931</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
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. General

Holy Stone Enterprise Company Limited (the Company or Holy Stone) was founded and enrolled on June 1, 1981, and approved by Ministry of Economic Affairs with registered address 62, Sec.2, Huang Shan Rd., Nei HU Dist., Taipei, Taiwan. The Company is engaged mainly in the import and export business, manufacturing, and selling of MLCC, tantalum (niobium) capacitors, integrated circuits, modules, and other electronic components

2. Approval Date and Procedures of the Consolidated Financial Statements

The Board of Directors approved the unconsolidated financial statements on March 15, 2017.

3. Application on New Standards and Interpretations

- 3.1. Impact on adoption of 2016 International Financial Reporting Standards endorsed by the Financial Supervisory Commission, R.O.C.: The Company has adopted the 2013 IFRSs (excluding IFRS 9 Financial Instruments) endorsed by the FSC beginning since 2015. The new standards, amendments and interpretations which were announced by the International Accounting Standards Board (“IASB”) are as follows:

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Amended IFRS 10, 12 and IAS 18 <i>Individual Investment: With the Exception of Adopting Consolidated Reports</i>	January 1, 2016
Amended IFRS 11 <i>Joint Arrangement</i>	January 1, 2016
Amended IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
Amended IAS 1 <i>Presentation of Financial Statements</i>	January 1, 2016
Amended IAS 16&38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amended IAS 16&41 <i>Agriculture: Bearer Plants</i>	January 1, 2016
Amended IAS 19 <i>Employee Benefits</i>	July 1, 2014
Amended IAS 27 <i>Consolidated and Separate Financial Statements</i>	January 1, 2016
Amended IAS 36 <i>Impairment of Assets</i>	January 1, 2014
Amended IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	January 1, 2014
Improvement on cycle 2010-2012 and 2011-2013	July 1, 2014
IFRS Improvement on cycle 2012-2014	January 1, 2016
IFRS 21 <i>Levies</i>	January 1, 2014

3.2 New standards and interpretations of 2018 IFRSs issued by the IASB but not yet endorsed by the FSC

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date</u>	<u>Issued by IASB</u>
IFRS 9 <i>Financial Instruments</i>	January 1st, 2018	January 1st, 2018
IFRS 10/IAS 28 <i>Sales or Contributions of assets between an Investor and its associate/joint venture</i>	TBA	
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1st, 2018	January 1st, 2018
IFRS 19 <i>Lease</i>	January 1st, 2019	
IFRS 2 Amendment <i>Share-Based Payment</i>	January 1st, 2018	
IFRS 15 Amendments <i>Interpretation to IFRS 15</i>	January 1st, 2018	
IAS 7 Amendments <i>Financial Instruments: Disclosures</i>	January 1st, 2017	
IAS 12 Amendments <i>Income Taxes</i>	January 1st, 2017	
IFRS 4 Amendments <i>Insurance Contracts</i>	January 1st, 2018	
Improvements to IFRS from 2014-2016:		
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1st, 2017	
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>	January 1st, 2018	
IFRS 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1st, 2018	
IASB 40 <i>Investment Property</i>	January 1st, 2018	

The 2013 IFRSs did not make a significant impact on the Company's financial report. The items might have significant impact are listed as follows:

(1) *IFRS 15 Revenue from Contracts with Customers*

The amendments in Clarifications to IFRS 15 'Revenue from Contracts with Customers' address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The IASB concluded that it was not necessary to amend IFRS 15 with respect to collectability or measuring non-cash consideration. In all its decisions, the IASB considered the need to balance helping entities with implementing IFRS 15 and not disrupting the implementation process.

(2) *IFRS 9 Financial Instruments*

It was amended to replace IAS 39. The amendments go as follows:

Measurement of financial liabilities: The standard does not change the basic accounting model for financial liabilities under IAS 39. Two measurement categories continue to exist: fair value through profit or loss and amortized cost. IFRS 9 requires gains and losses on financial liabilities designated as at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which is presented in other comprehensive income, and the remaining amount of change in the fair value of the liability, which is presented in profit or loss. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss. This requirement to recognize own credit risk-related fair value gains and losses in other comprehensive income may be applied by entities in isolation without applying the other requirements of IFRS 9 at the same time.

Impairment: On completion of the standard in July 2014, guidance on impairment was incorporated into IFRS 9. The new requirements are based on an expected loss impairment model, which replaces the incurred loss model of IAS 39. Under this new model, expected credit losses are accounted for from the date when financial instruments are first recognized. Entities are required to recognize 12-month expected credit losses, or, where credit risk has increased significantly since initial recognition, lifetime expected credit losses.

Derivatives and hedge accounting: All derivatives are measured at fair value with gains and losses recognized in profit or loss, unless hedge accounting is applied. Embedded derivatives are only separated from the host contract where that contract is not an asset within the scope of IFRS 9. Otherwise the entire hybrid contract is accounted for as one instrument.

(3) *IFRS 16 Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

4. Summary of Significant Accounting Policies

The significant accounting policies presented in the financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in these financial statements.

The unconsolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

Chinese language financial statements, the Chinese version shall prevail.

4.1. Statement of Compliance

The unconsolidated financial statements report is prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (the Guidelines).

4.2. Basis of Preparation

4.2.1. The unconsolidated financial report is prepared on a historical cost except for the following significant subjects from balance sheet:

- a. Financial instruments measured at fair value through profit or loss (Including derivatives)
- b. Available-for-sale Financial Assets at fair value; and
- c. Defined benefit asset, are based on pension plan asset plus unrecognized prior service costs and unrecognized actuarial loss, less unrecognized actuarial profit and amounts recognized of present value of a defined benefit obligation

4.2.2. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The unconsolidated financial statements are presented in New Taiwan Dollars, which is Holystone's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

4.3. Foreign Currency

4.3.1. Foreign Currency Transactions

Foreign currency transactions are recorded at the spot exchange rate on the date of the transaction. At each subsequent reporting date, foreign currency monetary amounts are reported using the closing rate. The exchange gains or losses is the difference between amortized cost valued using functional currency at the beginning of the period and after adjustment of current effective interest rate as well as the amounts after payment, and the exchange difference on reporting date that is based on amortized cost valued by foreign currency.

Non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction.

Except for monetary available-for-sale instruments, financial liabilities or qualified cash flow hedge of foreign operations' net investment hedges and exchange differences arising upon translation are recognized in other comprehensive income, the others are recognized as gains and losses.

4.3.2. Foreign Operations

The assets and liabilities of foreign operations the assets, including the goodwill created by merger and fair value adjustment, are both translated to functional currencies using exchange rates at the reporting date; Gains and losses and expenses are translated to functional currencies at average current exchange rates other than highly inflationary countries. The related exchange differences are recognized as other comprehensive income.

When loss of control, joint control or significant influences that caused by disposal of a foreign operation, the accumulated exchange differences that related to the foreign operation shall be reclassified as income. When part of disposal contains a subsidiary of the foreign operation, the related accumulated exchange differences shall be all reclassified as uncontrollable equity. When part of disposal contains a joint venture or investment of the foreign operation, the related accumulated exchange differences shall be all reclassified in portion as income.

As to monetary payables or receivables of a foreign operation, if there is no settlement plan and is

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NOTES TO FINANCIAL STATEMENTS (Continued)

impossible to clean up in the foreseeable future, the related exchange differences will be recognized as other comprehensive income from part of the net investment to the foreign operation.

4.4. Classification of Current and Non-current Assets and Liabilities

The Company classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- a. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- b. It holds the asset primarily for the purpose of trading;
- c. It expects to realize the asset within twelve months after the reporting period; or
- d. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- a. It expects to settle the liability in its normal operating cycle;
- b. It holds the liability primarily for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting period; or
- d. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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.

4.5. Cash and Cash Equivalents

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

Fixed deposits which will mature within a year are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value; thus be recognized as Cash and Cash Equivalents.

4.6. Financial Instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

4.6.1. Financial Assets

The financial assets of the Company are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, and Loans and receivables and available-for-sale financial assets.

4.6.1.1. Financial Assets at Fair Value through Profit or Loss

These kind of financial assets are held-for-trading or appointed as financial assets at fair value through profit or loss.

Held-for-trading financial assets acquired or held for the purpose of selling or repurchasing in the short term. Financial assets on the top of held-for-trading financial assets are carried at fair value in initial recognition under any of the following situations:

- a. Recognition or evaluation differences caused by deleting or significant deduction, which are generated from different evaluation basis for assets and liabilities and recognition of related gains

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NOTES TO FINANCIAL STATEMENTS (Continued)

or losses.

- b. Performance of financial assets measured at fair value.
- c. hybrid instrument including embedded derivatives

This type of financial asset is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value (Including related dividend income and interest income), and changes therein, and are recognized as gains or losses, and is included in non-operating income and expenses using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

4.6.1.2. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income by effective interest rate, dividend income, and foreign exchange loss or gain of monetary financial asset, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

4.6.1.3. Held-to-maturity financial assets

Held-to-maturity investments are debt security that the Company has the positive intent and ability to hold to maturity. At initial recognition, held-to-maturity financial assets are measured at fair value with fair value changes in profit or loss, the subsequent evaluation must be measured at amortized cost less impairment at effective interest rate. Selling or purchasing the financial assets should be handled using trade date accounting.

The interest income should be recognized as interest income under non-operating income and

expenses.

4.6.1.4. Loans and receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. When purchasing or selling financial asset according to transaction conventions, the Company process adopts trade date accounting.

Loans and receivables comprise cash and cash equivalents, trade receivables, other receivables, investment in debt security with no active market, other financial assets, and refundable deposits.

4.6.1.5. Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that incurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

For financial assets carried at amortized cost, such as trade receivables, assets that were assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

For financial assets carried at amortized cost, the amount of the impairment loss is 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will

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NOTES TO FINANCIAL STATEMENTS (Continued)

not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment

loss decreases and the decrease can be related objectively to an event incurring after the impairment was loss recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. °

The bad debt losses of account receivables should be recognized as operating expenses. The increased gains of account receivables and impairment increase/loss of financial assets beside account receivables are reported as other gains and losses under non-operating income and expenses.

4.6.1.6. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On Derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss and accumulated as income of differences under "Other Equity – Unrealized Available-for-Sale Financial Assets", and reported as other gains and losses under non-operating income and expenses.

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Not on derecognition of a financial asset in its entirety, the Company amortized the original carrying value of financial assets to continuously involved, continuously recognized and derecognized under the bases of their fair value at transferring date. The carrying value that amortized in derecognition has been recognized as other comprehensive gains and losses, due to the consideration which rendered from derecognized portion has been amortized as difference of total and portion amount of any accumulated gains or losses under other comprehensive gains and losses, shall be recognized as gains or losses. And it shall be further reported as other gains and losses under non-operational sales and expense. Accumulated gains or losses that has been recognized as other comprehensive gains and losses shall be amortized continuously to recognition portion or derecognition portion at fair value.

4.6.2. Financial Liabilities and Equity Instruments

4.6.2.1. Classification of financial liability or equity

Liabilities and equity instruments of the Company are classified into financial liability or equity according to contracts and agreements and the definition of financial liability and equity.

Equity instrument represent any of the contract of equity after its liability is subtracted from assets. The Company recognizes equity instruments using the amount of acquisition price minus distribution cost.

Our hybrid financial instruments are convertible corporate bonds that the holders are able to convert them into shares. Changes in fair value have no impact on the number of shares distribution.

In terms of the component of liability of hybrid financial instrument, the initial recognized amount is evaluated under fair value which excludes the equity conversion option and similar liabilities. The initial recognized amount of equity components is evaluated at the differences between fair value of the whole hybrid financial instruments and fair value of liability components. Any of the attributable transaction cost shall be shared to liability and equity components in proportion of the amount of the original liability and equity.

Loss or gains related to financial liabilities shall be recognized as income and reported in other gains and loss under non-operational sales and expense.

The conversion will not generate income when the financial liabilities recategorized as equity.

4.6.2.2. Financial liabilities at fair value through profit and loss.

Financial liabilities that classified as theses type are either held-for-trading or financial liabilities at fair value through gains and losses.

The held-for-trading financial liabilities are held or acquired for the purpose of repurchase or

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selling in short term. Condition listed in the following paragraphs, financial liabilities aside from held-for-trading financial assets, shall be recognized at fair value through gains or losses initially.

Cancel or significantly lower the difference in recognition or evaluation caused by assets or liabilities evaluated at different basis and recognize the relevant gains and losses.

The performance of financial assets is evaluated at fair value.

If derivative plays part of the hybrid instruments.

These types of financial assets are recognized at fair value initially. Transaction cost is recognized as profits or losses at date happen. The subsequent measurement of financial assets are measured at fair value and recognized as profits or losses (interest expense included), and further reported as other gains or losses under non-operational sales.

4.6.2.3. Other financial liabilities

Financial liabilities that are not held-for-trading or evaluated at fair value through gains and losses, including long-term and short-term loans, account payable and other payables, shall be initially recognized at fair value with directly attributable transaction cost. The subsequent measurement of financial liabilities is measured at amortized cost at effective interest rate. Interest expense that has not capitalized as asset cost shall be reported as financial cost under non-operational sales and expenditure.

4.6.2.4. Derecognition of financial assets

The Company derecognize the financial assets when the agreement or contract are been met or canceled, or is due.

When derecognizing financial liabilities, the differences between carrying value and total consideration of contract shall be recognized as income, and reported as other gains and losses under non-operational sales or expenditure.

4.6.2.5. Asset and liability offsetting

Only when the Company has a legally enforceable right of set-off and intentional liquidation at net value or realization of assets and liquidation of debts shall the Company offer offsetting, and figures shall be expressed in the balance sheet using net value.

4.6.3. Derivatives

The Company holds derivative as an instrument to avoid foreign currency risk and interest risk. The derivative is initially recognized at fair value whereas the transaction cost is recognized as income. The subsequent measurement of gains or losses of derivatives is measured at fair value, recognized as income, and further reported as other gains and losses under non-operational sales and expenditure. If is positive, the net value shall be recognized as financial assets; on the contrary, if is negative, it shall be recognized as

financial liabilities.

4.7. Inventories

Cost of merchandise amounts to expenditure that is essential to determining the status of available-for-sale and sales location. Inventories are stated at the lower of cost or net realizable value. Cost is calculated through weighted-average method, and net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Finished goods, semi-finished goods, work-in-process, raw materials, and supplies are stated at the lower of cost or net realizable value, in which cost is calculated through standard cost method and net realizable value, is estimated as selling price of inventories less all estimated costs of completion and necessary selling costs. Difference between standard cost and actual cost is amortized by percentage to ending inventory, while extraordinary loss is recognized as cost when it is incurred.

4.8. Investment in subsidiary

Investments in Subsidiaries, which ownership is controlled by the Company, are accounted for under the equity method of accounting in unconsolidated financial report. Under equity method, the current and other comprehensive income in unconsolidated financial report are in line with allocation of current and other comprehensive income attributable to the owners of Parent Company; furthermore, stockholders' equity in unconsolidated financial report shall be the same as which reported in Consolidated Financial which attributable to Parent Company.

Whenever changes in Company's shareholders' equity in subsidiary companies, aside from the case of losing its control over the subsidiary, the change shall be viewed and dealt as equity between owners.

4.9. Property, plant and equipment

4.9.1. Recognition and measurement

Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or is carried at cost less accumulated depreciation and impairment. Cost shall include expenses of assets acquisition. The cost of self-constructed assets consists of material and direct labor, other attributable to cost that allows asset to reach the serviceable condition, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, in order to meet the borrowing cost for asset capitalization. In addition, the cost also includes purchase of property, plant and equipment in foreign currency, which belongs to components of cash flow hedge effectiveness derived from equity. Purchase of software that aims to integrate relevant equipment function shall be capitalized as part of the equipment.

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NOTES TO FINANCIAL STATEMENTS (Continued)

When property, plant and equipment not only consist of different components, but shall adopt different depreciation rate or method because of its significant cost, the items will be regard as individual items (major components).

The gains or losses from disposal of property, plant, and equipment shall be decided by difference between carrying value and disposal price of property, plant, and equipment. The gains or losses shall be further recognized in net value as other gains and losses.

4. 9.2. Subsequent cost

If the future economic benefit generated from subsequent cost of property, plant and equipment is expected to flow in the Company, as well as the amount can be measure reliably, the expense shall be recognized as part of carrying value of the item; whereas the carrying amount of those parts that are replaced is derecognized. When day-to-day maintenance of property, plant and equipment incurs, it shall be recognized as gains or losses.

4. 9.3. Depreciation

Depreciation is calculated according to asset's cost less salvage value using the straight-line method and measured the individual significant components. If any of the component's useful life last different from other components, the components shall be depreciated individually. The depreciation shall be recognized as gains or losses.

No depreciation shall be recognized for land.

Expected useful life of property, plant and equipment lists as follows:

- | | |
|----------------------------|------------|
| (1)Buildings | 3~50 years |
| (2)Machinery and equipment | 3~10years |
| (3)Other equipment | 3~8years |

Depreciation method, useful life and salvage value are reviewed at the end of every fiscal year. If the expected value is not in line with previously estimated value, the adjustment shall be made according to regulation of Changes in Accounting Estimates.

4.10. Impairment of Non-Financial Assets

An entity shall assess at each reporting date whether any inventories, deferred income tax assets, assets generated from employee's bonus, assets classified as held-for-sale non-current assets and other non-financial assets, are impaired, and assess the recoverable amount accordingly. If the recoverable amount cannot be measured individually, the Company shall measure the recoverable amount of any cash-generating unit (group of units) of the assets.

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The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of individual assets or cash-generating units is lower than carrying amount, the carrying amount shall be adjusted to recoverable amount, and recognized its impairment loss. The impairment loss shall be an immediate current gains or losses.

The Company shall assess at each reporting date whether any inventories, non-financial assets except for goodwill, are impaired. A reversal of an impairment loss shall reflect a change in initial recoverable amount, in order to add the carrying amount of individual assets or cash-generating unit to recoverable amount. However, the depreciated or amortized carrying amount shall be subtracted of the amount does not exceed prior individual asset or cash-generating unit.

4.11. Revenue

Revenue is income that arises in the course of ordinary activities of an entity, and shall be measured at the fair value of the agreed-upon consideration (after taking into account the amount of any trade discounts and volume discounts) between the enterprise and its buyer or user. Revenue from the sale of goods should be recognized if all of the following conditions are met:

- (a) the enterprise has transferred significant risks and rewards of ownership of the goods to the buyer;
- (b) the enterprise neither continues managerial involvement of the goods sold, nor maintains effective control;
- (c) the amount of the revenue can be measured reliably;
- (d) it is probable that the economic benefits related to the transaction will flow to the enterprise; and
- (e) The costs incurred and to be incurred associated with the transaction can be measured

When the discount is possible to happen and can be reasonably measured, it shall be recognized as reduction of revenue when the reorganization of sale.

The time of risk and revenue transfer shall depend on sale contract individually.

4.12. Employee's bonus

4.12.1. Defined Contribution Plans

When providing defined contribution plans, the Company shall recognize the amounts to be contributed as current expense for the employees' employment period.

4. 12.2. Defined Benefit Plans

Defined benefit plans are plans not classified as defined contribution plans. The Company shall

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recognize the amounts to be contributed as current expense for the employees' employment period. The unrecognized fair value of service cost of past period and other plan assets shall be eliminated. The discount rate shall be chosen from the closest date of closing date and the Company's net obligation term, and from the rate at reporting date of high quality corporate bond of which the pricing currency are the same as expected pension.

The qualified actuary is appointed annually to assess corporate net obligation under projected unit credit method. When there is a positive result for the Company, the recognition of assets shall be limited to any of the unrecognized past service cost and future refund of the plan or future decreased contribution of the plan. The Company shall take the need of the lowest fund contribution into consideration. Whenever the benefit realized in time, it has economic benefits to the Company.

When benefit of plan improved and recognized as gains or losses based on a straight-line basis over the average remaining service period of employees, such as immediate benefit shall be recognized as gains and losses.

As of January 1, 2012, the conversion date of IFRS which approved by FSC, all the actuarial gains and losses shall be recognized as retained earnings. All the subsequently generated actuarial gains and losses of defined benefit plan shall be recognized as other comprehensive gains and losses immediately.

When there is a rundown or liquidation in business, they shall be recognized as rundown of defined benefit plan or gains and losses of liquidation. Rundown or gains and losses of liquidation includes every changes in plan assets at fair value, changes in net value of defined benefit obligation, and any of those relevant actuarial gains and losses unrecognized and past service cost.

4.12.3. Short-Term Employee Benefits

Short-Term Employee Benefits shall be measured using undiscounted basis, and recognized as expense when providing relevant services.

Amount regarding short-term cash bonus or expected expense in plan. If the Company has obligation or constructive obligation because of employees' past service, and the obligation can be reasonably measured, the amount shall be recognized as liabilities.

4.13. Share-based payment transactions

Share-based benefit which granted by the Company to employees shall recognized the compensatory cost and increase relative equity at fair value on grant date and within the term when employees are able to get the compensation unconditionally. Recognized compensatory cost shall be adjusted in line with condition of service which identical to expectation and compensatory amount of non-market vesting condition

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Non-vesting condition has already balanced at fair value on grant date, and no need to adjust the differences between expected and actual result.

4.14. Income taxes

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Current income tax rate includes expected income tax payables or income tax refund receivables that calculated using legal tax rate for current year, actual legal rate, or adjustment of income tax payables previous year.

A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, Deferred taxes shall not be recognized for temporary differences from the following:

1. Assets and liabilities that are initially recognized but not related to the business combination and have no effect on net income or taxable gains (losses) during the combination.
2. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
3. The initial recognition of goodwill

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation

The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- (1) the same taxable entity; or
- (2) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible

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temporary differences can be utilized.

4.15. Earnings per Share

Earnings per share represent the basic and diluted earnings per share holders of the Company that listed in Consolidated Company. Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. Diluted earnings shall be calculated per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. The potential diluted common share of the Consolidated Company includes convertible corporate bonds, ESO and so on.

4.16. Operating Segment

The operating segment is disclosed in Consolidated Financial Report; hence no disclosure of operating segment shall be stated in Unconsolidated Financial Report.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of the separate financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Issuers requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management will continually review the estimates and basic assumptions. Changes in accounting estimates will be recognized in the period of change and the future period of their impact.

For the information of uncertainty of assessment and assumption, please refer to note 6.5, Impairment of financial assets

6. Accounts Statement

6.1. Cash and Cash Equivalents

	<u>2016.12.31</u>	<u>2015.12.31</u>
Cash on hand	\$ 895	999
Current deposit	1,479,373	1,431,632
Deposit account	<u>870,300</u>	<u>217,300</u>
	<u>\$ 2,350,568</u>	<u>1,649,931</u>

Please refer to Note 6.18 for Company's risk rate and sensitivity analysis of financial assets and liabilities.

6.2. Financial Assets and Liabilities at Fair Value through Profit or Loss

Details:

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	<u>2016.12.31</u>	<u>2015.12.31</u>
Financial assets at fair value through profit		
or loss:		
Non-derivative financial assets:		
Foreign stocks	\$ 4,956	-
Bonds	10,201	448,897
Open-ended funds	-	29,739
Total	<u>\$ 15,157</u>	<u>478,636</u>

6.3. Available-for-Sale Financial Assets

	<u>2016.12.31</u>	<u>2015.12.31</u>
Investment of Stock:		
Foreign Stock (listed companies)	<u>\$ 49,570</u>	<u>30,272</u>

Change in price of equity securities on reporting date (Analysis of these two periods are based on same basis, and assume that the other variations remain unchanged). The effect of comprehensive profit and loss were as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Other post-tax comprehensive profit and loss</u>	<u>Post-tax profit and loss</u>	<u>Other post-tax comprehensive profit and loss</u>	<u>Post-tax profit and loss</u>
<u>Bond price on reporting date</u>				
Increased by 1%	<u>\$ 496</u>	-	<u>303</u>	-
Decreased by 1%	<u>\$ (496)</u>	-	<u>(303)</u>	-

Material foreign currency equity investment on reporting is as follows:

Unit: Thousands of NT\$

	<u>2016.12.31</u>			<u>2015.12.31</u>		
	<u>Foreign currency</u>	<u>Rate</u>	<u>NT\$</u>	<u>Foreign currency</u>	<u>Rate</u>	<u>NT\$</u>
USD	1,537	32.25	49,570	922	32.825	30,272

As of December 31, 2016 and 2015 the Company's available-for-sale financial assets had never been pledged as collaterals.

6.4 Financial assets carried at cost

	<u>2016.12.31</u>	<u>2015.12.31</u>
Foreign Common Stock (not listed yet)	<u>\$ 24,246</u>	<u>24,246</u>

The investment on above common stock is calculated by subtracting impairment loss from cost, and its fair value cannot be estimated due to significant interval. Therefore, the management team thinks that there is not reliable means to calculate the fair value.

As of December 31, 2016, the Company's financial assets carried at cost had never been pledged as collaterals.

6.5 Notes, Account and Other Receivable, Net

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	<u>2016.12.31</u>	<u>2015.12.31</u>
Notes receivable	\$ 53,062	46,132
Account receivable	2,226,492	2,146,394
Account receivable – related parties	887,324	772,961
Other receivable	116,329	44,936
Less: Allowance for Uncollectible Accounts	<u>(11,846)</u>	<u>(13,993)</u>
	<u>\$ 3,271,361</u>	<u>2,996,430</u>

As of December 31, 2016 and 2015, the notes, account and other receivable aging were as follows:

	<u>2016.12.31</u>		<u>2015.12.31</u>	
	<u>Amount</u>	<u>Impairment</u>	<u>Amount</u>	<u>Impairment</u>
Unexpired	\$ 3,275,023	7,885	2,997,583	7,722
1~30 days overdue	7,039	2,816	10,775	4,206
30~60 days overdue	40	40	408	408
Over 90 days overdue	<u>1,105</u>	<u>1,105</u>	<u>1,657</u>	<u>1,657</u>
	<u>\$ 3,283,207</u>	<u>11,846</u>	<u>3,010,423</u>	<u>13,993</u>

As of December 31, 2016 and 2015, the statement of change in allowance for uncollectible accounts of notes, account and other receivable were as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance, January 1	\$ 13,993	60,257
Impairment loss recognition	-	506
Offset (current period)	<u>(2,147)</u>	<u>(46,770)</u>
Ending balance, December 31	<u>\$ 11,846</u>	<u>13,993</u>

The average loan period to sale of goods of the Company is 90 days. The Company put every change in account and notes receivable from original loan date to reporting date into consideration when deciding collectability of account and notes receivable. The amount of allowance for uncollectible accounts was estimated by counterparties' payment history and their current financial situation. Account and notes receivables that over 180 days past due are recognized as 100% loss of allowance.

Loss of allowance for uncollectible accounts recognized with individual evaluation was the difference between book value of account receivable and expected present value to be liquidated. The Company held no collateral in regard to those remains.

44% and 41% of the notes and account receivables includes remains from the most significant client in 2016 and 2015 respectively, and mostly come from the clients with favorable payment history.

As of December 31, 2016 and 2015, the account receivable of Company had never been pledged as collateral,

6.6. Inventories

	<u>2016.12.31</u>	<u>2015.12.31</u>
Raw Material	\$ 91,968	44,014
Supplies	5,593	2,773
Work in process	92,193	73,668

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Semi-finished goods	19,323	17,708
Finished goods	283,904	256,096
Merchandise	<u>1,051,138</u>	<u>1,078,559</u>
	<u>\$ 1,544,119</u>	<u>1,472,818</u>

The inventory cost from cost of goods sold and expense recognized at the end of 2015 and 2014 was NT\$10,041,191 thousand and NT\$10,522,509 thousand. Inventory writedown loss to net realizable value in 2016 is NT\$28,604 thousand and recognized as loss on inventory. The factor that caused the realizable value of inventories lower than the cost had gone. Therefore, Net Realizable Value increased and the recognized cost of hood sold was NT\$9,309 thousand.

As of December 31, 2016 and 2015, the inventories of Company had never been pledged as collateral,

6.7. Investment under equity method

6.7.1 The investment under equity method on reporting date is as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Subsidiaries	<u>\$ 2,138,335</u>	<u>2,343,030</u>

For more information of subsidiaries, please refer to the Company's 2016 consolidated report.

6.7.2. As of December 31, 2016 and 2015, the Company's investment had never been pledged as collateral.

6.8. Property, Plant and Equipment

Details on cost, accumulated depreciation, and impairment loss of the Company for the year ended December 31, 2016 and 2015 were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost or deemed cost					
Beginning balance, January 1, 2016	\$ 626,348	1,248,383	2,077,648	213,642	4,166,021
Purchasing & adjustment	-	1,491	38,962	28,544	68,997
Disposal	-	(305)	(70,665)	(206)	(71,176)
Ending balance December, 31 2016	<u>-</u>	<u>-</u>	<u>(9,602)</u>	<u>-</u>	<u>(9,602)</u>
Beginning balance, January 1, 2015	<u>\$ 626,348</u>	<u>1,249,569</u>	<u>2,036,343</u>	<u>241,980</u>	<u>4,154,240</u>
Purchasing & adjustment	\$ 626,348	1,243,401	2,060,803	209,208	4,139,760
Disposal	-	5,092	54,835	9,791	69,718
Ending balance December, 31 2015	<u>-</u>	<u>(110)</u>	<u>(37,990)</u>	<u>(5,357)</u>	<u>(43,457)</u>
Accumulated depreciation & impairment loss	<u>\$ 626,348</u>	<u>1,248,383</u>	<u>2,077,648</u>	<u>213,642</u>	<u>4,166,021</u>
Beginning balance, January, 1 2016					
Current year depreciation	\$ -	357,808	1,503,900	172,849	2,034,557
Disposal	-	36,215	189,869	18,900	244,984
Ending balance, December 31, 2016	<u>-</u>	<u>(298)</u>	<u>(70,127)</u>	<u>(205)</u>	<u>(70,630)</u>
Beginning balance, January 1, 2015	<u>-</u>	<u>-</u>	<u>(4,687)</u>	<u>-</u>	<u>(4,687)</u>
Current year depreciation	<u>\$ -</u>	<u>393,725</u>	<u>1,618,955</u>	<u>191,544</u>	<u>2,204,224</u>

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Disposal	\$	-	318,087	1,331,770	157,020	1,806,877
Ending balance, December 31, 2015		-	39,813	207,709	19,722	267,244
Book value:		-	(92)	(35,579)	(3,893)	(39,564)
Ending balance, December 31, 2016	\$	-	<u>357,808</u>	<u>1,503,900</u>	<u>172,849</u>	<u>2,034,557</u>
Ending balance, December 31, 2015						
Beginning balance, January 1, 2015	\$	<u>626,348</u>	<u>855,844</u>	<u>417,388</u>	<u>50,436</u>	<u>1,950,016</u>

As of December 31, 2016 and 2015, the property, plant and equipment of the Company had never been pledged as collateral.

6.9. Short-Term Loan

Details on short-term loan of the Company were as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Unsecured bank loans	<u>\$ 1,633,059</u>	<u>1,260,187</u>
Undrawn quotas	<u>\$ 3,563,463</u>	<u>3,430,437</u>
Range of interest rates	<u>0.9736%~1.85%</u>	<u>0.72%~1.3454%</u>

6.10. Bond payable

The details of unsecured convertible bonds issued by the Company were as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Total amount of convertible bonds issued	\$ -	700,000
Accumulated redemption	-	(671,200)
Accumulated conversion	-	(28,800)
Ending balance of bond payable	<u>\$ -</u>	<u>-</u>
	<u>2016</u>	<u>2015</u>
Embedded derivatives – gain or loss of call and put options reevaluated at fair value	<u>\$ -</u>	<u>159</u>
Interest expense	<u>\$ -</u>	<u>554</u>

The Company issued 7,000 5-year unsecured convertible bonds with a coupon of 0 % on June 23, 2010.

Conversion price at the issuance date was NT\$43.5. The conversion price will be adjusted with formula under the circumstances that the share of Company common stock comes across adjusting event in accordance with issuing clauses. The bonds had no replacement clause and re-priced to NT\$43.16 on August 12, 2014.

The base date for bondholders to put their convertible bond early shall be the first, second, third and

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fourth year of the issuing date on the bond. The bondholders can request the Company to redeem the entire convertible bonds they hold at face value plus interest compensation starting from 5-30 days before the base date of puttable. A 100% for the bond issued for full two-year period, a 100% for full three-year period and a 101.00% for full four-year period.

From a month after the Company's convertible bond issued to 40 days before the expiration, if the price of the Company common stock continuously closed at a price over (include) 30% for 30 working days, or the total amount of the undrawn convertible bonds is 10% lower than the issue price at TSEC, the Company is able to convert the cooperate bond into common stock by the current convertible price.

From days after the convertible bond issued to 10 days before expiration, the bondholders can ask the Company to convert them into common stock at current conversion price according to the conversion clause. The Company will make a one-off repayment of the principal in cash.

As of June 24, 2015, the above convertible bonds had been fully converted and are no longer traded over the counter.

6.11 Employee Benefits

6.11.1. Defined Benefit Plan

The adjustment for the current price of defined benefit obligation and plan assets at fair value were as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Total present value of obligation	\$ 150,268	143,960
Fair value of plan assets	<u>(90,530)</u>	<u>(87,186)</u>
	59,738	56,774
Affected amount of asset limit	<u>-</u>	<u>-</u>
Defined benefit obligation liabilities recognized (assets)	<u>\$ 59,738</u>	<u>56,774</u>

The Company appropriates pension for defined benefit plan to labor retirement reserve account. Each and every employee's pension applied to the Labor Standard Act is calculated with cardinal number based on years of work experience and the average wages 6 months before retirement.

6.11.1.1. Composition of Assets

The pension funds appropriated by the Company in accordance with Labor Standard Law are managed by Bureau of Labor Funds, Ministry of Labor (abbreviated to Bureau of Labor Funds, MOL in the following pages). According to "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", the lowest return of annual distribution of settlement cannot lower than

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the revenue calculated using local bank's 2-year time deposit interest rates.

The ending balance as of December 31, 2016 in labor retirement reserve account was NT\$85,191 thousand. The labor pension funds include return and assets allocation on funds, for more information, please visit website of Labor Pension Fund Supervisory Committee.

6.11.1.2. Changes of Current Value of Defined Benefit Obligation

Changes of Current Value of Defined Benefit Obligation for the year ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Defined benefit obligation on January 1	\$ 143,960	143,529
Current service cost and interest	3,905	4,753
Benefit plan payment		
-Profit/loss caused by change of financial assumption	3,402	2,252
Actuarial Gains or losses	(999)	(6,574)
Defined benefit obligation on December 31	<u>\$ 150,268</u>	<u>143,960</u>

6.11.1.3. Changes of Fair Value of the Plan Assets

The changes of current value for benefit plan for the year ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of the plan assets on January 1	\$ 87,186	87,766
Interest Income	1,559	1,905
Reevaluated amount of defined benefit		
-Plan Asset Return (excluding current interest)	(908)	341
Allocated amount to plan	3,692	3,748
Paid benefit	(999)	(6,574)
Plan assets at fair value on December 31	<u>\$ 90,530</u>	<u>87,186</u>

6.11.1.4 Change of affected amount of asset limit

No change of affected amount of asset limit.

6.11.1.5. Actuarial gains or losses recognized as other comprehensive gains or losses

Actuarial gains or losses recognized as other comprehensive gains or losses as of December 31, 2015 and 2014 were as follows:

	<u>2016</u>	<u>2015</u>
Current service cost	\$ 1,385	1,703
Net interest from defined benefit asset (debt)	961	1,145
Ending accumulated balance on December 31	<u>\$ 2,346</u>	<u>2,848</u>

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	<u>2016</u>	<u>2015</u>
Operating cost	\$ 1,295	1,290
Operating expense	<u>1,051</u>	<u>1,558</u>
	<u>\$ 2,346</u>	<u>2,848</u>

6.11.1.6 Reevaluated amount of defined benefit asset recognized as other comprehensive profit/loss

	<u>2016</u>	<u>2015</u>
Accumulated amount on January 1	\$ (65,068)	(63,157)
Recognized amount for current period	<u>(4,310)</u>	<u>(1,911)</u>
Accumulated amount on December 31	<u>\$ (69,378)</u>	<u>(65,068)</u>

6.11.1.7 Actuarial Assumption

The actuarial assumption that the Company used on reporting date is as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	1.375%	1.750%
Gains on future wages	2.500%	2.500%

The allocated amount of 3,720 thousand dollar will be paid up in a year after 2015. The average period of defined benefit plan is 16 years.

6.11.1.8 Sensitivity Analysis

When calculating present value of defined benefit obligation, the Company shall evaluate in order to determine related actuarial hypothesis, including discount rate and possible change on payroll. Any change of actuarial hypothesis could possibly make a significant impact on defined benefit amount.

The impact on present value of defined benefit caused from change of actuarial hypothesis is listed as follows:

	<u>Impact on defined benefit</u>	
	<u>Up by 0.25 %</u>	<u>Down by 0.25 %</u>
December 31, 2016		
Discount rate	\$ (4,345)	4,524
Gain (loss) on future payroll	4,368	(4,218)
December 31, 2015		
Discount rate	(4,253)	4,432
Gain (loss) on future payroll	4,295	(4,143)

6.11.2. Defined Contribution Plan

The Company's defined contribution plan is to allocate 6% of workers monthly wages to the labor pension personal account from Bureau of Labor Insurance, in accordance with Labor Pension Act. After

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the allocation of the fixed amount of allocation, the Company is excused from other mandatory amount or constructive obligation.

As of December 31, 2016 and 2015, the Company had appreciated NT\$24,684 and NT\$24,903 thousand for pension expense to Bureau of Labor Insurance.

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6.12. Income Tax

6.12.1. Income Tax Expense

6.12.1.1. As of December 31, 2016 and 2015, the income tax expense in details is as follows:

	<u>2016</u>	<u>2015</u>
Present value of income tax expense		
Expense generated from current period	\$ 121,776	148,328
Deferred income tax expense		
Temporary differences incurred or reversed	(14,084)	(11,939)
	<u>\$ 107,692</u>	<u>136,389</u>

6.12.1.2. As of December 31, 2016 and 2015, income tax profit (expense) that recognized under other comprehensive income is as follows:

	<u>2016</u>	<u>2015</u>
Exchange differences from translation of financial report of foreign operation	\$ 9,382	(4,334)
Unrealized gain or loss on financial instrument in available-for sale	(3,281)	1,510
Total	<u>\$ 6,101</u>	<u>(2,824)</u>

6.12.1.3. As of December 31, 2016 and 2015, the adjustment of income tax expense and net income before tax were as follows:

	<u>2016</u>	<u>2015</u>
Net income before tax	<u>\$ 613,793</u>	<u>734,567</u>
Income tax calculated by using local tax rate of the Company	\$ 104,345	124,876
Tax-exempt income and rental tax credit	-	(12,325)
Change in gross temporary differences	-	(39,083)
10 % more on undistributed earnings	-	7,626
Other	3,347	55,295
	<u>\$ 107,692</u>	<u>136,389</u>

6.12.2. Deferred Income Tax Assets and Liabilities

6.12.2.1. Liabilities not recognized as deferred income tax

As of December 31, 2016 and 2015, the Company is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future; hence no deferred income tax liabilities are recognized. The relative amount are listed in the following statements:

	<u>12.31.2016</u>	<u>12.31.2015</u>
Liabilities not recognized as deferred income tax	<u>\$ 229,901</u>	<u>229,901</u>

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6.12.2.2. Assets and liabilities recognized as deferred income tax

	Loss market decline on inventor due to depreciation	Exchange differences from translation of financial report of foreign operation	Other	Total
Deferred income tax asset:				
Beginning balance, January 1, 2016				
(Debit) Credit income statement	\$26,654	2,006	28,660	\$26,654
Credit to other comprehensive income	<u>4,863</u>	<u>(1,960)</u>	<u>2,903</u>	<u>4,863</u>
Ending balance, December 31, 2016	<u>\$31,517</u>	<u>46</u>	<u>31,563</u>	<u>\$31,517</u>
Beginning balance, January 1, 2015				
(Debit) Credit income statement	<u>(1,583)</u>	<u>(2,957)</u>	<u>(4,540)</u>	<u>(1,583)</u>
Ending balance, December 31, 2015	<u>\$26,654</u>	<u>2,006</u>	<u>28,660</u>	<u>\$26,654</u>
	Gains of Losses from Subsidiary Using Equity Method	Exchange differences from translation of financial report of foreign operation	Other	Total
Deferred income tax liabilities:				
Beginning balance, January 1, 2016				
Debit income statement	(\$32,092)	9,382	4,237	45,711
Debt (Credit) to other comprehensive income	-	(9,382)	3,281	(6,101)
Ending balance, December, 31 2016	\$20,911		7,518	28,429
Beginning balance, January 1, 2015				
Credit to income statement	(12,971)	-	(3,508)	(16,479)
Debt (Credit) to other comprehensive income	-	4,334	(1,510)	2,824
Ending balance, December 31, 2015	\$32,092	9,382	4,237	45,711

6.12.2.3. Income Tax Assessment

The income tax has been examined and cleared by the tax authorities to the year 2014. (not authorized for 2012 yet)

6.12.2.4. Related Information of Integrated Income Tax

Integrated income tax is as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Undistributed earnings after 1998	<u>\$ 1,032,179</u>	<u>1,150,743</u>
Balance in the shareholder deductible tax	<u>\$ 194,876</u>	<u>176,042</u>
	<u>2016 (expected)</u>	<u>2015 (actual)</u>
Tax deduction ratio of earning distribution to residents in ROC	<u>22.61%</u>	<u>21.76%</u>

The above information of integrated income tax is treated according to official financial tax standard No.10204562810, which is issued by Ministry of Finance, R.O.C. on October 17, 2013.

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Since January 1, 2015, the amount of income tax credit of gross dividends (earnings) distributed to shareholders (members) who reside within the territory of R.O.C. shall be amended in half. The 10% levy of business income tax belongs to the amount of income tax credit of gross dividends (earnings) distributed to shareholders (members), so it shall be withheld by half of the amount of income tax credit.

6.13. Capital and Other Equities

As of December 31, 2016 and 2015, Holystone had authorized share capital NT\$ 4,500,000 dollars, with face value NT\$ 10 per share and were divided into 450,000 shares. The Issued shares were all common stock, as of December 31, 2015, 2014; there are 224,215 (Convertible Bond was converted into common shares of 667 thousand) and 223,548 thousand shares outstanding. All of the payment of issued shares was collected.

The Reconciliation of shares outstanding as of December 31, 2016 and 2015 is as follows:

	Common Stock (Thousand)	
	2016	2015
Beginning balance, January 1	224,215	223,548
Treasury stock write-off	-	667
Capital reduction	224,215	224,215
Ending balance, December 31	224,215	223,548

6.13.1. The components of capital surplus were as follows:

	2016.12.31	2015.12.31
From premium shares	\$ 1,527,358	1,527,358
From convertible bonds	1,500,091	1,500,091
Total	144,225	144,225
From employees stock option	272,695	272,695
From employees' bonus	15,410	15,410
From Differences between book value and equity price of acquisition or disposal of subsidiaries	43,619	84,793
From expired option	63,672	63,672
	\$ 3,567,070	3,608,244

In accordance with Company Act revised in January 2012, the Company's capital reserve shall first make good the deficit, than distribute in cash or by new dividends. The aforesaid realized capital surplus includes income from premium of the amount or value of the premium paid on the issue of any shares. The combined amount of any portions capitalized in any 1 year, in accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers may not exceed 10 percent of paid-in capital.

6.13.2. Retained earnings

According to Holy Stone's Articles of Incorporation, if there is a surplus considering all accounts by

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the end of a fiscal year, the surplus shall be allocated in the following order;

- a. Pay income taxes as required by law.
- b. Offset accumulated deficits from previous years.
- c. Allocate 10 percent to capital reserve, unless capital reserve has reached total paid-in capital.
- d. Allocate a portion to special capital reserve, as required by government regulations.
- e. The surplus remaining after deduction of items a. to e. should be allocated to the directors, supervisors and employees as follow:

(a.) Compensation for directors and supervisors should not exceed 3 percent.

(b.) Employee bonuses should be no less than 7 percent.

If employee bonuses are distributed as stocks, these employees must be qualified according to the requirements composed by the board or his/her authorized personnel.

- f. The surplus remaining after deductions of items a. to e. could be distributed to the shareholders after the resolution is approved in the shareholders' meeting.

The Company formulated its dividend policy by considering the mid-term and long-term operating growth and capital need for investing activities, together with the purpose of healthy financial structure. The board drafts an earnings distribution plan and proposes it to the annual general shareholders' meeting. The appropriation of the Company's net income may be distributed by ways of cash dividend and/or stock dividends considering future capital demand and stock dilution. Stock dividends take 0% to 50% of total dividends, while cash dividends take 50% to 100% of total dividends.

If there is no retained earnings to be distributed, or there is but way below the actual distribution from last fiscal year, or any concern with regard to finance/business/operation, the reserve could be distributed in accordance with regulations and authorities.

According to amendments made in May 2015, employee bonus and remuneration to directors are no longer attributed to distributed items of retained earnings. The Company will conform and make amendments to corporate policies by legal deadline.

i. Legal Reserve

According to the revised Articles of Incorporation in 2012, 10 percent of the annual earnings shall be allocated as legal reserve until accumulated legal reserve equals the issued common stock. When the Company does not have any earnings, shareholders will approve whether to distribute new shares or cash from legal reserve during shareholders' meeting, but the reserve must exceed paid-in capital by 25 percent.

ii. Special Reserve

According to the Standard No. 1010012865 issued by Securities Exchange on April 6, 2012, when distributing earnings, a special reserve equivalent to the total amount of items that are accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. The special reserve shall be available for appropriation to the extent of reversal of deductions to stockholders' equity in subsequent periods.

iii. Distribution of earnings

On June 7 2015 and June 9, 2016 and 2015 the distribution of owners' dividends resolved in the 2015 and 2014 earnings appropriations and distributions of available Cash from capital surplus in shareholders' meeting were as follows:

2015	2014
dividend allotment	dividend allotment

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	<u>(dollars)</u>	<u>Amount</u>	<u>(dollars)</u>	<u>Amount</u>
Common stock dividends:				
Cash	\$	2.50	<u>560,538</u>	3.30 <u>737,709</u>

6.13.3. Other Equity

	<u>Exchange differences from translation of financial report of foreign operation</u>	<u>Available-for-sale investment</u>
Beginning balance, January 1, 2016	\$ 45,807	156,047
Exchange differences (Net value after tax):		
The Company	(32,527)	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	16,017
Subsidiaries	-	(8,719)
Ending balance, December 31, 2016	<u>\$ 13,280</u>	<u>163,345</u>

	<u>Exchange differences from translation of financial report of foreign operation</u>	<u>Available-for-sale investment</u>
Beginning balance, January 1, 2015	\$ 24,645	206,500
Exchange differences (Net value after tax):		
The Company	21,162	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	(7,372)
Subsidiaries	-	(43,081)
Ending balance, December 31, 2015	<u>\$ 45,807</u>	<u>156,047</u>

6.14. Share-based Payment

As of December 31, 2016 details of share-based payment were as follows:

	<u>First employment stock option plan in 2007</u>
Grant date	12 03, 2007
Granted Amount	10,000
Contract duration	10 years
Object	Employees
vesting condition	Future 2-6 years

6.14.1. The valuation coefficient of grant date fair value

Holy Stone determined the grant date fair value of vested ESO options at the granted date using the Black-Scholes option pricing model. Inputs to the formula are summarized as follows:

	<u>First employment stock option plan in 2007</u>
Price on grant date (TWD)	18.755
Stock price on grant date (TWD)	50.00
Exercise price on 12.31.2016 (TWD)	34.90
Expected fluctuating rate (%)	23.75
Option duration (year)	10
Expected dividend payout ratio (%)	-
Risk-free interest rate (%)	2.25

6.16.2. Pertinent information of ESO Plan

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The aforesaid ESO warrant and treasury stock transfer methods were as follows:

(Unit: Thousands of NT\$)	2016		2015	
	Weighted average exercise price (dollars)	Numbers of option (Unit: Thousands)	Weighted average exercise price (dollars)	Numbers of option (Unit: Thousands)
Outstanding on January 1	\$ 37.60	7,002	41.10	7,002
Numbers granted for current period	-	-	-	-
Numbers abandoned for current period	-	-	-	-
Numbers exercised for current period	-	-	-	-
Numbers expired for current period	-	-	-	-
Adjustment of Cash reduction	-	-	-	-
Outstanding numbers on December 31	34.90	<u>7,002</u>	37.60	<u>7,002</u>
Exercisable numbers on December 31	34.90	<u>7,002</u>	37.60	<u>7,002</u>

The information on the Company's outstanding shares is as follows:

	2016.12.31	2015.12.31
Exercise price (NT\$)	34.9	37.6
Weighted average remaining interval	0.93 years	1.93 years

6.15. Earnings per Share

6.15.1. Basic EPS

6.15.1.1. Net income available to common shareholders

	2016	2015
Net income available to common shareholders	<u>\$ 506,101</u>	<u>598,178</u>

6.17.1.2. Weighted average of outstanding common stock

Unit: thousand shares	2016	2015
Outstanding common stock on January 1	224,215	223,548
Effect of cash refund of capital reduction	-	498
Weighted average of outstanding common stock on December 31	<u>224,215</u>	<u>224,046</u>

6.17.2. Diluted EPS

i. Net income available to common shareholders (Diluted)

	2016	2015
Net income available to common shareholders (Basic)	\$ 506,101	598,178
Interest expense after tax of convertible bond	-	554
Net income available to common shareholders (Diluted)	<u>\$ 506,101</u>	<u>598,732</u>

ii. Weighted average of outstanding shares (Diluted)

Unit: thousand shares	2016	2015
Weighted average of outstanding common shares(Basic)	224,215	224,046

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Effect of conversion of convertible bonds	-	1,005
Effect of employee bonus share	2,842	4,069
Effect of employee share warrant	-	190
Ending balance of weighted average of outstanding common shares (Diluted) December 31	<u>227,057</u>	<u>229,310</u>

6.16. Revenues

The operating revenues of the Company are detailed as follows:

	<u>2016</u>	<u>2015</u>
Product Sale	\$ 11,543,605	12,152,342
Other	2,795	1,982
	<u>\$ 11,546,400</u>	<u>12,154,324</u>

6.17. Financial Instruments

According to company policy which has not been approved by board of shareholders, the Company shall allocate at least 7% and no less than 3% of earnings to employee bonus and remuneration to directors if there is profit generated in that fiscal year. But if there is loss generated, the Company shall not need to reserve beforehand. The above employee who is eligible for cash or stock, shall include those qualified certain terms.

The estimated bonus and remuneration for fiscal year of 2016 and 2015 are 73,655 thousand and 88,148 thousand, respectively. Remuneration to Board of Directors and supervisors is estimated to 14,030 and 88,148 thousand respectively. The amount is calculated by deducting employee bonus and remuneration to directors from Net income before tax, and then multiplying by percentage specified in the Company's policy. It shall be recognized as operating cost or operating expense. Any change occurred will be recognized gain/loss in the next fiscal year. If the estimated amount is different from actual distributed ones, the difference shall be recognized as gain/loss in fiscal year of 2016.

6.18. Financial Instruments

6.18.1. Credit Risk

i. Credit Risk Exposure

The maximum credit risk exposure of the Company's financial instruments.

ii. Concentration of Credit Risk

The Company's customers come mainly from electronics and high tech industries. To reduce credit risk of account receivables, the Company evaluates customer's financial circumstances continuously, and have they provided collateral or insurance when in need.

6.18.2. Liquidity risk

The expiration date for contract of financial liabilities, estimated interests included, netting

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agreement excluded.

	<u>Book Value</u>	<u>Contract Cash Flow</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
December 31, 2016					
Non-derivative financial liabilities					
Short-term loans	\$ 1,633,059	1,634,926	1,634,926	-	-
Accounts payable	951,469	951,469	951,469	-	-
Accounts payable-related parties	56,863	56,863	56,863	-	-
Other payables	410,746	410,746	410,746	-	-
	\$ 3,052,137	3,054,004	3,054,004	-	-
December 31, 2015					
Non-derivative financial liabilities					
Short-term loans	\$ 1,260,187	1,260,911	1,260,911	-	-
Accounts payable	917,803	917,803	917,803	-	-
Accounts payable-related parties	50,821	50,821	50,821	-	-
Other payables	432,600	432,600	432,600	-	-
	\$ 2,661,411	2,662,135	2,662,135	-	-

The Company didn't expect any significant differences on the analyzed accrue points or the actual amount of cash flow.

6.18.3. Currency Risk

i. Exposure to Currency Risk

The Financial assets and liabilities that exposed to significant currency risk were as follows:

		2016.12.31			2015.12.31		
		<u>Foreign currency</u>	<u>Exchange rate</u>	<u>New Taiwan dollar</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>New Taiwan dollar</u>
Unit: NT\$ Thousand							
<u>Financial Assets</u>							
<u>Monetary Items</u>							
USD	\$	101,517	32.2500	3,273,940	89,784	32.8250	2,947,156
EUR		57	33.9000	1,944	42	35.8800	1,504
HKD		22,448	4.1580	93,342	13,593	4.2350	57,566
JPY		469,454	0.2756	129,381	263,820	0.2727	71,944
RMB		30,879	4.6170	142,570	538	4.9950	2,689
<u>Nonmonetary Items</u>							
USD		1,537	32.2500	49,570	1,716	32.8250	56,330
HKD		1,192	4.1580	4,956	-	-	-
KRW		840,000	0.0289	24,246	840,000	0.0289	24,246
<u>Financial Liabilities</u>							
<u>Monetary Items</u>							
USD		87,671	32.2500	2,827,401	61,103	32.8250	2,005,699
HKD		29	4.1580	121	-	-	-

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GBP	24	39,6100	935	-	-	-
JPY	163,519	0.2756	45,066	197,555	0.2727	53,873

ii. Sensivity Analysis

The main currency risk of the Company comes from cash and cash equivalent, account and other payables, loans, account and other receivables that priced in foreign dollars. Foreign currency gain/loss is generated from translation. As of December 31, 2016 and 2015, if other factors remain unchanged, when NTD to USD, EUR, JPY, HKD and GBP appreciated or depreciated by 5%, the net profit after tax would increase or decrease NT\$38,383 thousand and NT\$51,064 thousand. The analysis of these two periods is based on the same basis.

iii. Profit or loss from currency exchange

	2016		2015	
	P/L from currency exchange	Average currency rate	P/L from currency exchange	Average currency rate
NTD	<u>\$ (3,041)</u>	-	<u>35,858</u>	-

6.18.4. Interest Rate Analysis

The interest exposure to the Company's financial assets and liabilities are detailed in note of liquidity risk management.

The following sensitivities analysis is determined according to the interest rate exposures of derivatives and non-derivatives on reporting date. As for floating-rate liabilities, the analysis hypothesizes that the outstanding liabilities amount on the reporting date is outstanding all year round. The rate of change of internal reporting interest rate to management is 1% less or more, this as well stands for the valuation to the reasonable interest rate fluctuation range by the management.

If the interest rate increased or dropped by 1%, other variations remain unchanged, the Company's net profit as of December 31, 2016 and 2015 would increase or decrease NT\$16,331 dollar and NT\$ 12,602 dollar. The chief reason of this is because the Company adopts floating rates loans.

6.18.5. Fair Value

i. Types of financial instruments and fair value

The book value and fair value of financial assets and liabilities of the Company are listed below:

	2016.12.31				
	Book Value	Fair Value			Total
Level 1		Level 2	Level 3		
Financial asset calculated through profit and loss carried at fair					

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value	\$	15,157	15,157	-	-	15,157
Available-for-sale financial asset						
Common Stock		49,570	49,570	-	-	49,570
Financial asset carried at cost		24,246	-	-	-	-
Loans and Account receivable						
Cash and cash equivalent		2,350,568	-	-	-	-
Notes receivable and account receivable		2,267,708	-	-	-	-
Other receivables		116,329	-	-	-	-
Accounts receivable-related parties		887,324	-	-	-	-
Subtotal		5,621,929	-	-	-	-
Total	\$	5,710,902	64,727	-	-	64,727

2016.12.31

	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial asset carried at amortized cost					
Bank loans	\$ 1,633,059	-	-	-	-
Accounts payable	951,469	-	-	-	-
Accounts payable-related parties	56,863	-	-	-	-
Other payable	410,746	-	-	-	-
Subtotal	3,052,137	-	-	-	-
Total	\$ 3,052,137	-	-	-	-

2015.12.31

	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial asset calculated through profit and loss carried at fair value	\$ 478,636	478,636	-	-	478,636
Available-for-sale financial asset					
Common Stock	30,272	30,272	-	-	30,272
Financial asset carried at cost	24,246	-	-	-	-
Account receivable					
Cash and cash equivalent	1,649,931	-	-	-	-
Notes receivable and accounts receivable	2,178,533	-	-	-	-
Other receivable	44,936	-	-	-	-
Accounts receivable-related parties	772,961	-	-	-	-
Subtotal	4,646,361	-	-	-	-
Total	\$ 5,179,515	508,908	-	-	508,908
Financial asset carried at amortized cost					
Bank loans	\$ 1,260,187	-	-	-	-
Accounts payable	917,803	-	-	-	-
Accounts payable-related parties	50,821	-	-	-	-
Other payable	432,600	-	-	-	-
Subtotal	2,661,411	-	-	-	-
Total	\$ 2,661,411	-	-	-	-

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ii. Determine valuation techniques and hypothesis for fair value

The fair value of financial assets and liabilities are determined as following methods:

- (i) The fair value of financial assets and liabilities traded in active markets is based on quoted market prices (including investments in stocks and funds from listed entities).
- (ii) The fair value of derivatives is based on publicly quoted price. When publicly quoted price is inaccessible, the non-option-based derivatives will be calculated its fair value using discounted cash flow that formed on the yield curve within duration.

iii. Level of Fair Value

- (i) Non-derivative financial instrument

6.19. Financial Risk Management

6.19.1. Summary

The exposure risk due to financial instrument of the Company is as follows:

- i. Credit Risk
- ii. Liquidity Risk
- iii. Market Risk

This note contains exposure information, the goal of measurement, valuation, policy and process of risk for the aforementioned risks. The further numeral discloser please refer to notes under each items in the unconsolidated financial report.

6.19.2. Risk Management Structure

The Company's risk management structure is aimed at identifying and analyzing risks, setting proper risk limits and monitoring risks and risk limits. The risk management structure is reviewed routinely to fit in with the changes of market and the Company. Through training, management standards and operating procedures, to form an orderly and constructive control environment, and to make all the employees to understand their roles and obligations

The Company's supervisor supervise how the management control and monitor the compliance with risk management policy and process, reviewing the appropriation of risk management structure that the Company faced. The Company's supervisor is assisted by internal auditors. These internal auditors routinely and not routinely undertake risk management control and process, and report the reviewing result to the supervisor.

6.18.3. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty of a financial

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instrument fails to meet its contractual obligations, which arises principally from the Company's receivables from customers and bond investments.

i. Account and other receivables

The Company has established its credit policy. According to the policy, before offering the standard delivery and payment term, the Company shall analysis each and every credit rating of new customers.

The main credit risk exposure comes from situation of individual customers. Yet, the management takes the customers' basic statistic data into consideration as well, including the default risk of their industries and countries; hence the credit risk may be affected by these factors. To decrease credit risk, the Company continuously and periodically evaluate customers' financial situation, and will ask them to provide collaterals when necessary.

The Company is set up with a contra account for allowance for doubtful accounts to show the estimated loss from account and other receivables. The Contra account consists of specific portion of loss that related to significant individual exposure risk, and the portion of loss accrued but not yet identified in the Company of similar assets. The contra account for combined loss is based on the historical payment data of similar financial assets.

ii. Investment

The credit risk arises from bank deposit, fixed-income investment and other financial instruments are evaluated and monitored by the accounting department of the Company. There is no significant compliance concerns due to the counterparties and performing parties of the Company are the companies with good creditability; hence there is no significant credit risk.

iii. Guarantee

On December 31, 2016 and 2015, the Company provided condition of endorsement and guarantee, for more details please refer to note 7.

iv. Liquidity Risk

The Company supports the operation and decrease cash flow fluctuations by management and maintains the sufficient cash and cash equivalent. The management of the Company monitors the situation of loan commitments and make sure to be in accordance with the loan agreement.

Loans are one of the significant liquidities. As of December 31, 2016 and 2015, the unexpended short-term loan commitments are NT\$3,563,463 and NT\$3,430,437 thousand, accordingly.

v. Market Risk

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Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within an acceptable range and to optimize the return.

(i) Exchange Rate Risk

The Company devoted in foreign exchange purchases and sales, forming the variable exposure from exchange rate. The management of exchange rate exposure is to use forward foreign exchange rate contract to manage the risk under the policy.

The loan interest is valued under the currency of principals. In general, The currency of loans shall be identical to the cash flow generated from operating activities, mostly NTD, but JPY and USD as well. The Company provides economic hedge and there is no need to sign for derivatives under such circumstances; hence the hedge accounting is not adopted.

When short-term imbalance happens to monetary assets and liabilities measured at foreign currency, the Company maintains its exposure risk within acceptable range by buying or selling foreign currency at board exchange rate.

ii. Interest Rate Risk

The risk of the changes in fair value and the cash flow risk are generated from the Company simultaneously borrowing at fixed and floating rate. The Company manages interest rate risk through keeping an adequate combination between fixed and floating interest rate and interest rate SWAP.

iii. Other Market Price Risk

The equity price exposure is generated from investing listed equity securities of the Company. The equity investment is not for trade but strategic investment. The Company does not trade in such investment actively; the management manages the risk through holding risk at different portfolio risk

6.20. Capital Management

The board of directors' policy aims at keeping a healthy capital basis, in order to uphold confidence of investors, creditors and the market, and keep the development of future operation. The capital includes capital stock, capital surplus, retained earnings and other equity of the Company. The board of directors takes control of the common stock dividends.

As of December 31, 2016 and 2015, the liabilities to debt ratio were as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Total liabilities	\$ 3,178,867	2,834,540
Less: Cash and cash equivalent	<u>(2,350,568)</u>	<u>(1,649,931)</u>

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Net liabilities	\$	<u>828,299</u>	<u>1,184,609</u>
Total equity	\$	8,239,577	8,364,727
Less: Adjustment		-	-
Adjusted capital	\$	<u>8,239,577</u>	<u>8,364,727</u>
Liabilities to debt ratio		<u>10.05%</u>	<u>14.16%</u>

6.21. Non-cash investment and financing

Non-cash investment and financing for fiscal year of 2015 was the conversion from convertible corporate bond to common stock. For more details, please refer to note 6.13.

7. Related-Party Transactions

7.1. Subsidiaries of Holystone are detailed as follows:

Investor Companies	Subsidiaries	Location	Shareholding ratio		Note
			2016.12.31	2015.12.31	
The Company	Holy Stone Enterprise (Hong Kong) Co., Ltd. (Holy Stone H.K)	Hong Kong	100.00%	100.00%	
The Company	Holy Stone Holdings Co., Ltd. (HSH)	Samoa	100.00%	100.00%	
The Company	UHOLY Investments Co., Ltd. (UHOLY Investments)	Taiwan	57.69%	57.69%	
The Company	Mayatek Co., Ltd. (Mayatek)	Taiwan	100.00%	100.00%	
The Company	Rong Jhan Investments Co., Ltd. (Rong Jhan Investments)	Taiwan	100.00%	100.00%	
HSH	Holy Stone Investments Co., Ltd. (HSIC)	Hong Kong	100.00%	100.00%	
HSH	Holypaq Corporation (HC)	Cayman Islands (British Overseas Territory)	100.00%	100.00%	
HSH	Green Glory Holdings Ltd. (GGH)	Samoa	100.00%	100.00%	
HSH	Mayatek Co., Ltd. (Mayatek)	Belize	100.00%	100.00%	
HSH	Everplus Material Co., Ltd. (EPM)	Japan	100.00%	100.00%	
EPM	Everplus Planning Co., Ltd. (EPP)	Japan	75.00%	75.00%	Note 2
HSH	Holy Stone Holdings (Singapore) Pte.Ltd.(HSHS)	Singapore	100.00%	100.00%	
HSIC	Holy Stone international trading (Shanghai) Co., Ltd. (Holy Stone Shanghai)	China	100.00%	100.00%	
HSIC	Infortech (CHINA) Co., Ltd. (Infortech)	China	100.00%	100.00%	
GGH	Infortech International Trading (Shanghai) Ltd. (Infortech International)	China	-	-	% Note 3
GGH	Milestone Global Technology Ltd.(MGT)	U.S.A	100.00%	100.00%	
GGH	Holy Stone (Europe) Ltd. (HSE)	England	100.00%	100.00%	
UHOLY Investments Co., Ltd. (UHOLY Investments)	Holy Stone Biotech Co., Ltd. (Biotech)	Taiwan	31.63%	29.02%	Note 1
Holy Stone Healthcare	Global Search Holdings Ltd.(GSH)	Samoa	100.00%	100.00%	

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Holy Stone Healthcare	MDT INT'L SA (MDT)	Switzerland	100.00%	100.00%
GSH	Holy Stone Biotech Co., Ltd. (Biotech)	England	100.00%	100.00%
GSH	Aihol Corporation (Aihol)	U.S.A	100.00%	100.00%
Rong Jhan Investment	OHGA SMARTTHINGS CO., LTD	Taiwan	70.00%	70.00%
Rong Jhan Investment	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare)	Taiwan	3.35%	2.64%
OHGA SMARTTHIN GS CO., LTD	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare)	Taiwan	0.01%	0.01%

Note 1: Holy Stone regard Holy Stone Healthcare as Subsidiary due to majority of control over Holy Stone Healthcare.

Note 2: As of August 2015, EPM held 75% of shares of EPP, and regarded EPP as Subsidiary since then

Note 3: As of April 2015, Infotech International Trading (Shanghai) Ltd. had been liquidated completely.

7.2. Parent Company and Ultimate Controlling Party

The Company held the ultimate ownership of its Consolidated Company and subsidiaries.

7.3. Other Related-Party Transactions

7.3.1. The significant sales and account receivables-related parties of the Company were as follows:

	Sales		AR- Related parties	
	2016	2015	2016.12.31	2015.12.31
Subsidiaries	\$ 3,058,732	2,384,650	886,731	772,387
Related parties	4,133	3,332	347	451
	\$ 3,062,865	2,387,982	887,078	772,838

The Company did not purchase similar products from unrelated vendors; therefore, it was not ideal to compare the payment terms with related parties and unrelated vendors. The payment terms with unrelated customers and related parties were month-end 30 to 120 days and month-end 30 to 150 days, respectively.

7.3.2. Purchases and account payable-related parties are detailed as below:

	Purchases		Account payables-related parties	
	2016	2015	2016.12.31	2015.12.31
Subsidiaries	\$ 135,314	100,643	23,605	17,008
Related parties	120,799	82,027	26,411	19,701
	\$ 256,113	182,670	50,016	36,709

The Company did not purchase similar products from unrelated vendors; therefore, it was not ideal to compare the payment terms with related parties and unrelated vendors. There were no significant differences between the credit period of Related parties and general suppliers

7.3.3. Purchase of Services and other payables from related-parties:

	Trading amount		Account payables-related parties	
	2016	2015	2016.12.31	2015.12.31

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NOTES TO FINANCIAL STATEMENTS (Continued)

Subsidiaries - business \$	57,568	55,797	3,610	2,805
promotion				
Subsidiaries - technique				
and consulting service	<u>36,938</u>	<u>30,708</u>	<u>3,237</u>	<u>11,147</u>
	<u>\$ 94,506</u>	<u>86,505</u>	<u>6,847</u>	<u>13,952</u>

7.3.4. Endorsements/Guarantees

On December 31, 2016 and 2015, the Company endorsed loans of subsidiaries for NT\$366,370 thousand and NT\$368,665 thousand, respectively, of which actual amount used were JPY 200,000 thousand, respectively.

7.3.5. Others

- i. As of December 31, 2016 and 2015, the Company purchased machinery and equipments through subsidiaries for NT\$20,543 thousand and NT\$30,737 thousand. As of December 31, 2016, 2015, payments were both made.
- ii. As of December 31, 2016 and 2015, receivables from subsidiaries and related parties due to on behalf of the Company, collection and payment fees, expenses and other expenditure, amounted to NT\$246 thousand and NT\$123 thousand, respectively. Other expenses and other expenditure amounted to NT\$0 thousand and NT\$160 thousand, respectively.

7.4. Remuneration of key management personnel

Remuneration of other key management personnel is as follows:

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	<u>\$ 34,618</u>	<u>33,417</u>

8. Assets Pledged

The Company provides the carrying amount of pledged assets, detailed as follows:

<u>Assets</u>	<u>Objects of guarantee and pledge</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Certificate deposit	Import duties	<u>\$ 11,609</u>	<u>13,565</u>

9. Contingent Liabilities and Unrecognized Commitment

9.1 As of December 31, 2016 and 2015, the Company's outstanding letters of credit amounted to NT\$105,621 thousand and NT\$68,226 thousand.

9.2 Group lawsuit against antitrust in USA received from Japanese Fair Trade Commission is under investigation, to which the attorney was assigned. Holy Stone Holdings Co., Ltd has reached a plea agreement with the United States Department of Justice, on behalf of its former Japanese subsidiary Holy Stone Polytech Co., Ltd., for violation of the United States antitrust laws relating to the sale of Tantalum Capacitors. Under the terms of the

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Agreement, Holding will pay a fine of USD 600,000 and will continue to cooperate with DOJ's ongoing investigation. As of December 31, 2016, no preliminary conclusion was made.

10. Significant Disaster Loss: None.

11. Significant Subsequent Events: In order to reduce share capital and pay it back to shareholders with the aim of improving return on equity and other financial ratios, the Board of Directors of the Company resolves to conduct capital reduction. The amount of the capital reduction is NT\$672,646,190, cancelled shares are 67,264,619 shares, and share capital after the capital reduction is estimated to amount to NT\$1,569,507,790.

12. Others

12.1 Welfare, depreciation and amortization expenses are summarized by functions as follows:

Characters	Functions	2016			2015		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Welfare Expenses							
Payroll		226,470	350,792	577,262	235,005	350,429	585,434
Labor and health insurance		24,472	25,586	50,058	25,391	26,614	52,005
Pension expense		13,564	13,466	27,030	14,026	13,725	27,751
Others		7,100	7,300	14,400	7,501	7,205	14,706
Depreciation		232,803	12,181	244,984	256,007	11,237	267,244

12.2 The number of employees for 2016 and 2015 are 794 and 796.

12.3 The Company's subsidiary MDT and Dr. Robert Petrella had entered into patent authorization agreement since July 1st 2007. In order to strengthen the effectiveness of this product towards adaption disease, MDT authorized Dr. Robert Petrella to perform relevant clinical trials. However, both parties had disagreement regarding royalties and expense occurred during clinical trials, dispute towards payment to Dr. Robert Petrella occurred. MDT received notification from WIPO and Zurich on January 5th, 2016 that Dr. Robert Petrella had filed arbitration regarding the dispute mentioned above, and that Dr. Robert Petrella asserted the patent agreement had ended. However, dispute with regards to clinical trials on which MDT did not authorize but Dr. Robert Petrella performed them anyway, is not included in the patent authorization agreement. In addition, after review of the relevant documents by MDT's external attorney, the payment disagreement which is not stated in the agreement did not support the assertion from Dr. Robert Petrella. Therefore, the dispute has not made significant impact on MDT.

13. Additional Disclosure

13.1. Significant Transaction Information

In 2016, the additional disclosures required by the Regulations Governing the Preparation of Financial Report were as follows:

13.1.1. Loan provided: None.

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NOTES TO FINANCIAL STATEMENTS (Continued)

13.1.2. Endorsement/guarantee provided:

No.	Lender	Borrower	Subject	Related parties Or not	Maximum of current period	Ending	Actual	Interest	Nature of	Amount of business	Reason	Allowance	Collateral		Credit line for	Total Credit
						Balance	used	Rate	(Note2)	interaction	for short-term Loan	for doubtful Account	Name	Value	single party	Line (Note 1)
1	Holy Stone Enterprise Co., Ltd.	Holy Stone Holdings Co., Ltd.	2	1,647	167,250	161,250	-	-		4,119,789	Y	N	N	2	1,647,915	167,250
2	Holy Stone Enterprise Co., Ltd.	Rong Jhan Investment	2	1,647	150,000	150,000	-	-		4,119,789	Y	N	N	2	1,647,915	150,000
3	Holy Stone Enterprise Co., Ltd.	Everplus Material Co., Ltd.	3	1,647	62,860	55,120	55,120	-		4,119,789	Y	N	N	3	1,647,915	62,860

Note 1: Quota of Endorsement/Guarantee for Single Enterprise was 20% of the Company's net value, and the highest quota was 50% of the net value.

Note 2: Six categories of relationship between Endorser/Guarantor and Endorsee/Guaranteed parties were listed as follows:

1. Companies with business interaction.
2. Subsidiaries which the Company held over 50% of its common stock.
3. The companies which the Company and subsidiaries held over 50% of its common stock.
4. The parent companies which the Company held over 50% if its common stock directly or through subsidiaries.
5. Guarantee from both companies in compliance with contracts for contracted projects.
6. The companies endorsed/guaranteed by shareholders in proportion to their existing shareholdings, due to mutual investment.

13.1.3. Marketable securities held: (investment in subsidiaries, related enterprises, and joint venture excluded):

Unit: Thousand shares/ Thousands of NTS

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2016				Note
				Shares	Carrying amount	Ratio of ownership	Fair value	
The Company	BEST PACIFIC INT(2111.HK)	-	Financial assets at fair value through profit or loss - current - foreign stock	200	4,956	-	4,956	-
The Company	SWANCOR Bond B	-	Financial assets at fair value through profit or loss	100	10,201	-	10,201	-
The Company	GSI Stock	-	Available-for-sale financial asset-noncurrent	248	49,570	1.14 %	49,570	-
The Company	CNO Co.,Ltd. Stock	-	Financial asset carried at cost-noncurrent	1,400	24,246	-	-	-
Mayatek Co., Ltd.	Fuh Hwa Greater China Fund	-	Financial assets at fair value through profit or loss-current-open ended fund	107	1,424	-	1,424	-
Holy Stone HK	SHS SPDR BLOOMBERG BARCLAYS	-	Financial assets at fair value through profit or loss-current-open ended fun	2	2,351	-	2,351	-
Holy Stone HK	Best Pacific International Holdings Ltd	-	Financial assets at fair value through profit or loss-current-foreign stock	470	11,626	-	11,626	-
Holy Stone Holdings Co., Ltd.	Greenvity Communications, Inc	-	Financial asset carried at cost-noncurrent	220	8,063	-	-	-
Holy Stone Holdings Co., Ltd.	JPMORGAN AUSTRALIA FUND	-	Financial assets at fair value through profit or loss-current-open ended fun	4	4,754	-	4,754	-
Holy Stone Holdings Co., Ltd.	PING AN INSURANCE	-	Financial assets at fair value through profit or loss	40	6,457	-	6,457	-
Infotech (CHINA) Co., Ltd.	BOC Thematic Stock Fund	-	Financial assets at fair value through profit or loss	646	5,443	-	5,443	-
Holy Stone International Trading (Shanghai)	BOC Thematic Stock Fund	-	Financial assets at fair value through	717	6,039	-	6,039	-

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NOTES TO FINANCIAL STATEMENTS (Continued)

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account t	December 31, 2016				Note
				Shares	Carrying amount	Ratio of ownership	Fair value	
Uholy Investment Co., Ltd.	Yuanta Emerging Indonesia Opp Bd	-	profit or loss Financial assets at fair value through profit or loss-current-open ended fund	1,324	14,634	-	14,634	-
Uholy Investment Co., Ltd.	LONG CHEN PAPER CO., LTD.	-	Financial assets at fair value through profit or loss-current-domestic stock	80	1,308	-	1,308	-
Uholy Investment Co., Ltd.	Foxsemicon Integrated Technology Inc.	-	Financial assets at fair value through profit or loss-current-domestic stock	15	1,287	-	1,287	-
Uholy Investment Co., Ltd.	SuperAlloy Industrial Co., Ltd.	-	Financial assets at fair value through profit or loss-current-domestic stock	20	3,560	-	3,560	-
Uholy Investment Co., Ltd.	eGalax_eMPIA Technology Inc Stock	-	Available-for-sale financial asset-noncurrent	5,797	286,943	10.14 %	286,943	-
Uholy Investment Co., Ltd.	Yuan Jing Venture Capital Stock	-	Financial asset carried at cost-noncurrent	6,141	61,410	-	-	-
Uholy Investment Co., Ltd.	C2 MICROSYSTEMS INC.stock	-	"	1,200	-	-	-	-
Uholy Investment Co., Ltd.	ZILLTEK Technology Corp.	-	"	859	19,757	-	-	-
Uholy Investment Co., Ltd.	Metanoia Communications	-	"	599	2,994	-	-	-
Uholy Investment Co., Ltd.	Yuan Rong Venture Capital Stock	-	"	4,425	44,250	-	-	-
Uholy Investment Co., Ltd.	TaiwanJ Pharmaceuticals Co.	-	"	1,500	15,000	-	-	-
Rong Jhan Investment Co., Ltd.	Metanoia Communications	-	"	150	4,500	-	-	-
Rong Jhan Investment Co., Ltd.	JiaNai Co., Ltd.	-	"	2,976	32,741	-	-	-
Rong Jhan Investment Co., Ltd.	CNO Co., Ltd	-	"	494	34,355	-	-	-
Rong Jhan Investment Co., Ltd.	BioMaty Co., LTD. Stock	-	"	550	5,500	-	-	-
Rong Jhan Investment Co., Ltd.	AVEO Technology Corp. Stock	-	"	1,846	24,875	-	-	-
Rong Jhan Investment Co., Ltd.	ThroughTek Corp. Stock	-	"	140	10,000	-	-	-
Rong Jhan Investment Co., Ltd.	Yuanta Emerging Indonesia Opp Bd	-	Financial assets at fair value through profit or loss-current-open ended fund	1,324	14,634	-	14,634	-
Rong Jhan Investment Co., Ltd.	PROMISE Technology, Inc.	-	Financial assets at fair value through profit or loss-current-domestic stock	152	2,386	-	2,386	-
Rong Jhan Investment Co., Ltd.	Grand Fortune Securities Co.,Ltd,	-	Available-for-sale financial asset-noncurrent	5,638	44,649	2.33 %	44,649	-
OHGA SMARTTHINGS CO., LTD	AVEO Technology Corp. Stock	-	Financial asset carried at cost-noncurrent	540	7,195	-	-	-
OHGA SMARTTHINGS CO., LTD	BioMaty Co., LTD. Stock	-	"	237	7,110	-	-	-
OHGA SMARTTHINGS CO., LTD	ThroughTek Corp. Stock	-	"	140	10,000	-	-	-
OHGA SMARTTHINGS CO., LTD	nFore Technology Co.	-	"	261	5,991	-	-	-
OHGA SMARTTHINGS CO., LTD	LONG CHEN PAPER CO., LTD.	-	Financial assets at fair value through profit or loss-current-domestic stock	80	1,308	-	1,308	-

13.1.4. Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of

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Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

the paid-in capital:

Unit: Thousand shares/ Thousands of NTS

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Share	Amount	Share	Amount	Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Share
The Company	Yuanta Wan Tai Money Market.	Financial assets at fair value through profit or loss-current	-	-	-	-	96,087	1,440,000	96,087	1,440,596	1,440,000	596	-	-
The Company	Taishin money market	"	-	-	-	-	50,573	710,000	50,573	710,491	710,000	491	-	-
The Company	Taishin 1699 Money Market.	"	-	-	-	-	29,902	400,000	29,902	400,229	400,000	229	-	-
The Company	CAPITAL MONEY MARKET FUND	"	-	-	-	-	58,280	930,000	58,280	930,546	930,000	546	-	-
The Company	Nomura Taiwan Money Market	"	-	-	-	-	63,225	1,020,000	63,225	1,020,611	1,020,000	611	-	-
The Company	Franklin Templeton Sinoam Money Market	"	-	-	-	-	97,889	1,000,000	97,889	1,000,663	1,000,000	663	-	-
The Company	UPAMC JAMES BOND MONEY MARKET Fund.	"	-	-	-	-	18,156	300,000	18,156	300,187	300,000	187	-	-
The Company	Prudential Financial Money Market	"	-	-	-	-	49,875	780,293	49,875	780,622	780,293	329	-	-

13.1.5. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None.

13.1.6. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None.

13.1.7. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital:

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		
			Purchases/Sales	Amount	% to Total	Payment Terms	Company Name	Related Party	Nature of Relationship	Purchases/Sales	Amount
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	1,081,134	9.36 %	Next month-end 150 days	-	-	409,016	12.96%	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	1,255,991	10.88 %	Next month-end 120 days	-	-	360,026	11.41%	-
The Company	Infotech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	720,685	6.24 %	Month-end 120 days	-	-	117,513	3.72%	-

13.1.8. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital:

Unit: NT\$ in thousand

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Company Name
					Amount	Action Taken		
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	409,016	2.90	-	-	188,467	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	360,026	3.70	-	-	77,873	-
The Company	Infotech(CHINA) Co., Ltd.	Third-tier Subsidiary	117,513	6.11	-	-	119,665	-

13.1.9. Derivatives transaction: None.

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13.2. Information about derivatives of investees over which the Company has a controlling interest:

Information about derivatives of investees over which the Company has a controlling interest of 2015 was follows:

(China investees excluded)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of Dec. 31, 2015			Investor Company	Investee Company	Location
				Dec. 31, 2013	Dec. 31, 2011	Shares	%	Carrying Value			
The Company	Holy Stone Enterprise (H.K) Co., Ltd.	Hong Kong	MLCC and electronic components trading	49,046	49,046	11,500	100.00%	297,925	31,020	31,020	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	934,846	(95,569)	(96,786)	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	341,508	(46,279)	(26,698)	Subsidiary of the Company
The Company	Mayatek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	20,000	8,500	100.00%	81,642	(13,784)	(13,784)	Subsidiary of the Company
The Company	Rong Jhan Investments Co.	Taipei City	Investment activities	340,000	340,000	57,900	100.00%	482,414	(894)	(894)	Subsidiary of the Company
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	222,525	226,493	6,900	100.00%	299,666	3,416	3,416	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings Co., Ltd.	Holypaq Corporation	Cayman	Investment activities	38,700	39,390	1,200	100.00%	863	-	-	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd.	Samoa	Investment activities	40,010	40,723	1,310	100.00%	18,420	1,611	1,611	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Mayatek Co., Ltd.	Belize	Electric appliances, precision instrument, computers and machinery and equipment selling	450,726	458,762	2,500	100.00%	361,336	10,451	10,451	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Everplus Material Co.,Ltd.	Japan	Electric appliances, precision instrument, computers and machinery and equipment selling	96,460	95,445	4	100.00%	91,708	217	217	Subsidiary of Holy Stone Holdings Co.
Holy Stone Investments Co., Ltd.	Holy Stone Holdings (Singapore) Pte. Ltd.	Singapore	Electronic retailing and trading	3,225	3,283	100	100.00%	1,323	725	725	Subsidiary of Holy Stone Holdings Co.
Everplus Material Co.,Ltd.	Everplus Planning Co.,Ltd.	Japan	Alcohol and produce retailing	827	818	0.3	75.00%	735	5	5	Subsidiary of Holy Stone Holdings Co.
Green Glory Holdings Ltd.	Milestone Global Technology Ltd.	Shanghai, China	Electronic components developing and selling	16,125	16,413	500	100.00%	14,533	1,101	1,101	Subsidiary of Green Glory Holdings
Green Glory Holdings Ltd.	Holystone (Europe) Ltd.	Shanghai, China	Electronic retailing and trading	22,152	22,547	350	100.00%	3,411	538	538	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co.	Dongguan, Guangdong province, China	Western medicine wholesaling and medical instruments wholesaling	410,557	276,370	21,422	31.63%	124,055	(219,878)	(67,438)	UHOLY's long-term investee recognized under equity method
Holy Stone Healthcare Co.	MDT INTL SA	Shanghai, China	Medical instruments trading	78,768	78,768	2,550	100.00%	66,869	6,760	6,760	Subsidiary of Holy Stone Healthcare Co.
Holy Stone Healthcare Co.	Global Search Holdings Ltd.	U.S.A	Investment activities	53,039	46,774	1,750	100.00%	7,279	(6,270)	(6,270)	Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	Holy Stone Biotech Co., Ltd.	England	Selling and authorization if medicine and medical instruments	54,390	49,068	1,050	100.00%	5,759	(6,223)	(6,223)	Second-tier Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	AIHOL Corporation	U.S.A	Patent application	645	657	10,000	100.00%	466	-	-	Second-tier Subsidiary of Holy Stone Healthcare Co.
RongJhan Investments Co.	OHGA Electronics Co., Ltd.	Taipei City	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70.00%	223,907	(9,213)	(6,449)	Subsidiary of Rong Jhan Investments Co.
RongJhan Investments Co.	Holy Stone Healthcare Co.	Switzerland	Western medicine wholesaling and medical instruments wholesaling	54,444	31,135	2,266	3.35%	20,351	(219,878)	(6,774)	UHOLY's long-term investee recognized under equity method
OHGA Electronics Co., Ltd.	Holy Stone Healthcare Co.	Samoa	Western medicine wholesaling and medical instruments wholesaling	184	154	9	0.01%	94	(219,878)	(30)	UHOLY's long-term investee recognized under equity method

13.3. Information on Investment in Mainland China

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13.3.1. Information of business investment in Mainland China

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method Note (1)	Accumulated Remittance as of Jan. 1, 2014	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2013	Gains and losses of current period of Investees Note (2)	Ownership Held by The Company (Direct and Indirect)	Current Recognized Investment Gain (Loss) (Note 2)	Ending Balance of Investment	Name of Investee in Mainland China
					Remitted	Collected						
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	129,323	(2)	116,423	-	-	116,423	1,346	100.00%	1,346	175,843	-
Infotech International Trading (Shanghai) Ltd.	Electronic components R&D and selling	32,250	(2)	32,250	-	-	32,250 (Note 3)	-	-%	-	-	-
Infotech (CHINA) Co., Ltd.	Electronic components selling	67,725	(2)	67,725	-	-	67,725	2,145	100.00%	2,145	123,146	-

Note 1: Three kinds of investment are noted:

- (1) Direct investment in China.
- (2) Reinvestment in china through other region
- (3) Other method.

Note 2: Recognition basis of gains and losses on investment came from audited financial statement of Parent Company.

Note 3: Infotech International Trading (Shanghai) Ltd has been liquidated and registration to cancellation was completed by 07/29/2015.

13.3.2. Quota of reinvestment in Mainland China:

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	Investment quota in Mainland China according to Investment Commissions, Ministry of Economic Affairs
216,398	229,298	4,943,746

13.3.3. Significant Transaction Information

Significant transaction information of direct and indirect investment in Investee Company in Mainland China in 2016 is described in Note “related significant transaction information”.

14. Segment Information

Please refer to 2016 Consolidated Financial Report.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

Holy Stone Enterprise Co., Ltd.
List of Cash and Cash Equivalents
From January 1 to December 31, 2016

Unit: NT\$ thousand

<u>Items</u>	<u>Items</u>	<u>Amount</u>
Inventory cash and working capital		\$ 895
Current Deposits		1,159,244
Foreign Currency Deposits (Note)	USD: 5,597 thousand	180,501
	EUR: 20 thousand	667
	JPY: 348,384 thousand	96,015
	HKD: 9,558 thousand	39,742
	RMB: 29 thousand	135
Check deposits		3,069
Fixed deposits	Current Portion; interest interval 0.13%~ 1.205%	<u>870,300</u>
		<u>\$ 2,350,568</u>

Note: Foreign currency rates are translated from December 31, 2015 spot rates.

USD : TWD= 1 : 32.25

EUR : TWD= 1 : 33.9

JPY : TWD= 1 : 0.2756

HKD : TWD= 1 : 4.158

RMB : TWD= 1 : 4.617

Holy Stone Enterprise Co., Ltd.

**List of Financial Assets at Fair Value through Profit or
Loss - Current**

From January 1 to December 31, 2016

Unit: NT\$ thousand/ Thousands of Units

<u>Securities</u>	<u>Market Price</u>
Overseas Stock:	
BEST PACIFIC INT(2111.HK)	\$ 4,956
Bond:	
SWANCOR Bond B	10,201
Total	<u>\$ 15,157</u>

Holy Stone Enterprise Co., Ltd.
List of Notes and Accounts Receivable
From January 1 to December 31, 2016

Unit: NT\$ thousand

Customer	Amount
Note Receivables :	
Customer K	\$ 9,708
Customer T	5,561
Customer J	4,065
Customer U	2,713
Others (lower than 5%)	<u>31,015</u>
Subtotal	53,062
Less: Allowance for doubtful accounts	<u>(4,532)</u>
	<u>48,530</u>
Account Receivables:	
Others (lower than 5%)	<u>2,226,492</u>
Less: Allowance for doubtful accounts	<u>(7,314)</u>
	<u>2,219,178</u>
Total	<u><u>\$ 2,267,708</u></u>

Holy Stone Enterprise Co., Ltd.

List of Inventory

From January 1 to December 31, 2016

Unit: NT\$ thousand

<u>Items</u>	<u>Amount</u>		<u>Remarks</u>
	<u>Cost</u>	<u>Market Price</u>	
Supplies	\$ 95,399	-	Note
Raw material	5,594	-	"
Work in progress	93,113	-	"
Semi-finished goods	23,959	-	"
Finished goods	305,489	357,948	Net realizable value
Merchandise	<u>1,194,565</u>	1,349,341	"
Subtotal	1,718,119		
Less: Allowances for losses	<u>(174,000)</u>		
	<u>\$ 1,544,119</u>		

Note: Supplies, raw materials, work in progress, and semi-finished goods are provided for the purpose of manufacturing finished goods. Since the net realizable value of finished goods is higher than cost, likewise, the net realizable values for supplies, raw materials, work in progress and semi-finished goods are also higher than cost.

Holy Stone Enterprise Co., Ltd.
List of changes in investment under equity method
From January 1 to December 31, 2016

Unit: Thousand of shares / NT\$

Investees	Beginning balance		Increase in current period		Decrease in current period		Gain (loss) on equity		Ending balance			Market price or net value of equity			
	Shares	Amount	Shares	investments	Shares	Amount	method	Other (Note)	Shares	Ratio	Amount	Market price per share/Net value per share (Dollars)	Total value	Valuation basis	Collateral
investment under equity method:															
Holy Stone Enterprise (Hong Kong) Co., Limited	11,500	\$ 273,603	-	-	-	-	31,020	(6,698)	11,500	100.00%	297,925	27.00	310,456	Equity	None
Holy Stone Holdings Co., Ltd.	26,976	1,071,839	-	-	-	-	(96,786)	(40,207)	26,976	100.00%	934,846	35.17	948,852	Equity	None
UHOLY Investment Co., Ltd.	22,500	398,982	-	-	-	-	(26,698)	(30,776)	22,500	57.69%	341,508	15.12	340,131	Equity	None
Mayatek Co., Ltd.	8,500	95,426	-	-	-	-	(13,784)	-	8,500	100.00%	81,642	9.60	81,642	Equity	None
Rong Jhan Investments Co., Ltd.	57,900	503,180	-	-	-	-	(894)	(19,872)	57,900	100.00%	482,414	8.33	482,414	Equity	None
		<u>\$ 2,343,030</u>		<u>-</u>		<u>-</u>	<u>(107,142)</u>	<u>(97,553)</u>			<u>2,138,335</u>				

Note: These results were increase decrease in stock, currency translation adjustments and unrealized gross profits of sales

Holy Stone Enterprise Co., Ltd.

List of short-term loans

From January 1 to December 31, 2016

Unit: NT\$ thousand

<u>Types</u>	<u>Bank</u>	<u>Ending Balance</u>	<u>Contract period</u>	<u>Interest rate range</u>	<u>Financing Credit</u>	<u>Collaterals</u>
Unsecured	Huanan, Hsin Wei Branch	\$ 374,395	Less than 1 year	0.9736%~1.85%	800,000	None
"	Land Bank, Xihu Branch	191,099	"	1.797%	800,000	None
"	Mizuho Bank	674,244	"	1.13%	967,500	None
"	Taiwan Bank- Shinyi brnach	393,321	"	1.17~1.3%	483,750	None
Total		<u>\$ 1,633,059</u>				

List of Notes and Accounts Payables

<u>Supplier</u>	<u>Amount</u>
Supplier (a)	\$ 229,386
Supplier (h)	107,726
Supplier (d)	95,917
Supplier (g)	112,893
Supplier (h)	50,794
Others (lower than 5%)	354,753
Total	<u>\$ 951,469</u>

Holy Stone Enterprise Co., Ltd.

List of Sales

From January 1 to December 31, 2016

Unit: NT\$ thousand

<u>Item</u>	<u>Quantity (thousand PCS)</u>	<u>Amount</u>
Passive Component	7,841,350	\$ 3,078,740
Active Component	769,620	4,735,840
System & Module	162,575	2,500,950
Other	497,412	<u>1,230,870</u>
Net Sales		<u>\$ 11,546,400</u>

Note : The amount deducted on sales return and allowance in aforementioned amount was NT\$156,462 thousand.

Holy Stone Enterprise Co., Ltd.
List of Operating Expense
From January 1 to December 31, 2016

**Unit: NT\$
thousand**

Items	Amount
Merchandise	
Beginning balance of inventory	\$ 1,183,837
Add: Net purchases for current period	8,493,183
Processing expenses	18,148
Less: Ending balance of inventory	(1,194,565)
Marketing and management expenses transferred	(90)
Research and development expenses transferred	(5,569)
Loss on scraps	8,494,944
Cost of goods sold - Merchandise	
Supplies	45,406
Beginning balance of supplies	471,495
Add: Net purchases for current period	(95,399)
Less: Ending balance of supplies	(9)
Supplies sold	(6,265)
Marketing and management expenses transferred	(17,619)
Research and development expenses transferred	(37)
Loss on scraps	397,572
Supplies consumed in current period	
Raw Material	2,924
Beginning Raw Material	64,693
Add: Net purchases for current period	(5,595)
Less: Ending balance of supplies	(350)
Marketing and management expenses transferred	(359)
Research and development expenses transferred	(2,803)
Indirect Materials	(21)
Direct Labor	58,489
Manufacturing Expenses	200,913
Manufacturing Costs	586,019
Add: Beginning balance of work in progress and semi-finished goods	1,242,993
Net Purchases for current period	110,823
Less: Ending balance of work in progress and semi-finished goods	2,035
Marketing and management expenses transferred	(117,072)
Research and development expenses transferred	(1,891)
Inventory loss	(5,447)
Cost of Finished Goods	(536)
Add: Beginning balance of finished goods	1,230,905
Purchases for current period	275,224
Other	342,664
Less: Ending balance of finished goods	(305,489)

Marketing and management expenses transferred	(770)
Research and development expenses transferred	(9)
Loss on scraps	<u>(4,233)</u>
Cost of goods sold – Finished Goods	<u>1,538,292</u>
Add: Cost of goods sold – Supplies	<u>359</u>
Expenses and losses related to inventory	<u>38,574</u>
Cost of Goods Sold	<u>\$ 10,072,169</u>

Holy Stone Enterprise Co., Ltd.
List of Marketing and Management Expenses

From January 1 to December 31, 2016

Unit: NT\$ thousand

Items	Amounts
Salary Expenses	\$ 292,864
Freight Expenses	54,839
Commission	63,861
Entertainment Expense	43,576
Other Expenses (Lower than 5%)	175,245
Total	\$ 630,385

List of Research and Development Expenses

Items	Amount
Salary Expenses	\$ 57,928
Materials consumed	29,008
Other Expenses (Lower than 5%)	57,089
Total	\$ 144,025

For the list of changes in property, plant and equipment, please refer to note 6.8.

For the list of changes in accumulated depreciation of property, plant and equipment, please refer to note 6.8.

Representation Letter

The entities that are required to be included in the combined financial statements of Holy Stone Enterprise Company Limited as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the FSC-approved IAS 10. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Holy Stone Enterprise Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang

Date: March 15, 2017

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 2016, and 2015, 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 2016 and 2015 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,

2016 and 2015, the investment amounts accounted under equity method made up 2.61% and 2.44% of total assets, respectively; the gains or losses from subsidiaries accounted under equity method for the year ended December 31, 2016 and 2015 made up 0.27% and 0.11% 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 6.16 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 4.6.4, 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 4.7, 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 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.

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, 2016 made up 19% 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 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 15, 2017

English Translations of Consolidated Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	<u>2016.12.31</u>		<u>2015.12.31</u>			<u>2016.12.31</u>		<u>2015.12.31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Assets					Liabilities and Equity				
Current Assets:					Current Liabilities:				
1100 Cash and Cash Equivalents (Note6.1)	\$ 3,406,289	28	2,905,532	24	2100 Short-term Loans (Note6.9)	\$ 1,663,059	14	1,300,187	11
1110 Financial Assets at Fair Value through Profit or Loss - Current (Note6.2)	92,368	1	618,567	5	2170 Accounts Payable	1,064,785	9	1,052,056	9
1150 Notes and Accounts Receivable, net (Note6.5&7)	3,398,021	28	3,046,660	25	2180 Accounts Payable - Related Parties (Note7)	26,411	-	19,701	-
1200 Other Receivables (Note6.5)	152,948	1	54,669	-	2200 Other Payables	581,749	5	599,627	5
130X Inventories (Note6.6)	1,805,964	15	1,705,637	14	2230 Current Portion Income Tax Liability	45,301	-	75,485	2
1410 Prepaid Expenses and Other Current Assets	43,226	-	37,327	-	2322 Current Portion of Long-term Loans (Note 6.10&8)	2,171	-	2,122	-
Total Current Assets	8,898,816	73	8,368,392	68	Total Current Liabilities	3,383,476	28	3,049,178	27
Noncurrent Assets:					Noncurrent Liabilities:				
1523 Available-for-sale Financial Assets - Noncurrent (Note6.3)	381,162	3	320,671	3	2540 Long-term Loans (Note 6.10&8)	17,058	-	19,240	-
1543 Financial Assets Carried at Cost - Noncurrent (Note6.4)	317,987	3	420,855	3	2570 Deferred Income Tax Liabilities (Note 6.13)	28,464	-	45,752	-
1600 Property, Plant and Equipment (Note6.7&8)	2,406,685	19	2,629,430	22	2640 Accrued Pension Liabilities-Noncurrent (Note6.12)	59,738	-	56,774	-
1780 Intangible Assets (Note 6.8)	254,298	2	314,614	3	2670 Other Noncurrent Liabilities – Others	2,868	-	2,301	-
1840 Deferred Income Tax Assets (Note6.13)	32,265	-	29,079	-	Total Noncurrent Liabilities	108,128	-	124,067	-
1915 Prepaid Expense on Equipment	10,051	-	18,057	-	Total Liabilities	3,491,604	28	3,173,245	27
1990 Other Noncurrent Assets - Others (Note 8)	23,220	-	74,140	1	Equity Attributable to Parent Company (Note6.11, 6.12&6.14):				
Total Noncurrent Assets	3,425,668	27	3,806,846	32	3110 Common Stock	2,242,154	18	2,242,154	18
					3200 Capital Surplus	3,567,070	29	3,608,244	30
					Retained Earnings:				
					3310 Legal Reserve	1,221,549	10	1,161,732	10
					3350 Unappropriated Earnings	1,032,179	9	1,150,743	9
					Total Retained Earnings	2,253,728	19	2,312,475	19
					Other Equity:				
					3410 Exchange Differences on Translation of Financial Statements of Foreign Operations	13,280	-	45,807	-
					3425 Unrealized gains and losses on Available-for-sale Financial Assets	163,345	1	156,047	1
					Total Other Equity	176,625	1	201,854	1
					Total Equity to Parent Company	8,239,577	67	8,364,727	68
					36XX Non-controlling Interest	593,303	5	637,266	5
					Total Equity	8,832,880	72	9,001,993	73
Total Assets	\$ 12,324,484	100	12,175,238	100	Total Liabilities and Equity	\$ 12,324,484	100	12,175,238	100

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 Income

For the years ended December 31, 2016 and 2015

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

		2016		2015	
		Amount	%	Amount	%
4000	Net Sales (Note6.17&7)	\$ 13,166,572	100	13,595,819	100
5000	Cost of Goods Sold (Note6.12&7)	11,261,662	86	11,629,937	85
	Gross Profit	1,904,910	14	1,965,882	15
	Operating Expense				
6100	Selling and Administrative (Note 6.12)	1,158,620	9	1,091,260	8
6300	Research and Development (Note 6.12)	304,832	2	240,128	2
	Total Operating Expense	1,463,452	11	1,331,388	10
	Operating Income	441,458	3	634,494	5
	Non-Operating Income and Expenses				
7020	Other Gains and Losses (Note 6.4, 6.8, 6.11, 6.19&12.2)	11,940	-	(28,341)	-
7050	Financial Costs (Note 6.11)	(16,143)	-	(15,859)	-
7100	Interest Income	17,668	-	24,344	-
	Total Non-Operating Income and Expenses	13,465	-	(19,856)	-
7900	Income before Income Tax	454,923	3	614,638	5
7950	Less: Income Tax Expense (Note6.13)	(116,802)	(1)	(142,852)	(1)
	Net Income for Current Period	338,121	2	471,786	4
8300	Other Comprehensive Gains and Losses:				
8310	Revaluation income				
8311	Defined benefit plan	(4,310)	-	(1,911)	-
8349	Income Tax incurred	-	-	-	-
	Total Revaluation income	(4,310)	-	(1,911)	-
8360	Revaluation income arising from reclassification				
8361	Exchange Differences on Translation of Financial Statements of Foreign Operations	(45,687)	-	27,819	-
8362	Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	9,117	-	(83,558)	(1)
8399	Income Tax related to reclassification	6,101	-	(2,824)	-
	Total Revaluation income arising from reclassification	(30,469)	-	(58,563)	(1)
8300	Other Comprehensive Income for Current Period (after tax)	(34,779)	-	(60,474)	(1)
	Total Comprehensive Income for Current Period	\$ 303,342	2	411,312	3
	Net Income attributed to				
8610	Parent Company	\$ 506,101	3	598,178	5
8620	Non-controlling Interest	(167,980)	(1)	(126,392)	(1)
		\$ 338,121	2	471,786	4
	Comprehensive Income attributed to				
8610	Parent Company	\$ 476,562	3	566,976	4
8620	Non-controlling Interest	(173,220)	(1)	(155,664)	(1)
		\$ 303,342	2	411,312	3
	Earnings per Share (Note 6.16)				
9750	Basic Earnings per Share (Unit: NT Dollar)*	\$ 2.26		2.67	
9850	Diluted Earnings per Share (Unit: NT Dollar)*	\$ 2.23		2.61	

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, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Equity Attributable to Stockholders of Parent Company								
	Retained Earnings				Other Equity		Total Equity Attributable to Stockholders of Parent Company*	Non-Controlling Equity	Total 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			
Beginning Balance, January 1, 2015	\$ 2,235,481	3,588,009	1,071,291	1,382,626	24,645	206,500	8,508,552	806,669	9,315,221
Net Income	-	-	-	598,178	-	-	598,178	(126,392)	471,786
Other Comprehensive Income	-	-	-	(1,911)	21,162	(50,453)	(31,202)	(29,272)	(60,474)
Total Comprehensive Income	-	-	-	596,267	21,162	(50,453)	566,976	(155,664)	411,312
Appropriation of Retained Earnings									
Provision for Legal Reserve	-	-	90,441	(90,441)	-	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(737,709)	-	-	(737,709)	-	(737,709)
Conversion of Convertible Bond	6,673	20,100	-	-	-	-	26,773	-	26,773
Share of profit (loss) of associates and joint ventures accounted for using equity method	-	135	-	-	-	-	135	-	135
Non-controlling Interest	-	-	-	-	-	-	-	(13,739)	(13,739)
Ending Balance, December 31, 2015	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	-	-	-	506,101	-	-	506,101	(167,980)	338,121
Other Comprehensive Income	-	-	-	(4,310)	(32,527)	7,298	(29,539)	(5,240)	(34,779)
Total Comprehensive Income	-	-	-	501,791	(32,527)	7,298	476,562	(173,220)	303,342
Appropriation of Retained Earnings									
Provision for Legal Reserve	-	-	59,817	(59,817)	-	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(560,538)	-	-	(560,538)	-	(560,538)
Share of profit (loss) of associates and joint ventures accounted for using equity method	-	(41,174)	-	-	-	-	(41,174)	-	(41,174)
Change in Non-controlling Interest	-	-	-	-	-	-	-	129,257	129,257
Ending Balance, December 31, 2016	\$ 2,242,154	3,567,070	1,221,549	1,032,179	13,280	163,345	8,239,577	593,303	8,832,880

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 Statement of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	<u>2016</u>	<u>2015</u>
Cash Flows generated from Operating activities:		
Income before Tax	\$ 454,923	614,638
Adjusted Items:		
Incomes or Expenses		
Depreciation	285,733	307,786
Amortization	3,310	3,418
Bad Debt(Turnover)	(368)	(6,293)
Financial Assets at Fair Value through Profit or Loss	-	(36,167)
Interest Expense	16,143	15,859
Interest Income	(17,668)	(24,344)
Dividend Income	(23,787)	(29,183)
Gain or Losses on Disposal and Scrap of Property, Plant and Equipment	(7,642)	2,335
Gain or Losses on Investments	-	(11,986)
Gain or Losses on Non-Financial Assets	56,535	175,192
Total Incomes or Expenses	<u>312,256</u>	<u>396,617</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	526,199	284,355
Account and Notes Receivable	(350,199)	377,074
Other Receivables	(98,385)	13,410
Inventory	(100,327)	347,539
Prepaid Expenses and Other Current Assets	(5,899)	11,312
Total	<u>(28,611)</u>	<u>1,033,690</u>
Change in Liabilities related to Operating Activities:		
Accounts Payable	12,729	(35,333)
Accounts Payable - Related Parties	6,710	(8,635)
Other Payables	(18,675)	(47,039)
Accrued Pension Liabilities	(1,346)	(900)
Total	<u>(582)</u>	<u>(91,907)</u>
Total Adjustment from Change in Assets and Liabilities related to Operating Activities	<u>(29,193)</u>	<u>941,783</u>
Total Adjusted Items	<u>283,063</u>	<u>1,338,400</u>
Cash Flow generated from Operations	737,986	1,953,038
Interest Collected	17,774	25,319
Dividends Collected	23,787	29,183
Interest Paid	(15,346)	(14,882)
Income Tax Paid	(161,359)	(229,672)
Net Cash Flows generated from Operating activities	<u>602,842</u>	<u>1,762,986</u>
Cash Flows generated from Investing Activities:		
Sales of Financial Assets Available for Sale	-	9,422
Acquisition of Financial Assets carried at Cost	(5,991)	(53,953)
Sale of Financial Assets carried at Cost	15,000	22,407
Return from Capital Reduction of Financial Assets carried at Cost	42,340	-
Acquisition of Property and Equipments	(66,544)	(104,192)
Sale of Property and Equipments	8,209	2,425
Acquisition of Intangible Assets	(541)	(771)
Decrease in Other Noncurrent Assets	49,573	30,180
Net Cash Flows generated from (used in) Investing Activities	<u>42,046</u>	<u>(94,482)</u>
Cash Flows generated from Financing Activities:		
Increase (Decrease) in Short-term Loans	362,872	(516,687)
Repayments on Corporate Bonds	-	(75,699)
Repayments on Long-Term Debts	(2,133)	(2,081)
Increase (Decrease) in Non-Current Liabilities	567	(82)
Cash Dividend Distribution	(560,538)	(737,709)
Change in Non-Controlling Equity	78,702	(13,386)
Net Cash Flows used in Financing Activities	<u>(120,530)</u>	<u>(1,345,644)</u>
Foreign Exchange Impact on Cash and Cash Equivalents	<u>(23,601)</u>	<u>14,840</u>
Increase (Decrease) in Cash and Cash in Banks of Current Period	500,757	337,700
Cash and Cash in Banks at Beginning of the Period	2,905,532	2,567,832
Cash and Cash in Banks at End of the Period	<u>\$ 3,406,289</u>	<u>2,905,532</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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. General

Holy Stone Enterprise Company Limited (the Company or Holy Stone) was founded and enrolled on June 1, 1981, and approved by Ministry of Economic Affairs with registered address 62, Sec.2, Huang Shan Rd., Nei HU Dist., Taipei, Taiwan. The Consolidated Financial Report combined the Company and its subsidiaries (The Consolidated Company) for the year ended December 31, 2015. The Company is engaged mainly in the import and export business, manufacturing, and selling of MLCC, tantalum (niobium) capacitors, integrated circuits, modules, and other electronic components, as well as western medicine wholesaling and medical instruments wholesaling.

2. Approval Date and Procedures of the Consolidated Financial Statements

The Board of Directors approved the consolidated financial statements on March 15, 2017.

3. New Standards and Interpretations has been adopted

3.1. 2013 International Financial Reporting Standards endorsed by the Financial Supervisory Commission, R.O.C., has been in effect in accordance with Rule No. 1030010325 issued by the Financial Supervisory Commission (“FSC”), companies listed for trading on the stock exchange or over-the-counter market or for registration as emerging stock should adopt the 2013 IFRSs (excluding IFRS 9 Financial Instruments) endorsed by the FSC beginning in 2015. The new standards, amendments and interpretations which were announced by the International Accounting Standards Board (“IASB”) are as follows:

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Amended IFRS 10, 12 and IAS 18 <i>Individual Investment: With the Exception of Adopting Consolidated Reports</i>	January 1, 2016
Amended IFRS 11 <i>Joint Arrangement</i>	January 1, 2016
Amended IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
Amended IAS 1 <i>Presentation of Financial Statements</i>	January 1, 2016
Amended IAS 16&38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amended IAS 16&41 <i>Agriculture: Bearer Plants</i>	January 1, 2016
Amended IAS 19 <i>Employee Benefits</i>	July 1, 2014
Amended IAS 27 <i>Consolidated and Separate Financial Statements</i>	January 1, 2016
Amended IAS 36 <i>Impairment of Assets</i>	January 1, 2014
Amended IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	January 1, 2014
Improvement on cycle 2010-2012 and 2011-2013	July 1, 2014
IFRS Improvement on cycle 2012-2014	January 1, 2016
IFRS 21 <i>Levies</i>	January 1, 2014

3.2 New standards and interpretations of 2018 IFRSs issued by the IASB but not yet endorsed by the FSC

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
IFRS 9 <i>Financial Instruments</i>	January 1, 2018
IFRS 10/IAS 28 <i>Sales or Contributions of assets between an Investor and its associate/joint venture</i>	TBA
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
IFRS 19 <i>Lease</i>	January 1, 2019
IFRS 2 Amendment <i>Share-Based Payment</i>	January 1, 2018
IFRS 15 Amendments <i>Interpretation to IFRS 15</i>	January 1, 2018
IAS 7 Amendments <i>Financial Instruments: Disclosures</i>	January 1, 2017
IAS 12 Amendments <i>Income Taxes</i>	January 1, 2017
IFRS 4 Amendments <i>Insurance Contracts</i>	January 1, 2017
Improvements to IFRS from 2014-2016:	
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2017
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>	January 1, 2018
IFRS 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018
IAS 40 <i>Investment Property</i>	January 1, 2018

The 2013 IFRSs did not make a significant impact on the Company's financial report. The items might have significant impact are listed as follows:

(1) IFRS 15 *Revenue from Contracts with Customers*

The amendments in Clarifications to IFRS 15 'Revenue from Contracts with Customers' address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The IASB concluded that it was not necessary to amend IFRS 15 with respect to collectability or measuring non-cash consideration. In all its decisions, the IASB considered the need to balance helping entities with implementing IFRS 15 and not disrupting the implementation process.

(2) IFRS 9 *Financial Instruments*

It was amended to replace IAS 39. The amendments go as follows:

Measurement of financial liabilities: The standard does not change the basic accounting model for financial liabilities under IAS 39. Two measurement categories continue to exist: fair value through profit or loss and amortized cost. IFRS 9 requires gains and losses on financial liabilities designated as at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which is presented in other comprehensive income, and the remaining amount of change in the fair value of the liability, which is presented in profit or loss. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss. This requirement to recognize own credit risk-related fair value gains and losses in other comprehensive income may be applied by entities in isolation without applying the other requirements of IFRS 9 at the same time.

Impairment: On completion of the standard in July 2014, guidance on impairment was incorporated into IFRS 9. The new requirements are based on an expected loss impairment model, which replaces the

incurred loss model of IAS 39. Under this new model, expected credit losses are accounted for from the date when financial instruments are first recognized. Entities are required to recognize 12-month expected credit losses, or, where credit risk has increased significantly since initial recognition, lifetime expected credit losses.

Derivatives and hedge accounting: All derivatives are measured at fair value with gains and losses recognized in profit or loss, unless hedge accounting is applied. Embedded derivatives are only separated from the host contract where that contract is not an asset within the scope of IFRS 9. Otherwise the entire hybrid contract is accounted for as one instrument.

(3) IFRS 16 *Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Summary of Significant Accounting Policies

The significant accounting policies presented in the financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in these financial statements, and have been applied consistently to the opening balance sheet as of January 1, 2013, which is prepared for the purpose of transition to the IFRSs endorsed by the FSC (R.O.C).

The unconsolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

4.1. Statement of Compliance

The consolidated financial statements report is prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (the Guidelines) and IFRS, IAS, remarks and remarks announcement approved by Financial Supervisory Commission (IFRS approved by FSC).

4.2. Basis of Preparation

4.2.1. The consolidated financial report is prepared on a historical cost except for the following significant subjects from balance sheet:

- a. Financial instruments measured at fair value through profit or loss (Including derivatives)
- b. Available-for-sale Financial Assets at fair value; and
- c. Defined benefit asset, are based on pension plan asset less recognized actuarial profit and amounts recognized of present value of a defined benefit obligation

4.2.2. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The consolidated financial statements are presented in New Taiwan Dollars, which is Holystone's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

4.3. Basis of Consolidation

4.3.1. Principles of preparation of consolidated financial statements

The consolidated financial statements incorporated the financial statements of Holy Stone and its controlled entities (the subsidiaries). Control is achieved where Holy Stone has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date of obtaining control and are excluded from the date of losing control. The comprehensive income from subsidiaries is allocated to Holy Stone and its non-controlling interests, even if the non-controlling interests have a deficit balance.

Transactions and balances, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in the ownership of a subsidiary that do not result in loss of control are accounted for as equity transactions.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.3.2. The subsidiaries included in the consolidated financial statements

Investor	Subsidiaries	Style	Share holding %		Remark
			2016.12.31	2015.12.31	
The Company	Holy Stone Enterprise (Hong Kong) Co., Ltd. (Holy Stone H.K)	Sales of MLCC, electronic components	100.00%	100.00%	-
The Company	Holy Stone Holdings Co., Ltd. (HSH , Samoa)	General investment	100.00%	100.00%	-
The Company	UHOLY Investment Co., Ltd. (UHOLY, Taiwan)	General investment	57.69%	57.69%	-
The Company	Mayatek Co., Ltd. (Mayatek, Taiwan)	Electric appliance wholesaling, precision instrument wholesaling, computer and business equipments wholesaling	100.00%	100.00%	-
The Company	Rong Jhan Investments Co., Ltd.(Rong Jhan Investments, Taiwan)	General investment	100.00%	100.00%	-
HSH	Holy Stone Investments Co., Ltd. (HSIC , H.K.)	General investment	100.00%	100.00%	-
HSH	Holypaq Corporation (HC , Cayman)	General investment	100.00%	100.00%	-
HSH	Green Glory Holdings Ltd. (GGH , Samoa)	General investment	100.00%	100.00%	-
HSH	Mayatek Co., Ltd. (Mayatek , Belize)	Electric appliance wholesaling, precision instrument wholesaling, computer and business equipments wholesaling	100.00%	100.00%	-
HSH	Everplus Material Co., Ltd. (EPM , Japan)	Sale and produce of electronics, sale and material of mechatronics	100.00%	100.00%	-
HSH	Holy Stone Holdings Co., Ltd. (HSH , Singapore)	Electronic Retailing	100.00%	100.00%	-
HSIC	Holy Stone International Trading (Shanghai) Co., Ltd. ("Holy Stone Shanghai", China)	Sale of capacitor	100.00%	100.00%	-
HSIC	Infortech (CHINA) Co., Ltd. (Infortech, CHINA)	sales of electronic components	100.00%	100.00%	-
GGH	Infortech International Trading (Shanghai) Ltd. (Infortech International, China)	Development design and sale of electronics	-	100.00%	-
GGH	Milestone Global Technology Ltd. (MGT , US)	Development design and sale of electronics	100.00%	100.00%	-
GGH	Holy Stone (Europe) Ltd. (HSE , UK)	Electronic Retailing	100.00%	100.00%	-
EPM	Everplus Planning Co., Ltd. (EPP , Japan)	Alcohol and produce retailing	75.00%	- %	(Note 2)
UHOLY Investment Co., Ltd.	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	29.02%	29.02%	(Note 1)
Holy Stone Healthcare	Global Search Holdings Ltd. (GSH , Samoa)	General investment	100.00%	100.00%	-
Holy Stone Healthcare	MDT INT'L SA (MDT Swiss)	Development and sale of Medical instruments, and biological techniques	100.00%	100.00%	-
GSH	Aihol Corporation (Aihol, USA)	Patent Application	100.00%	100.00%	(Note 2)
GSH	Holy Stone Biotech Co., Ltd. (Biotech UK)	Authorizing and sale of medical instruments and	100.00%	100.00%	-

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rong Jhan Investments	OHGA Smarththings Co., Ltd. (OHGA, Taiwan)	medicines Electric appliance and audiovisual electric products manufacturing	70.00%	70.00%	-
Rong Jhan Investments	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	2.64%	2.64%	(Note 1)
OHGA Smarththings Co., Ltd.	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	0.01%	0.01%	(Note 1)

Note 1 : As of December 31, 2016, The Consolidated Company owned most of the voting right of Holy Stone Healthcare, in consequence, it was Holy Stone's subsidiary.

Note 2 : EPM reinvested in EPP in August 2015, with ownership of 75%, and has listed EPP as subsidiary since then.

4.3.3. Subsidiaries not listed in the Consolidated Financial Report: None

4.4. Foreign Currency

4.4.1. Foreign Currency Transactions

Foreign currency transactions are recorded at the spot exchange rate on the date of the transaction. At each subsequent reporting date, foreign currency monetary amounts are reported using the closing rate. The exchange gains or losses is the difference between amortized cost valued using functional currency at the beginning of the period and after adjustment of current effective interest rate as well as the amounts after payment, and the exchange difference on reporting date that is based on amortized cost valued by foreign currency.

Non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction.

Except for monetary available-for-sale instruments, financial liabilities or qualified cash flow hedge of foreign operations' net investment hedges and exchange differences arising upon translation are recognized in other comprehensive income, the others are recognized as gains and losses.

4.4.2. Foreign Operations

The assets and liabilities of foreign operations the assets, including the goodwill created by merger and fair value adjustment, are both translated to functional currencies using exchange rates at the reporting date; Gains and losses and expenses are translated to functional currencies at average current exchange rates other than highly inflationary countries. The related exchange differences are recognized as other comprehensive income.

When loss of control, joint control or significant influences that caused by disposal of a foreign operation, the accumulated exchange differences that related to the foreign operation shall be reclassified as income. When part of disposal contains a subsidiary of the foreign operation, the related accumulated exchange differences shall be all reclassified as uncontrollable equity. When part of disposal contains a joint venture or investment of the foreign operation, the related accumulated exchange differences shall be all reclassified in portion as income.

As to monetary payables or receivables of a foreign operation, if there is no settlement plan and is impossible to clean up in the foreseeable future, the related exchange differences will be recognized as other comprehensive income from part of the net investment to the foreign operation.

4.5. Classification of Current and Non-current Assets and Liabilities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- a. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- b. It holds the asset primarily for the purpose of trading;
- c. It expects to realize the asset within twelve months after the reporting period; or
- d. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- a. It expects to settle the liability in its normal operating cycle;
- b. It holds the liability primarily for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting period; or
- d. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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.

4.6. Cash and Cash Equivalents

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

Fixed deposit which will mature within a year are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value; thus be recognized as Cash and Cash Equivalents.

4.7. Financial Instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

4.7.1. Financial Assets

The financial assets of the Company are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, and Loans and receivables and available-for-sale financial assets.

4.7.1.1. Financial Assets at Fair Value through Profit or Loss

These kind of financial assets are held-for-trading or appointed as financial assets at fair value through profit or loss.

Held-for-trading financial assets acquired or held for the purpose of selling or repurchasing in the short term. Financial assets on the top of held-for-trading financial assets are carried at fair value in initial recognition under any of the following situations:

- a. Recognition or evaluation differences caused by deleting or significant deduction, which are generated from different evaluation basis for assets and liabilities and recognition of related gains or losses.
- b. Performance of financial assets measured at fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

c. hybrid instrument including embedded derivatives

This type of financial asset is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value (Including related dividend income and interest income), and changes therein, and are recognized as gains or losses, and is included in non-operating income and expenses using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

4.7.1.2. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income by effective interest rate, dividend income, and foreign exchange loss or gain of monetary financial asset, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

4.7.1.3. Held-to-maturity financial assets

Held-to-maturity investments are debt security that the Company has the positive intent and ability to hold to maturity. At initial recognition, held-to-maturity financial assets are measured at fair value with fair value changes in profit or loss, the subsequent evaluation must be measured at amortized cost less impairment at effective interest rate. Selling or purchasing the financial assets should be handled using trade date accounting.

The interest income should be recognized as interest income under non-operating income and expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.7.1.4. Loans and receivables

Loans and Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. When purchasing or selling financial asset according to transaction conventions, the Company process adopts trade date accounting.

4.7.1.5. Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that incurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

For financial assets carried at amortized cost, such as trade receivables, assets that were assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

For financial assets carried at amortized cost, the amount of the impairment loss is 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event incurring after the impairment was loss recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

The bad debt losses of account receivables should be recognized as operating expenses. The increased gains of account receivables and impairment increase/loss of financial assets beside account receivables are reported as other gains and losses under non-operating income and expenses.

4.7.1.6. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss and accumulated as income of differences under "Other Equity – Unrealized Available-for-Sale Financial Assets", and reported as other gains and losses under non-operating income and expenses.

Not on derecognition of a financial asset in its entirety, the Company amortized the original carrying value of financial assets to continuously involved, continuously recognized and derecognized

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under the bases of their fair value at transferring date. The carrying value that amortized in derecognition has been recognized as other comprehensive gains and losses, due to the consideration which rendered from derecognized portion has been amortized as difference of total and portion amount of any accumulated gains or losses under other comprehensive gains and losses, shall be recognized as gains or losses. And it shall be further reported as other gains and losses under non-operational sales and expense. Accumulated gains or losses that has been recognized as other comprehensive gains and losses shall be amortized continuously to recognition portion or derecognition portion at fair value.

4.7.2. Financial Liabilities and Equity Instruments

4.7.2.1. Classification of financial liability or equity

Liabilities and equity instruments of the Consolidated Company are classified into financial liability or equity according to contracts and agreements and the definition of financial liability and equity.

Equity instrument represent any of the contract of equity after its liability is subtracted from assets. The Consolidated Company recognizes equity instruments using the amount of acquisition price minus distribution cost.

Our hybrid financial instruments are convertible corporate bonds that the holders are able to convert them into shares. Changes in fair value have no impact on the number of shares distribution.

In terms of the component of liability of hybrid financial instrument, the original recognized amount is evaluated under fair value which excludes the equity conversion option and similar liabilities. The original recognized amount of equity components is evaluated at the differences between fair value of the whole hybrid financial instruments and fair value of liability components. Any of the attributable transaction cost shall be shared to liability and equity components in proportion of the amount of the original liability and equity.

Loss or gains related to financial liabilities shall be recognized as income and reported in other gains and loss under non-operational sales and expense.

The conversion will not generate income when the financial liabilities recategorized as equity.

4.7.2.2. Financial liabilities at fair value through profit and loss.

Financial liabilities that classified as theses type are either held-for-trading or financial liabilities at fair value through gains and losses.

The held-for-trading financial liabilities are held or acquired for the purpose of repurchase or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

selling in short term. Condition listed in the following paragraphs, financial liabilities aside from held-for-trading financial assets, shall be recognized at fair value through gains or losses originally.

Cancel or significantly lower the difference in recognition or evaluation caused by assets or liabilities evaluated at different basis and recognize the relevant gains and losses.

The performance of financial assets is evaluated at fair value. If derivative plays part of the hybrid instruments.

These types of financial assets are recognized at fair value originally. Transaction cost is recognized as profits or losses at date happen. The subsequent measurement of financial assets are measured at fair value and recognized as profits or losses (interest expense included), and further reported as other gains or losses under non-operational sales.

4.7.2.3. Other financial liabilities

Financial liabilities that are not held-for-trading or evaluated at fair value through gains and losses, including long-term and short-term loans, account payable and other payables, shall be originally recognized at fair value with directly attributable transaction cost. The subsequent measurement of financial liabilities is measured at amortized cost at effective interest rate. Interest expense that has not capitalized as asset cost shall be reported as financial cost under non-operational sales and expenditure.

4.7.2.4. Derecognition of financial assets

The Consolidated Company derecognize the financial assets when the agreement or contract are been met or canceled, or is due.

When derecognizing financial liabilities, the differences between carrying value and total consideration of contract shall be recognized as income, and reported as other gains and losses under non-operational sales or expenditure.

4.7.2.5. Asset and liability offsetting

Only when the Consolidated Company has a legally enforceable right of set-off and intentional liquidation at net value or realization of assets and liquidation of debts shall the Consolidated Company offer offsetting, and figures shall be expressed in the balance sheet using net value.

4.7.3. Derivatives

The Consolidated Company holds derivative as an instrument to avoid foreign currency risk and interest risk. The derivative is originally recognized at fair value whereas the transaction cost is recognized as income. The subsequent measurement of gains or losses of derivatives is measured at fair value, recognized as income, and further reported as other gains and losses under non-operational sales and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expenditure. If is positive, the net value shall be recognized as financial assets; on the contrary, if is negative, it shall be recognized as financial liabilities.

4.8. Inventories

Cost of merchandise amounts to expenditure that is essential to determining the status of available-for-sale and sales location. Inventories are stated at the lower of cost or net realizable value. Cost is calculated through weighted-average method, and net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Finished goods, semi-finished goods, work-in-process, raw materials, and supplies are stated at the lower of cost or net realizable value, in which cost is calculated through standard cost method and net realizable value, is estimated as selling price of inventories less all estimated costs of completion and necessary selling costs. Difference between standard cost and actual cost is amortized by percentage to ending inventory, while extraordinary loss is recognized as cost when it is incurred.

4.9. Property, plant and equipment

4.9.1. Recognition and measurement

Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or is carried at cost less accumulated depreciation and impairment. Cost shall include expenses of assets acquisition. The cost of self-constructed assets consists of material and direct labor, other attributable to cost that allows asset to reach the serviceable condition, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, in order to meet the borrowing cost for asset capitalization. In addition, the cost also includes purchase of property, plant and equipment in foreign currency, which belongs to components of cash flow hedge effectiveness derived from equity. Purchase of software that aims to integrate relevant equipment function shall be capitalized as part of the equipment.

When property, plant and equipment not only consist of different components, but shall adopt different depreciation rate or method because of its significant cost, the items will be regard as individual items (major components).

The gains or losses from disposal of property, plant, and equipment shall be decided by difference between carrying value and disposal price of property, plant, and equipment. The gains or losses shall be further recognized in net value as other gains and losses.

4.9.2. Subsequent cost

If the future economic benefit generated from subsequent cost of property, plant and equipment is

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expected to flow in the Consolidated Company, as well as the amount can be measure reliably, the expense shall be recognized as part of carrying value of the item; whereas the carrying amount of those parts that are replaced is derecognized. When day-to-day maintenance of property, plant and equipment incurs, it shall be recognized as gains or losses.

4.9.3. Depreciation

Depreciation is calculated according to asset's cost less salvage value using the straight-line method and measured the individual significant components. If any of the component's useful life last different from other components, the components shall be depreciated individually. The depreciation shall be recognized as gains or losses.

No depreciation shall be recognized for land.

Expected useful life of property, plant and equipment lists as follows:

- (1)Buildings 3~50 years
- (2)Machinery and equipment 3~10years
- (3)Other equipment 3~8years

Depreciation method, useful life and salvage value shall be reviewed at the end as of the end of fiscal year. If the expected value is not in line with previously estimated value, the adjustment shall be made according to regulation of Changes in Accounting Estimates.

4.10. Intangible Asset

4.10.1. Goodwill

4.10.1.1. Initial recognition

Goodwill acquired in a business combination is included in intangible assets.

4.10.1.2. Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. The carrying amount of the investments in associates includes goodwill. The impairment losses on investments would not be allocated to goodwill or any other assets.

4.10.2. R & D

Research and development activities are conducted with expectation to acquire and be better understand the cutting edge science and technology. The relevant expenditure shall be recognized when the when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

shall be recognized if, and only if, an entity can demonstrate all of the following:

- (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (2) its intention to complete the intangible asset and use or sell it.
- (3) its ability to use or sell the intangible asset.
- (4) how the intangible asset will generate probable future economic benefits.
- (5) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (6) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Capitalized development expenditure shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

4.10.3. Other intangible assets

Other intangible assets that are acquired through business combinations or are internally developed are measured at cost less accumulated amortization and any accumulated impairment losses.

4.10.4. Subsequent cost

Subsequent cost may only be capitalized when is able to add future economic benefit to the relevantly specific assets. Other expenditure, including goodwill and brand name of internal development, shall be recognized when it is incurred.

4.10.5. Amortization

The amount to be amortized is its recorded cost of asset, less any residual value

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with an indefinite useful life, from the date that they are available for use.

The Company shall review the residual value, amortization term and amortization method of intangible asset before the end of each fiscal year once or more. Any alternation or changes shall be regarded as changes in accounting estimate.

4.11. Impairment of Non-financial Assets

The Company measures whether impairment incurred in non-financial assets (except for inventories, deferred income tax assets, and employee benefits) on every reporting date, and estimates the recoverable amount. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Company will determine the recoverable amount for the asset's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the Company shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

4.12. Revenue

Revenue is income that arises in the course of ordinary activities of an entity, and shall be measured at the fair value of the agreed-upon consideration (after taking into account the amount of any trade discounts and volume discounts) between the enterprise and its buyer or user.

When the discount is possible to happen and can be reasonably measured, it shall be recognized as reduction of revenue when the reorganization of sale.

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The time of risk and revenue transfer shall depend on sale contract individually.

4.13. Employee's bonus

4.13.1. Defined Contribution Plans

When providing defined contribution plans, the Company shall recognize the amounts to be contributed as current expense for the employees' employment period.

4.13.2. Defined Benefit Plans

Defined benefit plans are plans not classified as defined contribution plans. The Company shall recognize the amounts to be contributed as current expense for the employees' employment period. The unrecognized fair value of service cost of past period and other plan assets shall be eliminated. The discount rate shall be chosen from the closest date of closing date and the Company's net obligation term, and from the rate at reporting date of high quality corporate bond of which the pricing currency are the same as expected pension.

The qualified actuary is appointed annually to assess corporate net obligation under projected unit credit method. When there is a positive result for the Company, the recognition of assets shall be limited to any of the unrecognized past service cost and future refund of the plan or future decreased contribution of the plan. The Company shall take the need of the lowest fund contribution into consideration. Whenever the benefit realized in time, it has economic benefits to the Company.

When benefit of plan improved and recognized as gains or losses based on a straight-line basis over the average remaining service period of employees, such as immediate benefit shall be recognized as gains and losses.

As of January 1, 2013, the conversion date of IFRS which approved by FSC, all the actuarial gains and losses shall be recognized as retained earnings. All the subsequently generated actuarial gains and losses of defined benefit plan shall be recognized as other comprehensive gains and losses immediately.

When there is a rundown or liquidation in business, they shall be recognized as rundown of defined benefit plan or gains and losses of liquidation. Rundown or gains and losses of liquidation includes every changes in plan assets at fair value, changes in net value of defined benefit obligation, and any of those relevant actuarial gains and losses unrecognized and past service cost.

4.13.3. Short-Term Employee Benefits

Short-Term Employee Benefits shall be measured using undiscounted basis, and recognized as expense when providing relevant services.

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Amount regarding short-term cash bonus or expected expense in plan. If the Company has obligation or constructive obligation because of employees' past service, and the obligation can be reasonably measured, the amount shall be recognized as liabilities.

4.14. Share-based Payment

The Company shall increase the corresponding equity and recognized the remuneration cost, within the period of unconditional right to subscribe or which it has the right to receive, to the employees' share-based numeration at the fair value and grant date.

The recognized compensation cost shall be adjusted by the compensation amount of expected service condition and non-market vesting condition. The final recognition amount shall meet the compensation amount of expected service condition and non-market vesting condition and be calculated accordingly.

No adjustment shall be made if there is a difference between expected and actual result regarding the vesting condition of share-based payment numeration, which has already reflected in the measurement of share-based payment at fair value and grant date.

4.15. Income taxes

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Current income tax rate includes expected income tax payables or income tax refund receivables that calculated using legal tax rate for current year, actual legal rate, or adjustment of income tax payables previous year.

A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, Deferred taxes shall not be recognized for temporary differences from the following:

1. Assets and liabilities that are initially recognized but not related to the business combination and have no effect on net income or taxable gains (losses) during the combination.
2. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
3. The initial recognition of goodwill

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- (1) the same taxable entity; or
- (2) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

4.16. Earnings per Share

Earnings per share represent the basic and diluted earnings per share holders of the Company that listed in Consolidated Company. Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. Diluted earnings shall be calculated per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. The potential diluted common share of the Consolidated Company includes convertible corporate bonds, ESO and so on.

4.17. Operating Segment

An operating segment is a component of the Consolidated Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Company), whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting

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policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management will continually review the estimates and basic assumptions. Changes in accounting estimates will be recognized in the period of change and the future period of their impact.

For the information of uncertainty of assessment and assumption, please refer to Notes and account receivable, other receivable, and impairment test in note 6.5, and impairment test of intangible assets in Note 6.9.

6. Accounts Statement

6.1. Cash and Cash Equivalents

	<u>2016.12.31</u>	<u>2015.12.31</u>
Cash on hand	\$ 2,257	3,175
Current deposit	2,084,732	2,254,980
Deposit account	<u>1,319,300</u>	<u>647,377</u>
	<u>\$ 3,406,289</u>	<u>2,905,532</u>

Please refer to Note 6.20 for Consolidated Company's risk rate and sensitivity analysis of financial assets and liabilities.

6.2. Financial Assets and Liabilities at Fair Value through Profit or Loss

Please see details below:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Domestic and Foreign stocks	\$ 32,888	17,473
Bonds	10,201	474,339
Open-ended funds	<u>49,279</u>	<u>126,755</u>
Total	<u>\$ 92,368</u>	<u>618,567</u>

6.3. Available-for-Sale Financial Assets-noncurrent

	<u>2016.12.31</u>	<u>2015.12.31</u>
Investment of Stock:		
Domestic Stock (OTC & TSEC listed)	\$ 331,592	290,399
Foreign Stock (listed companies)	<u>49,570</u>	<u>30,272</u>
Total	<u>\$ 381,162</u>	<u>320,671</u>

Change in price of equity securities on reporting date (Analysis of these two periods are based on same basis, and assume that the other variations remain unchanged). The effect of comprehensive profit and loss is as follows:

	<u>2016</u>		<u>2015</u>	
Bond price on	Other post-tax comprehensive	Post-tax profit	Other post-tax comprehensive	Post-tax profit

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<u>reporting date</u>	<u>profit and loss</u>	<u>and loss</u>	<u>profit and loss</u>	<u>and loss</u>
Increased by 1%	\$ 3,812	-	3,207	-
Decreased by 1%	\$ (3,812)	-	(3,207)	-

Material foreign currency equity investment on reporting is as follows:

Unit: Thousands of NT\$

	<u>2016.12.31</u>			<u>2015.12.31</u>		
	<u>Foreign currency</u>	<u>Rate</u>	<u>NT\$</u>	<u>Foreign currency</u>	<u>Rate</u>	<u>NT\$</u>
USD	1,537	32.250	49,570	922	32.825	30,272

As of December 31, 2016 and 2015, the Consolidated Company's available-for-sale financial assets had never been pledged as collaterals.

6.4. Financial Assets Carried at Cost

	<u>2016.12.31</u>	<u>2015.12.31</u>
Domestic/foreign common stock (TSEC & OTC listed)	\$ 317,987	420,855

The stock investment above held by the Consolidated Company was evaluated using cost deducting impairment on the reporting date. Due to the interval of reasonable estimates at fair value was material and the possibility of various estimates were not able to be evaluated fairly; therefore, management believes that the fair value cannot be evaluated credibly.

The Company sold unlisted common stocks with face value of 18,390 thousand dollars in 2015. The valuation was calculated by deducting loss from cost before disposal, and a disposal gain of 4,017 thousand was generated.

As of December 31, 2016 and 2015, the Consolidated Company's financial assets carried at cost had never been pledged as collaterals.

6.5 Notes, Account and Other Receivable, Net

	<u>2016.12.31</u>	<u>2015.12.31</u>
Notes receivable	\$ 98,310	141,459
Account receivable	2,974,120	3,354,887
Other receivable	54,669	69,054
Less: Allowance for Uncollectible Accounts	(25,770)	(78,807)
	<u>\$ 3,101,329</u>	<u>3,486,593</u>

As of December 31, 2016 and 2015, the notes, account and other receivable aging were as follows:

	<u>2016.12.31</u>		<u>2015.12.31</u>	
	<u>Amount</u>	<u>Impairment</u>	<u>Amount</u>	<u>Amount</u>
Unexpired	\$ 3,541,886	(12,307)	3,098,260	(12,657)
1~30 days overdue	22,719	(3,457)	19,244	(4,247)

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30~60 days overdue	1,882	(59)	713	(415)
Over 90 days overdue	<u>6,942</u>	<u>(6,637)</u>	<u>8,882</u>	<u>(8,451)</u>
	<u>\$ 3,573,429</u>	<u>(22,460)</u>	<u>3,127,099</u>	<u>(25,770)</u>

The Consolidated Company's evaluation on impairment of notes, account and other receivables included individual and group evaluations. As of December 31, 2016 and 2015, the statement of change in allowance for uncollectible accounts of notes, account and other receivable were as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance, January 1	\$ 25,770	78,807
Impairment loss recognition	(368)	(6,293)
Offset (current period)	(2,147)	(46,770)
Gains or Losses on translation of foreign currency	<u>(795)</u>	<u>26</u>
Ending balance, December 31	<u>\$ 22,460</u>	<u>25,770</u>

The average loan period to sale of goods of the Company is 90 days. The Company put every change in account and notes receivable from original loan date to reporting date into consideration when deciding collectability of account and notes receivable. The amount of allowance for uncollectible accounts was estimated by counterparties' payment history and their current financial situation. Account and notes receivables that over 180 days past due are recognized as 100% loss of allowance.

Loss of allowance for uncollectible accounts recognized with individual evaluation was the difference between book value of account receivable and expected present value to be liquidated. The Company held no collateral in regard to those remains.

19% of the notes and account receivables including remains from the most significant client in both 2016 and 2015, come from the clients with favorable payment history.

As of December 31, 2016 and 2015, the account receivable of Company had never been pledged as collateral.

6.6 Inventories

	<u>2016.12.31</u>	<u>2015.12.31</u>
Raw Material	\$ 104,909	58,831
Supplies	5,593	2,773
Work in process	92,193	73,700
Semi-finished goods	22,673	21,476
Finished goods	315,204	291,885
Merchandise	<u>1,265,392</u>	<u>1,256,972</u>
	<u>\$ 1,805,964</u>	<u>1,705,637</u>

The inventory cost from cost of goods sold and expense recognized at the end of 2016 and 2015 was NT\$11,209,650 thousand and NT\$11,597,669 thousand dollars. Inventory writedown loss to net realizable value in 2016 is NT\$26,573 thousand and recognized as loss on inventory. The factor that caused the realizable value of inventories lower than the cost had gone. Therefore, Net Realizable Value decreased and

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the recognized cost of goods sold was NT\$12,103 thousand dollars.

As of December 31, 2016 and 2015, the inventories of Consolidated Company had never been pledged as collateral.

6.7. Property, Plant and Equipment

Details on cost, accumulated depreciation, and impairment loss of the Company for the year ended December 31, 2016 and 2015 were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost or deemed cost					
Beginning balance, January 1, 2016	\$ 782,870	1,561,717	2,155,725	358,774	4,859,086
Purchasing & adjustment	-	1,644	39,444	33,463	74,551
Disposal	-	(567)	(73,246)	(444)	(74,257)
Reclassification	-	-	(9,602)	-	(9,602)
Effect of change in exchange rate	-	(10,701)	(331)	(2,225)	(13,257)
Ending balance December, 31 2016	\$ 782,870	1,552,093	2,111,990	389,568	4,836,521
Beginning balance, January 1, 2015	\$ 782,870	1,558,349	2,113,810	345,446	4,800,475
Purchasing & adjustment	-	5,543	79,128	24,829	109,500
Disposal	-	(110)	(38,022)	(11,242)	(49,374)
Effect of change in exchange rate	-	(2,065)	809	(259)	(1,515)
Ending balance December, 31 2015	\$ 782,870	1,561,717	2,155,725	358,774	4,859,086
Accumulated depreciation & impairment loss					
Beginning balance, January, 1 2016	\$ -	443,917	1,535,204	250,535	2,229,656
Depreciation	-	50,029	199,529	36,175	285,733
Disposal	-	(559)	(72,707)	(424)	(73,690)
Reclassification	-	-	(4,687)	-	(4,687)
Effect of change in exchange rate	-	(4,371)	(979)	(1,826)	(7,176)
Ending balance, December 31, 2016	\$ -	489,016	1,656,360	284,460	2,429,836
Beginning balance, January 1, 2015	\$ -	389,862	1,355,316	221,748	1,966,926
Depreciation	-	54,894	214,990	37,902	307,786
Disposal	-	(92)	(35,611)	(8,911)	(44,614)
Effect of change in exchange rate	-	(747)	509	(204)	(442)
Ending balance, December 31, 2015	\$ -	443,917	1,535,204	250,535	2,229,656
Book value:					
Ending balance, December 31, 2016	\$ 782,870	1,063,077	455,630	105,108	2,406,685
Ending balance, December 31, 2015	\$ 782,870	1,117,800	620,521	108,239	2,629,430
Beginning balance, January 1, 2015	\$ 782,870	1,168,487	758,494	123,698	2,833,549

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As of December 31, 2016 and 2015, the pledged long-term loans and financing quota was detailed in note 8.

6.8. Intangible Assets

The cost, amortization and impairment loss of intangible assets of the Consolidated Company were listed as follows:

	<u>Goodwill</u>	<u>Other</u>	<u>total</u>
Cost			
Beginning balance, January 1, 2016	\$ 567,596	49,664	617,260
Separate acquisition	-	541	541
Effect of exchange rate changes	<u>(6,991)</u>	<u>(56)</u>	<u>(7,047)</u>
Ending balance December, 31 2016	<u>\$ 560,605</u>	<u>50,149</u>	<u>610,754</u>
Beginning balance, January 1, 2015	\$ 550,351	47,278	597,629
Separate acquisition	-	771	771
Effect of exchange rate changes	<u>17,245</u>	<u>1,615</u>	<u>18,860</u>
Ending balance December, 31 2015	<u>\$ 567,596</u>	<u>49,664</u>	<u>617,260</u>
Amortization and impairment loss:			
Beginning balance, January, 1 2016	\$ 278,710	23,936	302,646
Amortization	-	3,058	3,058
Impairment loss	51,620	-	51,620
Effect of exchange rate changes	<u>(1,975)</u>	<u>1,107</u>	<u>(868)</u>
Ending balance, December 31, 2016	<u>\$ 328,355</u>	<u>28,101</u>	<u>356,456</u>
Beginning balance, January 1, 2015	\$ 96,672	20,143	116,815
Amortization	-	3,097	3,097
Impairment loss	175,192	-	175,192
Effect of change in exchange rate	<u>6,846</u>	<u>696</u>	<u>7,542</u>
Ending balance, December 31, 2015	<u>\$ 278,710</u>	<u>23,936</u>	<u>302,646</u>
Book value:			
Ending balance, December 31, 2016	<u>\$ 232,250</u>	<u>22,048</u>	<u>254,298</u>
Ending balance, December 31, 2015	<u>\$ 288,886</u>	<u>25,728</u>	<u>314,614</u>
Beginning balance, January 1, 2015	<u>\$ 453,679</u>	<u>27,135</u>	<u>480,814</u>

1. Recognition of Amortization and Impairment Loss

As of December 31, 2016 and 2015, the recognized amortization and impairment loss from tangible asset was listed in consolidated income statement:

	<u>2016</u>	<u>2015</u>
Operating expense	<u>\$ 3,058</u>	<u>3,097</u>
Non-operating revenues and expenses	<u>\$ 51,620</u>	<u>175,192</u>

2. Impairment Loss and Reversal

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As of 2016, the Consolidated Company estimated the cash-generating units of goodwill. The recoverable amount was estimated by its value in use, and it is recognized as impairment loss because the carrying amount is higher than the recoverable amount.

6.9. Short-term Loans

Details on short-term loan of the Company were as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Unsecured bank loans	<u>\$ 1,663,05</u>	<u>1,300,18</u>
Undrawn quotas	<u>\$ 4,406,89</u>	<u>4,313,72</u>
Range of interest rate	<u>0.9736%~1.85%</u>	<u>0.72%~2.20%</u>

6.10. Long-term Loans

Detail, condition, and provision to the long-term loan of the Company were as follows:

	<u>2016.12.31</u>			
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	TWD	1.36%	114	\$ 19,229
Less: current portion				(2,171)
Total				<u>\$ 17,058</u>
Undrawn quotas				<u>\$ -</u>
	<u>2015.12.31</u>			
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	TWD	1.57%	114	\$ 21,362
Less: current portion				(2,122)
Total				<u>\$ 19,240</u>
Undrawn quotas				<u>\$ -</u>

Please refer to note 8 for more details of consolidated assets pledged as collateral.

6.11. Bonds payable

The details of unsecured convertible bonds issued by the Company were as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Total amount of convertible bonds issued	\$ -	700,000
Accumulated redemption	-	(671,200)
Accumulated conversion	-	(28,800)
Ending balance of bond payable	<u>\$ -</u>	<u>-</u>
	<u>2016</u>	<u>2015</u>
Embedded derivatives – gain or loss of call and put options reevaluated at fair value	<u>\$ -</u>	<u>159</u>
Interest expense	<u>\$ -</u>	<u>554</u>

The Company issued 7,000 5-year unsecured convertible bonds with a coupon of 0 % on June 23,

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2010.

Conversion price at the issuance date was NT\$43.5. The conversion price will be adjusted with formula under the circumstances that the share of Company common stock comes across adjusting event in accordance with issuing clauses. The bonds had no replacement clause and re-priced at NT\$43.16 on August 12, 2014.

The base date for bondholders to put their convertible bond early shall be the first, second, third and fourth year of the issuing date on the bond. The bondholders can request the Company to redeem the entire convertible bonds they hold at face value plus interest compensation starting from 5-30 days before the base date of puttable. A 100% for the bond issued for full two-year period, a 100% for full three-year period and a 101.00% for full four-year period.

From a month after the Company's convertible bond issued to 40 days before the expiration, if the price of the Company common stock continuously closed at a price over (include) 30% for 30 working days, or the total amount of the undrawn convertible bonds is 10% lower than the issue price at TSEC, the Company is able to convert the cooperate bond into common stock by the current convertible price.

From days after the convertible bond issued to 10 days before expiration, the bondholders can ask the Company to convert them into common stock at current conversion price according to the conversion clause. The Company will make a one-off repayment to the principal in cash.

As of June 24th 2015, all of the above convertible bonds have been redeemed and are no longer traded over the counter.

6.12. Employee Benefits

6.12.1. Defined Benefit Plan

The adjustment for the current price of defined benefit obligation and plan assets at fair value were as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Total present value of obligation	\$ 150,268	143,960
Fair value of plan assets	<u>(90,530)</u>	<u>(87,186)</u>
	59,738	56,774
Impact from cap of asset	<u>-</u>	<u>-</u>
Defined benefit obligation liabilities recognized (assets)	<u>\$ 59,738</u>	<u>56,774</u>

The Consolidated Company appropriates pension for defined benefit plan to labor retirement reserve account. Each and every employee's pension applied to the Labor Standard Act is calculated with cardinal

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number based on years of work experience and the average wages of 6 months before retirement.

6.12.1.1. Composition of Assets

The pension funds appropriated by the Company in accordance with Labor Standard Law are managed by Bureau of Labor Funds, Ministry of Labor (abbreviated to Bureau of Labor Funds, Ministry of Labor, BLF in the following pages). According to “Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund”, the lowest return of annual distribution of settlement cannot lower than the revenue calculated using local bank’s 2-year time deposit interest rates.

The ending balance as of December 31, 2016 in labor retirement reserve account was NT\$85,191 thousand.

6.12.1.2. Changes of Current Value of Defined Benefit Obligation

Changes of Current Value of Defined Benefit Obligation for the year ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Defined benefit obligation on January 1	\$ 143,960	143,529
Current service cost and interest	3,905	4,753
Reevaluated number of defined benefit obligation		
-actuarial gain(loss) derived from change of financial assumption	3,402	2,252
Benefit plan payment	(999)	(6,574)
Defined benefit obligation on December 31	<u>\$ 150,268</u>	<u>143,960</u>

6.12.1.3. Changes of Fair Value of the Plan Assets

The changes of current value for benefit plan for the year ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of the plan assets on January 1	\$ 87,186	87,766
Interest income	1,559	1,905
Reevaluated number of defined benefit obligation (asset)		
-return on plan asset (excluding interest for current period)	(908)	341
Appropriation for the plan	3,692	3,748
Benefit plan payment	(999)	(6,574)
Plan assets at fair value on December 31	<u>\$ 90,530</u>	<u>87,186</u>

6.12.1.4 Changes derived from impact of asset cap

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There is no change derived from impact of asset cap as of December 31st, 2016 and 2015.

6.12.1.5 Expense recognized as gain or loss

The details of the Consolidated Company's expense for the year ended December 2016 and 2015 are reported as follows:

	<u>2016</u>	<u>2015</u>
Current service cost	\$ 1,385	1,703
Interest of defined benefit obligation (asset)	961	1,145
	<u>\$ 2,346</u>	<u>2,848</u>
	<u>2016</u>	<u>2015</u>
Operating cost	\$ 1,295	1,290
Operating expense	1,051	1,558
	<u>\$ 2,346</u>	<u>2,848</u>

6.12.1.6. Actuarial gains or losses recognized as other comprehensive gains or losses

Actuarial gains or losses recognized as other comprehensive gains or losses as of December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Beginning accumulated balance on January 1	\$ (65,068)	(63,157)
Recognition in current period	(4,310)	(1,911)
Ending accumulated balance on December 31	<u>\$ (69,378)</u>	<u>(65,068)</u>

6.12.1.7 Actuarial Assumption

The actuarial assumption that the Consolidated Company used on reporting date is as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	1.375%	1.750%
Gains on future wages	2.500%	2.500%

The appropriation to defined benefit obligation in a year after 2016 reporting date is 3,720 thousand dollars. The average weighted duration of defined benefit plan is 16 years.

6.12.1.8. Sensitivity Analysis

When calculating present value of defined benefit, the Company shall determine related actuarial assumption of balance sheet date by evaluating and estimating, including discount rate and changes on future payroll. Any changes on actuarial assumption might have significant impact on defining amount of defined benefit obligation.

The impact of changes of actuarial assumption on present value of defined benefit obligation as of December 31st, 2016 is listed below:

Impact on defined benefit obligation

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	<u>Up by 0.25%</u>	<u>Down by 0.25%</u>
December 31 st , 2016		
Discount rate	\$ (4,345)	4,524
Increase (decrease) in future payroll	4,368	(4,218)
December 31 st , 2015		
Discount rate	(4,253)	4,432
Increase (decrease) in future payroll	4,295	(4,143)

The above sensitivity analysis is the impact of single assumption change based on no changes of the other assumptions. In real life, many changes of assumptions might be correlated. The method of analyzing sensitivity is the same as of calculating defined benefit obligation.

The fashion and assumption of compiling sensitivity analysis for fiscal year of 2016 is the same as of 2015.

6.12.2. Defined Contribution Plan

The Consolidated Company's domestic defined contribution plan is to allocate 6% of workers monthly wages to the labor pension personal account from Bureau of Labor Insurance, in accordance with Labor Pension Act. After the allocation of the fixed amount of allocation, the Company is excused from other mandatory amount or constructive obligation.

The Consolidated Company's foreign defined contribution plan is to appreciate pension in accordance with local act. The contributed amount of current period was recognized as pension expenses.

As of December 31, 2016 and 2015, the Company had appreciated NT\$44,792 and NT\$45,148 thousand for pension expense to Bureau of Labor Insurance.

6.13. Income Tax

6.13.1. Income Tax Expense

i. As of December 31, 2016 and 2015, the income tax expense in details is as follows:

	<u>2016</u>	<u>2015</u>
Present value of income tax expense		
Expense generated from current period	\$ 131,175	154,791
Deferred income tax expense (profit)		
Temporary differences incurred or reversed	(14,373)	(11,939)
	<u>\$ 116,802</u>	<u>142,852</u>

ii. As of December 31, 2016 and 2015, income tax profit (expense) that recognized under other comprehensive income is as follows:

	<u>2016</u>	<u>2015</u>
Exchange differences from translation of financial	\$ 9,382	(4,334)

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report of foreign operation

Unrealized gains or losses on available-for-sale financial asset	(3,281)	1,510
	<u>\$ 6,101</u>	<u>(2,824)</u>

iii. As of December 31, 2016 and 2015, the adjustment of income tax expense and net income before tax were as follows:

	<u>2016</u>	<u>2015</u>
Net income before tax	<u>\$ 454,923</u>	<u>614,638</u>
Income tax calculated by using local tax rate of the Company	\$ 77,337	104,488
Tax-exempt income and rental tax credit	50	(15,105)
Temporary unrecognized changes	4,168	(39,083)
10 % more on undistributed earnings	-	10,103
Impact of tax differentiation from foreign countries and other	<u>35,247</u>	<u>82,449</u>
Total	<u>\$ 116,802</u>	<u>142,852</u>

6.13.2. Deferred Income Tax Assets and Liabilities

1. Unrecognized deferred income tax liability

As of December 31, 2016 and 2015, the reversal time point of temporary differences between the Company and subsidiaries can be controlled by Consolidated Company. In addition, it is positive that the reversal will not occur in the foreseeable future, hence the deferred income tax liability was not recognized. The detail is listed below:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Unrecognized deferred income tax liability	<u>\$ 229,901</u>	<u>229,901</u>

2. Recognized deferred income tax liability

As of December 31, 2016 and 2015, changes of deferred income tax assets and liabilities were as follows:

	<u>Loss due to market decline on inventory</u>	<u>Exchange differences from translation of financial report of foreign operation</u>	<u>Other</u>	<u>Total</u>
Deferred income tax asset:				
Beginning balance, January 1, 2016	\$ 26,792	2,287	29,079	\$ 26,792
(Debit) Credit to income statement	<u>5,118</u>	<u>(1,932)</u>	<u>3,186</u>	<u>5,118</u>
Ending balance, December 31, 2016	<u>\$ 31,910</u>	<u>355</u>	<u>32,265</u>	<u>\$ 31,910</u>
Beginning balance, January 1, 2015	\$ 28,363	5,833	34,196	\$ 28,363
(Debit) Credit income statement	<u>(1,571)</u>	<u>(3,546)</u>	<u>(5,117)</u>	<u>(1,571)</u>

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Ending balance, December 31, 2015	<u>\$ 26,792</u>	<u>2,287</u>	<u>29,079</u>	<u>\$ 26,792</u>
	Gains or Losses from Subsidiary Using Equity Method	Exchange differences from translation of financial report of foreign operation	Other	Total
Deferred income tax liabilities:				
Beginning balance, January 1, 2016	\$ 32,092	9,382	4,278	45,752
Credit (Debit) to income statement	(11,181)	-	(6)	(11,187)
Credit (Debit) to other comprehensive income	-	(9,382)	3,281	(6,101)
Ending balance, December, 31 2016	<u>\$ 20,911</u>		<u>7,553</u>	<u>28,464</u>
Beginning balance, January 1, 2015	\$ 45,063	5,048	9,675	59,786
Credit (Debit) income statement	(12,971)	-	(3,887)	(16,858)
Debit to other comprehensive income	-	4,334	(1,510)	2,824
Ending balance, December 31, 2015	<u>\$ 32,092</u>	<u>9,382</u>	<u>4,278</u>	<u>45,752</u>

6.13.3. Income Tax Assessment

The income tax has been examined and cleared by the tax authorities to the fiscal year of 2013 (it has not been approved for the one of fiscal year of 2012)

6.13.4. Related Information of Integrated Income Tax

Integrated income tax is as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Undistributed earnings after 1998	<u>\$ 1,032,179</u>	<u>1,150,743</u>
Balance in the shareholder deductible tax	<u>\$ 194,876</u>	<u>176,042</u>

	<u>2016 (expected)</u>	<u>2015 (actual)</u>
Tax deduction ratio of earning distribution to residents in ROC	<u>22.61 %</u>	<u>21.76 %</u>

The above information of integrated income tax is treated according to official financial tax standard No.10204562810, which is issued by Ministry of Finance, R.O.C. on October 17, 2013.

Since January 1st, 2015, creditable withholding tax for net stock dividend or profit has been amended to half of the original amount for any individual stockholder resident in R.O.C. In addition, creditable withholding tax for stock dividend or profit which has been categorized as actual enterprise tax payment, can be deducted from withholding tax for half of the amount.

6.14. Capital and Other Equities

As of December 31, 2016 and 2015, Holystone had authorized share capital NT\$ 4,500,000 dollars, with face value NT\$ 10 per share and 450,000 thousand of shares. The Issued shares were all common stock,

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as of December 31, 2016 and 2015; there are 224,215 (the Company converted all of puttable bonds into common shares between March and April 2016).

The Reconciliation of shares outstanding as of December 31, 2016 and 2015 is as follows:

	Common Stock (Thousand)	
	2016	2015
Beginning balance, January 1	224,215	223,548
Conversion of Convertible Bond	-	667
Ending balance, December 31	224,215	224,215

6.14.1. Capital Surplus

The components of capital surplus were as follows:

	2016.12.31	2015.12.31
From Floating share premium	\$ 1,527,358	1,527,358
Premium from convertible bonds	1,500,091	1,500,091
From Merge and Acquisition	144,225	144,225
From employees stock option	272,695	272,695
From employees' bonus-stock	15,410	15,410
From Differences between book value and equity price of acquisition or disposal of subsidiaries	43,619	84,793
From expired option	63,672	63,672
	\$ 3,567,070	3,608,244

In accordance with Company Act revised in January 2012, the Company's capital reserve shall first make good the deficit, than distribute in cash or by new dividends. The aforesated realized capital surplus includes income from premium of the amount or value of the premium paid on the issue of any shares. The combined amount of any portions capitalized in any 1 year, in accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers may not exceed 10 percent of paid-in capital.

6.14.2. Retained earnings

According to Holy Stone's Articles of Incorporation, if there is a surplus considering all accounts by the end of a fiscal year, the surplus shall be allocated in the following order;

- a. Offset accumulated deficits from previous years.
- b. Allocate 10 percent to capital reserve, unless capital reserve has reached total paid-in capital.
- c. Allocate a portion to special capital reserve, as required by government regulations.
- d. The surplus remaining after deduction of items a. to c. shall be allocated to shareholders.

The Company formulated its dividend policy by considering the mid-term and long-term operating growth and capital need for investing activities, together with the purpose of healthy financial structure. The board drafts an earnings distribution plan and proposes it to the annual general shareholders' meeting. The appropriation of the Company's net income may be distributed by ways of

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cash dividend and/or stock dividends considering future capital demand and stock dilution. Stock dividend takes up 0% to 50% of total dividends, while cash dividend takes up 50% to 100% of total dividends.

According to Company Act amended in May 2015, employee bonus and remuneration to board directors and supervisors are no longer listed in items of earnings distribution. The Company will be making amendment to Article of Incorporation.

6.14.2.1. Legal Reserve

According to the revised Articles of Incorporation in 2012, 10 percent of the annual earnings shall be allocated as legal reserve until accumulated legal reserve equals the issued common stock. When the Company does not have any earnings, shareholders will approve whether to distribute new shares or cash from legal reserve during shareholders' meeting, but the reserve must exceed paid-in capital by 25 percent.

6.14.2.2. Special Reserve

According to the Standard No. 1010012865 issued by Securities Exchange on April 6, 2012, when distributing earnings, a special reserve equivalent to the total amount of items that are accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. The special reserve shall be available for appropriation to the extent of reversal of deductions to stockholders' equity in subsequent periods.

6.14.2.3 Distribution of earnings

The earnings appropriations for 2015 and 2014 were resolved on June 7th, 2016, and June 9th, 2015, respectively. The dividend distributed to owners were as follows:

	2015		2014	
	dividend allotment (dollars)	Amount	dividend allotment (dollars)	Amount
Common stock dividends:				
Cash dividends from earnings	\$ 2.50	<u>560,538</u>	3.30	<u>737,709</u>

6.14.3 Other Equity

	Exchange differences from translation of financial report of foreign operation	Available-for-sale investment
Beginning balance, January 1, 2016	\$ 45,807	156,047
Exchange differences (Net value after tax):		
The Company	(32,527)	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	16,017
Subsidiaries	-	(8,719)
Ending balance, December 31, 2016	<u>\$ 13,280</u>	<u>163,345</u>
	Exchange differences from translation of financial report of foreign operation	Available-for-sale investment
Beginning balance, January 1, 2015	\$ 24,645	206,500
Exchange differences (Net value after tax):		
The Company	21,162	-
Unrealized gains or losses of available-for-sale financial assets:		

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The Company	-	(7,372)
Subsidiaries	-	(43,081)
Ending balance, December 31, 2015	<u>\$ 45,807</u>	<u>156,047</u>

6.15 The valuation coefficient of grant date fair value

As of December 31, 2016, details of share-based payment were as follows:

	<u>First employment stock option plan in 2007</u>
Grant date	12 03, 2007
Granted Amount	10,000
Contract duration	10 years
Object	Employees
vesting condition	Future 2~6 years

6.15.1. The valuation coefficient of grant date fair value

Holy Stone determined the grant date fair value of vested ESO options at the granted date using the Black-Scholes option pricing model. Inputs to the formula are summarized as follows:

	<u>First employment stock option plan in 2007</u>
Price on grant date (TWD)	18.755
Stock price on grant date (TWD)	50.00
Exercise price on 3.31.2016 (TWD)	34.90
Expected fluctuating rate (%)	23.75
Option duration (year)	10
Expected dividend payout ratio (%)	-
Risk-free interest rate (%)	2.25

6.15.2. Pertinent information of ESO Plan

The aforesaid ESO warrant and treasury stock transfer methods were as follows:

(Unit: Thousands of NT\$)	<u>2016</u>		<u>2015</u>	
	<u>Weighted average exercise price (dollars)</u>	<u>Numbers of option (Unit: Thousands)</u>	<u>Weighted average exercise price (dollars)</u>	<u>Numbers of option (Unit: Thousands)</u>
Outstanding on January 1	\$ 37.60	7,002	41.10	7,002
Numbers granted for current period	-	-	-	-
Numbers abandoned for current period	-	-	-	-
Numbers exercised for current period	-	-	-	-
Numbers expired for current period	-	-	-	-
Adjustment of Cash reduction	-	-	-	-
Outstanding numbers on December 31	34.90	<u>7,002</u>	37.60	<u>7,002</u>
Exercisable numbers on December 31	34.90	<u>7,002</u>	37.60	<u>7,002</u>

The information on shares outstanding is as follows:

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	<u>2016.12.31</u>	<u>2015.12.31</u>
Range of exercise price (NTD)	34.90	37.6
Weighted average remaining year	0.93	1.93

6.16. Earnings per Share

6.16.1. Basic EPS

i. Net income available to common shareholders (Diluted)

	<u>2016</u>	<u>2015</u>
Net income available to common shareholders	<u>\$ 506,101</u>	<u>598,178</u>

ii. Weighted average of outstanding common stock

Unit: thousand shares	<u>2016</u>	<u>2015</u>
Outstanding common stock on January 1	224,215	223,548
Effect of cash refund of capital reduction	-	498
Weighted average of outstanding common stock on December 31	<u>224,215</u>	<u>224,046</u>

6.16.2. Diluted EPS

i. Net income available to common shareholders (diluted)

	<u>2016</u>	<u>2015</u>
Net income available to common shareholders (Basic)	\$ 506,101	598,178
Interest expense after tax of convertible bond	-	554
Net income available to common shareholders (Diluted)	<u>\$ 506,101</u>	<u>598,732</u>

ii. Weighted average of outstanding shares (diluted)

Unit: thousand shares	<u>2016</u>	<u>2015</u>
Weighted average of outstanding common shares(Basic)	224,215	224,046
Effect of conversion of convertible bonds	-	1,005
Effect of employee bonus share	2,842	4,069
Effect of employee stock options	-	190
Ending balance of weighted average of outstanding common shares (Diluted) December 31	<u>227,057</u>	<u>229,310</u>

6.17. Revenues

The operating revenues of the Company are detailed as follows:

	<u>2016</u>	<u>2015</u>
Merchandise sales	\$ 12,754,571	12,871,024
Other	412,001	724,795
	<u>\$ 13,166,572</u>	<u>13,595,819</u>

6.19. Remuneration to employees, directors and the board

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According to articles and regulations which has not been approved by shareholders, the allocation to employees shall be above 7% and the one to directors shall not exceed 3% of profit, if there is any. However, if there is accumulated loss, the allocation shall not be reserved. Employee bonus distributed with stock or cash includes employees qualifies certain terms.

The estimated bonus to employees and directors for fiscal year of 2016 and 2015 were 73,655 thousand and 88,148 thousand, respectively. The amount was calculated by deducting bonus to employees and directors from net income before tax, and then multiplying by fraction defined in the Company's article. This amount shall be recognized as operating cost or expense for fiscal year of 2016 and 2015. Please visit MOPS for more details. There is no difference between actual distribution and estimation in fiscal year of 2016 and 2015.

6.19. Other Gains & Losses

	<u>2016</u>	<u>2015</u>
Gain - loss on disposal of assets	\$ (51,620)	(175,192)
Impairment loss on goodwill	905	29,183
Gains (losses) on Financial Assets (Liabilities) at Fair Value through Profit or Loss)	6,761	36,167
Other	<u>55,894</u>	<u>81,501</u>
	<u>\$ 11,940</u>	<u>(28,341)</u>

Please refer to note 6.8 for more details of goodwill impairment loss.

6.20. Financial Instruments

6.20.1. Credit Risk

i. Credit Risk Exposure

The maximum credit risk exposure of the Company's financial instruments is equal to the carrying amount.

ii. Concentration of Credit Risk

The Company's customers come mainly from electronics and high tech industries. To reduce credit risk of account receivables, the Company evaluates customer's financial circumstances continuously, and have they provided collateral or insurance when in need.

6.20.2. Liquidity risk

The expiration date for contract of financial liabilities, estimated interests included, netting agreement excluded.

<u>Book Value</u>	<u>Contract Cash Flow</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
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December 31, 2016

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-derivative financial liabilities						
Short-term loans	\$	1,663,059	1,664,951	1,664,951	-	-
Accounts payable		1,064,785	1,064,785	1,064,785	-	-
Accounts payable-related parties		26,411	26,411	26,411	-	-
Other payables		581,749	581,749	581,749	-	-
Long-term loans		19,229	20,362	2,419	12,096	5,847
	\$	<u>3,355,233</u>	<u>3,358,258</u>	<u>3,340,315</u>	<u>12,096</u>	<u>5,847</u>
December 31, 2015						
Non-derivative financial liabilities						
Short-term loans	\$	1,300,187	1,301,003	1,301,003	-	-
Accounts payable		1,052,056	1,052,056	1,052,056	-	-
Accounts payable-related parties		19,701	19,701	19,701	-	-
Other payables		599,627	599,627	599,627	-	-
Long-term loans		21,362	22,647	2,155	9,522	10,970
	\$	<u>2,992,933</u>	<u>2,995,034</u>	<u>2,974,542</u>	<u>9,522</u>	<u>10,970</u>

The Company didn't expect any significant differences on the analyzed accrue points or the actual amount of cash flow.

6.20.3. Currency Risk

i. Exposure to Currency Risk

The Financial assets and liabilities that exposed to significant currency risk were as follows:

Unit: NT\$ Thousand

	2016.12.31			2015.12.31			
	Foreign currency	Exchange rate	New Taiwan dollar	Foreign currency	Exchange rate	New Taiwan dollar	
<u>Financial Assets</u>							
<u>Monetary Items</u>							
USD	\$	110,249	32.2500	3,553,533	98,050	32.8250	3,218,478
EUR		1,340	33.90	45,427	1,187	35.8800	42,591
HKD		25,313	4.1580	105,251	28,687	4.2350	121,491
GBP		-	-	-	272	40.6700	13,233
JPY		484,221	0.2756	133,451	310,966	0.2727	84,800
RMB		37,656	4.6170	173,856	25,088	4.9950	125,315
TWD		3,261	1.0000	3,261	1,126	1.0000	1,126
<u>Nonmonetary Items</u>							
USD		1,537	32.2500	49,570	1,716	32.8250	56,330
HKD		2,744	4.1580	11,414	-	-	-
WON		988,200	0.0289	58,601	988,200	0.0289	58,601
<u>Financial Liabilities</u>							
<u>Monetary Items</u>							
USD		100,594	32.2500	3,244,148	74,550	32.8250	2,447,103

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

EUR	281	33.90	9,510	364	35.8800	13,074
HKD	-	-	-	426	4.2350	1,803
GBP	208	39.6100	8,227	426	48.6700	20,747
JPY	163,519	0.2756	45,066	200,550	0.2727	54,690
TWD	-	1.0000	-	1,012	1.0000	1,012

ii. Sensivity Analysis

The main currency risk of the Company comes from cash and cash equivalent, account and other payables, loans, account and other receivables that priced in foreign dollars. Foreign currency gain/loss is generated from translation. As of December 31, 2016 and 2015, if other factors remain unchanged, when NTD to USD, EUR, JPY, HKD and GBP appreciated or depreciated by 5%, the net profit after tax would increase or decrease NT\$35,491 thousand and NT\$53,430 thousand. The analysis of these two periods is based on the same basis.

iii. Profit or loss from currency exchange

Profit or loss from currency exchange for 2016 and 2015 was (20,764) thousand and (4,292) thousand dollars.

6.20.4. Interest Rate Analysis

The interest exposure to the Company's financial assets and liabilities are detailed in note of liquidity risk management.

The following sensitivities analysis is determined according to the interest rate exposures of derivatives and non-derivatives on reporting date. As for floating-rate liabilities, the analysis hypothesizes that the outstanding liabilities amount on the reporting date is outstanding all year round. The rate of change of internal reporting interest rate to management is 1% less or more, this as well stands for the valuation to the reasonable interest rate fluctuation range by the management.

If the interest rate increased or dropped by 1%, other variations remain unchanged, the Company's net profit as of December 31, 2016 and 2015 would increase or decrease NT\$16,823 dollar and NT\$ 13,215 dollar. The chief reason of this is because the Company adopts floating rates loans.

6.20.5. Fair Value

i. Types of financial instruments and fair value

The book value and fair value of financial assets and liabilities of the Company are listed below:

	2016.12.31				
	Book Value	Fair Value			Total
	Level 1	Level 2	Level 3		
Financial asset calculated through profit and loss carried at fair	\$ 92,368	92,368	-	-	92,368

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value					
Available-for-sale financial asset					
Common Stock	381,162	381,162	-	-	381,162
Financial asset carried at cost	317,987	-	-	-	-
Account receivable					
Cash and cash equivalent	3,406,289	-	-	-	-
Notes receivable and accounts receivable	3,398,021	-	-	-	-
Other receivable	152,948	-	-	-	-
Subtotal	6,957,258	-	-	-	-
Total	\$ 7,748,775	473,530	-	-	473,530
Financial asset carried at amortized cost					
Short-term loans	\$ 1,663,059	-	-	-	-
Accounts payable	1,064,785	-	-	-	-
Accounts payable-related parties	26,411	-	-	-	-
Other payable	581,749	-	-	-	-
Long-term loans	19,229	-	-	-	-
Subtotal	3,355,233	-	-	-	-
Total	\$ 3,355,233	-	-	-	-

	2015.12.31				
	Book Value	Level 1	Level 2	Level 3	Total
Financial asset calculated through profit and loss carried at fair value	\$ 618,567	618,567	-	-	618,567
Available-for-sale financial asset					
Common Stock	320,671	320,671	-	-	320,671
Financial asset carried at cost	420,855	-	-	-	-
Account receivable					
Cash and cash equivalent	2,905,532	-	-	-	-
Notes receivable and accounts receivable	3,046,660	-	-	-	-
Other receivable	54,669	-	-	-	-
Subtotal	6,006,861	-	-	-	-
Total	\$ 7,366,954	939,238	-	-	939,238
Financial asset carried at amortized cost					
Short-term loans	\$ 1,300,187	-	-	-	-
Accounts payable	1,052,056	-	-	-	-
Accounts payable-related parties	19,701	-	-	-	-
Other payable	599,627	-	-	-	-
Long-term loans	21,362	-	-	-	-
Subtotal	2,992,933	-	-	-	-
Total	\$ 2,992,933	-	-	-	-

ii. Determine valuation techniques and hypothesis for fair value

The fair value of financial assets and liabilities are determined as following methods:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (i) The fair value of financial assets and liabilities traded in active markets is based on quoted market prices (including investments in stocks and funds from listed entities).
 - (ii) The fair value of derivatives is based on publicly quoted price. When publicly quoted price is inaccessible, the non-option-based derivatives will be calculated its fair value using discounted cash flow that formed on the yield curve within duration.
- iii. Valuation skills in determining financial instruments calculating by fail value

(i) Non-derivative financial instrument

If there is active market for offering and bidding in terms of financial instrument, the fail value would be the public quotation. The main exchange and the market value of popular securities announced by OTC are the basis of fair value for any equity instrument of public listed company and debt instrument with public quotation.

If the information of public quotation can be accessed timely and frequently from the exchange, brokers, underwriters, industrial union, pricing organization or the authorities, and the quotation represents actual and frequent fair market traders, this financial instrument possess active market public quotation. If not, the market is inactive. Generally speaking, significant bid-offer spread, material increase in bid-offer spread, or very few of trading are indicators of inactive market.

As for active market financial instrument held by the Company, the fair value is listed as follows segmented by category and attribute:

Stocks of public listed company is an financial asset and liability with standard provisions and conditions and traded in active market, and the fair value is determined according to public quotation.

Except for the above financial instrument with active market, the fail value of the rest financial instrument is gained with valuation skills and reference to competitors' information. The fair value gained via valuation skills can be calculated by referring to current fair value of similar instruments, or with discounted cash flow method or any other valuation techniques, including models whose market information can be retrieved on the date of balance sheet (for example, yield curve or average quotation of commercial paper from Reuters).

6.21. Financial Risk Management

6.21.1. Summary

The exposure risk due to financial instrument of the Company is as follows:

- i. Credit Risk
- ii. Liquidity Risk

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

iii. Market Risk

This note contains exposure information, the goal of measurement, valuation, policy and process of risk for the aforementioned risks. The further numeral discloser please refer to notes under each items in the consolidated financial report.

6.21.2. Risk Management Structure

The Company's risk management structure is aimed at identifying and analyzing risks, setting proper risk limits and monitoring risks and risk limits. The risk management structure is reviewed routinely to fit in with the changes of market and the Company. Through training, management standards and operating procedures, to form an orderly and constructive control environment, and to make all the employees to understand their roles and obligations

The Company's supervisor supervise how the management control and monitor the compliance with risk management policy and process, reviewing the appropriation of risk management structure that the Company faced. The Company's supervisor is assisted by internal auditors. These internal auditors routinely and not routinely undertake risk management control and process, and report the reviewing result to the supervisor.

6.21.3. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty of a financial instrument fails to meet its contractual obligations, which arises principally from the Company's receivables from customers and bond investments.

i. Accounts and other receivables

The Company has established its credit policy. According to the policy, before offering the standard delivery and payment term, the Company shall analysis each and every credit rating of new customers.

The main credit risk exposure comes from situation of individual customers. Yet, the management takes the customers' basic statistic data into consideration as well, including the default risk of their industries and countries; hence the credit risk may be affected by these factors. To decrease credit risk, the Company continuously and periodically evaluate customers' financial situation, and will ask them to provide collaterals when necessary.

The Company is set up with a contra account for allowance for doubtful accounts to show the estimated loss from account and other receivables. The Contra account consists of specific portion of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

loss that related to significant individual exposure risk, and the portion of loss accrued but not yet identified in the Company of similar assets. The contra account for combined loss is based on the historical payment data of similar financial assets.

ii. Investment

The credit risk arises from bank deposit, fixed-income investment and other financial instruments are evaluated and monitored by the accounting department of the Company. There is no significant compliance concerns due to the counterparties and performing parties of the Company are the companies with good creditability; hence there is no significant credit risk.

iii. Guarantee

On December 31, 2016 and 2015, the Company did not provide condition of endorsement and guarantee.

iv. Liquidity Risk

The Company supports the operation and decrease cash flow fluctuations by management and maintains the sufficient cash and cash equivalent. The management of the Company monitors the situation of loan commitments and make sure to be in accordance with the loan agreement.

Loans are one of the significant liquidities. As of December 31, 2016 and 2015, the unexpended short-term loan commitments are NT\$4,406,890 and NT\$4,313,720 thousand, accordingly.

v. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within an acceptable range and to optimize the return.

(i) Exchange Rate Risk

The Company devoted in foreign exchange purchases and sales, forming the variable exposure from exchange rate. The management of exchange rate exposure is to use forward foreign exchange rate contract to manage the risk under the policy.

The loan interest is valued under the currency of principals. In general, The currency of loans shall be identical to the cash flow generated from operating activities, mostly NTD, but JPY and USD as well. The Company provides economic hedge and there is no need to sign for derivatives under such circumstances; hence the hedge accounting is not adopted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

When short-term imbalance happens to monetary assets and liabilities measured at foreign currency, the Company maintains its exposure risk within acceptable range by buying or selling foreign currency at board exchange rate.

ii. Interest Rate Risk

The risk of the changes in fair value and the cash flow risk are generated from the Company simultaneously borrowing at fixed and floating rate. The Company manages interest rate risk through keeping an adequate combination between fixed and floating interest rate and interest rate SWAP.

iii. Other Market Price Risk

The equity price exposure is generated from investing listed equity securities of the Company. The equity investment is not for trade but strategic investment. The Company does not trade in such investment actively; the management manages the risk through holding risk at different portfolio risk

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6.22. Capital Management

The board of directors' policy aims at keeping a healthy capital basis, in order to uphold confidence of investors, creditors and the market, and keep the development of future operation. The capital includes capital stock, capital surplus, retained earnings and other equity of the Consolidated Company. The board of directors takes control of the common stock dividends.

As of December 31, 2016 and 2015, the liabilities to debt ratio are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Total liabilities	\$ 3,491,604	3,173,245
Less: Cash and cash equivalent	<u>(3,406,289)</u>	<u>(2,905,532)</u>
Net liabilities	<u>\$ 85,315</u>	<u>267,713</u>
Total equity	\$ 8,832,880	9,001,993
Less: Adjustment	<u>-</u>	<u>-</u>
Adjusted capital	<u>\$ 8,832,880</u>	<u>9,001,993</u>
Liabilities to debt ratio	<u>0.97%</u>	<u>2.97%</u>

6.23. Non-Cash Investment and Financing

The non-cash investment and financing occurred in fiscal year of 2015 is conversion from puttable corporate bond to common stock. Please refer to Note 6.14 for more details.

7. Related-Party Transactions

7.1. The Parent Company and the ultimate ownership

The Company held the ultimate ownership of its Consolidated Company and subsidiaries.

7.2. Major Transaction with related parties

7.2.1 Sales and account receivables-related parties

	<u>Sales</u>		<u>Account receivables- related parties (Reported in net value of notes and account receivables)</u>	
	<u>2016</u>	<u>2015</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Related parties	<u>\$ 4,133</u>	<u>3,332</u>	<u>\$ 347</u>	<u>451</u>

There is no significant selling price difference between general customers and related parties. The payment terms with general suppliers is OA 30-120 days and OA 30 days for related parties.

7.2.2 Purchases and account payable-related parties are detailed as below:

	<u>Purchases</u>		<u>Account payables-related parties</u>	
	<u>2016</u>	<u>2015</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Related parties	<u>\$ 120,799</u>	<u>82,027</u>	<u>26,411</u>	<u>19,701</u>

Material price of the related parties is incomparable to those of suppliers because the Consolidated Companies have not purchased similar products as those from the related parties..

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7.3 Compensation of key management personnel

The compensation to other key management personnel is as follows:

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 45,551	45,832
Post-employment benefit	-	65
	<u>\$ 45,551</u>	<u>45,897</u>

8. Assets Pledged

The Consolidated Company provides the carrying amount of pledged assets, detailed as follows:

<u>Assets</u>	<u>Objects of guarantee and pledge</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Land	Loans	\$ 156,522	156,522
Buildings	Loans	59,677	61,776
Time deposit	Import and commodity tax secured	12,685	14,627
		<u>\$ 228,884</u>	<u>232,925</u>

9. Contingent Liabilities and Unrecognized Commitment

i. As of December 31, 2016 and 2015, the Company's outstanding letters of credit amounted to NT\$105,621 thousand and NT\$68,226 thousand.

ii. Group lawsuit against antitrust in USA received from Japanese Fair Trade Commission is under investigation, to which the attorney was assigned. Holy Stone Holdings Co., Ltd has reached a plea agreement with the United States Department of Justice, on behalf of its former Japanese subsidiary Holy Stone Polytech Co., Ltd., for violation of the United States antitrust laws relating to the sale of Tantalum Capacitors. Under the terms of the Agreement, Holding will pay a fine of USD 600,000 and will continue to cooperate with DOJ's ongoing investigation. As of December 31, 2016, no preliminary conclusion was made.

10. Significant Disaster Loss: None.

11. Significant Subsequent Events:

In order to reduce share capital and pay it back to shareholders with the aim of improving return on equity and other financial ratios, the Board of Directors of the Company resolves to conduct capital reduction. The amount of the capital reduction is NT\$672,646,190, cancelled shares are 67,264,619 shares, and share capital after the capital reduction is estimated to amount to NT\$1,569,507,790.

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12. Others

12.1 Welfare, depreciation and amortization expenses are summarized by functions as follows:

Characters	Functions	2016			2015		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Welfare Expenses							
Payroll		238,312	625,358	863,670	244,609	613,104	
Labor and health insurance		25,855	48,947	74,802	26,711	48,893	
Pension expense		14,309	32,829	47,138	14,734	33,262	
Others		7,893	15,188	23,081	8,221	14,688	
Depreciation		234,972	50,761	285,733	258,941	48,845	
Amortization		-	3,310	3,310	-	3,418	

12.2 The Company's subsidiary MDT and Dr. Robert Petrella had entered into patent authorization agreement since July 1st 2007. In order to strengthen the effectiveness of this product towards adaption disease, MDT authorized Dr. Robert Petrella to perform relevant clinical trials. However, both parties had disagreement regarding royalties and expense occurred during clinical trials, dispute towards payment to Dr. Robert Petrella occurred. WIPO consent EUR 325,000 dollars of settlement to MDT paid by Dr. Robert Petrella. After deducting the estimated amount that has been recognized, the rest of the amount CHF 171,751.62 (TWD 5,619 thousand) goes to Other Gains and Losses.

13. Additional Disclosure

13.1. Significant Transaction Information

In 2016, the additional disclosures required by the Regulations Governing the Preparation of Financial Report are as follows:

13.1.1. Financing to related parties: None.

13.1.2. Endorsement/guarantee provided:

No.	Lender	Borrower	Subject	Related parties Or not	Maximum of current period	Ending Balance	Actual amount Used (Note 2)	Interest Rate	Nature of financing (Note 3)	Amount of business interaction	Reason for short-term Loan	Allowance for doubtful Account	Collateral		Credit line for single party (Note 1)	Total Credit Line (Note 1)
													Name	Value		
0	The Company	Holy Stone Holdings Co., Ltd.	2	1,647,915	167,250	161,250	-	-		4,119,789	Y	N	N	0	The Company	Holy Stone Holdings Co., Ltd.
0	The Company	Rong Jhan Investment	2	1,647,915	150,000	150,000	-	-		4,119,789	Y	N	N	0	The Company	Rong Jhan Investment
0	The Company	Everplus Material Co., Ltd.	3	1,647,915	62,860	55,120	55,120	-		4,119,789	Y	N	N	0	The Company	Everplus Material Co., Ltd.

Note 1: Quota of Endorsement/Guarantee for Single Enterprise was 20% of the Company's net value, and the highest quota was 50% of the net value.

Note 2: Six categories of relationship between Endorser/Guarantor and Endorsee/Guaranteed parties were listed as follows:

1. Companies with business interaction.
2. Subsidiaries which the Company held over 50% of its common stock.
3. The companies which the Company and subsidiaries held over 50% of its common stock.
4. The parent companies which the Company held over 50% if its common stock directly or through subsidiaries.
5. Guarantee from both companies in compliance with contracts for contracted projects.
6. The companies endorsed/guaranteed by shareholders in proportion to their existing shareholdings, due to mutual investment.

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13.1.3. Marketable securities held: (investment in subsidiaries, related enterprises, and joint venture excluded):

Unit: Thousand shares/ Thousands of NT\$

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2016				Highest ownership and capital contribution Marketable Securities Type and Name	Note
				Shares	Carrying amount	Ratio of ownership	Holding Company		
The Company	BEST PACIFIC INT(2111.HK)	-	Financial assets at fair value through profit or loss - current - foreign stock	200	4,956	-	4,956	200	
The Company	SWANCOR Bond B	-	Financial assets at fair value through profit or loss	100	10,201	-	10,201	100	
The Company	GSI Stock	-	Available-for-sale financial asset-noncurrent	248	49,570	1.08%	49,570	248	
The Company	CNO Co.,Ltd. Stock	-	Financial asset carried at cost-noncurrent	1,400	24,246	-	-	1,400	
Mayatek Co., Ltd.	Fuh Hwa Greater China Fund	-	Financial assets at fair value through profit or loss-current-open ended fund	107	1,424	-	1,424	107	
Holy Stone HK	SHS SPDR BLOOMBERG BARCLAYS	-	Financial assets at fair value through profit or loss-current-open ended fun	2	2,351	-	2,351	2	
Holy Stone HK	Best Pacific International Holdings Ltd	-	Financial assets at fair value through profit or loss-current-foreign stock	470	11,626	-	11,626	470	
Holy Stone Holdings Co., Ltd.	Greenvity Communications, Inc	-	Financial asset carried at cost-noncurrent	220	8,063	-	-	220	
Holy Stone Holdings Co., Ltd.	JPMORGAN AUSTRALIA FUND	-	Financial assets at fair value through profit or loss-current-open ended fun	40	6,457	-	6,457	40	
Holy Stone Holdings Co., Ltd.	PING AN INSURANCE	-	Financial assets at fair value through profit or loss	4	4,754	-	4,754	4	
Infotech (CHINA) Co., Ltd.	BOC Themetic Stock Fund	-	Financial assets at fair value through profit or loss	646	5,443	-	5,443	646	
Holy Stone International Trading (Shanghai) Uholly Investment Co., Ltd.	BOC Themetic Stock Fund	-	Financial assets at fair value through profit or loss	717	6,039	-	6,039	717	
Uholly Investment Co., Ltd.	Yuanta Emerging Indonesia Opp Bd	-	Financial assets at fair value through profit or loss-current-open ended fund	1,324	14,634	-	14,634	1,324	
Uholly Investment Co., Ltd.	LONG CHEN PAPER CO., LTD.	-	Financial assets at fair value through profit or loss-current-domestic stock	80	1,308	-	1,308	80	
Uholly Investment Co., Ltd.	Foxsemicon Integrated Technology Inc.	-	Financial assets at fair value through profit or loss-current-domestic stock	15	1,287	-	1,287	15	
Uholly Investment Co., Ltd.	SuperAlloy Industrial Co., Ltd.	-	Financial assets at fair value through profit or	20	3,560	-	3,560	20	

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2016				Highest ownership and capital contribution Marketable Securities Type and Name	Note
				Shares	Carrying amount	Ratio of ownership	Holding Company		
Uholy Investment Co., Ltd.	eGalax_eMPIA Technology Inc Stock	-	loss-current-domestic stock Available-for-sale financial asset-noncurrent	5,797	286,943	10.14 %	286,943	5,797	
Uholy Investment Co., Ltd.	Yuan Jing Venture Capital Stock	-	Financial asset carried at cost-noncurrent	6,141	61,410	-	-	6,141	
Uholy Investment Co., Ltd.	C2 MICROSYSTEMS INC.stock	-	"	1,200	-	-	-	1,200	
Uholy Investment Co., Ltd.	ZILLTEK Technology Corp.	-	"	859	19,757	-	-	859	
Uholy Investment Co., Ltd.	Metanoia Communications	-	"	599	2,994	-	-	599	
Uholy Investment Co., Ltd.	Yuan Rong Venture Capital Stock	-	"	4,425	44,250	-	-	4,425	
Uholy Investment Co., Ltd.	TaiwanJ Pharmaceuticals Co.	-	"	1,500	15,000	-	-	1,500	
Rong Jhan Investment Co., Ltd.	Metanoia Communications	-	"	150	4,500	-	-	150	
Rong Jhan Investment Co., Ltd.	JiaNai Co., Ltd.	-	"	2,976	32,741	-	-	2,976	
Rong Jhan Investment Co., Ltd.	CNO Co., Ltd	-	"	494	34,355	-	-	494	
Rong Jhan Investment Co., Ltd.	BioMaty Co., LTD. Stock	-	"	550	5,500	-	-	550	
Rong Jhan Investment Co., Ltd.	AVEO Technology Corp. Stock	-	"	1,846	24,875	-	-	1,846	
Rong Jhan Investment Co., Ltd.	ThroughTek Corp. Stock	-	"	140	10,000	-	-	140	
Rong Jhan Investment Co., Ltd.	Yuanta Emerging Indonesia Opp Bd	-	Financial assets at fair value through profit or loss-current-open ended fund	1,324	14,634	-	14,634	1,324	
Rong Jhan Investment Co., Ltd.	PROMISE Technology, Inc.	-	Financial assets at fair value through profit or loss-current-domestic stock	152	2,386	-	2,386	152	
Rong Jhan Investment Co., Ltd.	Grand Fortune Securities Co.,Ltd,	-	Available-for-sale financial asset-noncurrent	5,638	44,649	2.33%	44,649	5,638	
OHGA SMARTTHINGS CO., LTD	AVEO Technology Corp. Stock	-	Financial asset carried at cost-noncurrent	540	7,195	-	-	540	
OHGA SMARTTHINGS CO., LTD	BioMaty Co., LTD. Stock	-	"	237	7,110	-	-	237	
OHGA SMARTTHINGS CO., LTD	ThroughTek Corp. Stock	-	"	140	10,000	-	-	140	
OHGA SMARTTHINGS CO., LTD	nFore Technology Co.	-	"	261	5,991	-	-	261	
OHGA SMARTTHINGS CO., LTD	LONG CHEN PAPER CO., LTD.	-	Financial assets at fair value through profit or loss-current-domestic stock	80	1,308	-	1,308	80	

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Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13.1.4. Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital:

Unit: Thousand shares/ Thousands of NT\$

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Share	Amount	Share	Amount	Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Share
The Company	Yuanta Wan Tai Money Market.	Financial assets at fair value through profit or loss-current	-	-	-	-	96,087	1,440,000	96,087	1,440,956	1,440,000	596	-	-
The Company	Taishin money market	"	-	-	-	-	50,573	710,000	50,573	710,491	710,000	491	-	-
The Company	Taishin 1699 Money Market.	"	-	-	-	-	29,902	400,000	29,902	400,229	400,000	229	-	-
The Company	CAPITAL MONEY MARKET FUND	"	-	-	-	-	58,280	930,000	58,280	930,546	930,000	546	-	-
The Company	Nomura Taiwan Money Market	"	-	-	-	-	63,225	1,020,000	63,225	1,020,611	1,020,000	611	-	-
The Company	Franklin Templeton Sinoam Money Market	"	-	-	-	-	97,889	1,000,000	97,889	1,000,663	1,000,000	663	-	-
The Company	UPAMC JAMES BOND MONEY MARKET Fund.	"	-	-	-	-	18,156	300,000	18,156	300,187	300,000	187	-	-
The Company	Prudential Financial Money Market	"	-	-	-	-	49,875	780,293	49,875	780,622	780,293	329	-	-

13.1.5. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None.

13.1.6. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None.

13.1.7. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital:

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Remarks
			Purchases/Sales	Amount	% to Total	Payment Terms	Company Name	Related Party	Nature of Relationship	Purchases/Sales	
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	920,635	6.77%	Next month-end 150 days	-	-	335,462	11.01%	Note
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	816,224	6.00%	Next month-end 120 days	-	-	318,324	10.45%	Note
The Company	Infortech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	646,836	4.76%	Month-end 120 days	-	-	118,407	3.89%	Note

Note: Transaction had been reversed by the time this report was compiled.

13.1.8. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital:

Unit: NT\$ in thousand

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Remarks
			Purchases/Sales	Amount	% to Total	Payment Terms	Company Name	Related Party	Nature of Relationship	Purchases/Sales	
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	1,081,134	9.36%	Next month-end 150 days	-	-	409,016	12.96%	Note
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	1,255,991	10.88%	Next month-end	-	-	360,026	11.41%	Note

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Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company	Infortech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	720,685	6.24 %	120 days Month-end 120 days	-	-	117,513	3.72%	Note
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Note: The transaction has been offset in the preparation of this consolidated report.

13.1.9. Derivatives transaction: None.

13.1.10. Significant business and transaction between the parent-subsidiary relationships:

No.	Company Name	Object	Relationship	Condition			Ration of amount to total operating revenue or total asset
				Subject	Amount	Terms	
0	The Company	Holy Stone Enterprise (H.K)	1	Sales	1,255,991	Next month-end 120 days	9.54%
0	The Company	Holy Stone Enterprise (H.K)	1	Accounts receivable	360,026	Next month-end 120 days	2.92%
0	The Company	Holy Stone international trading (Shanghai) Co.	1	Sales	1,081,134	Next month-end 150 days	8.21%
0	The Company	Holy Stone international trading (Shanghai) Co.	1	Accounts receivable	409,016	Next month-end 150 days	3.32%
0	The Company	Infortech (China) Co., Ltd.	1	Sales	720,685	Next month-end 120 days	5.47%
0	The Company	Infortech (China) Co., Ltd.	1	Accounts receivable	117,513	Next month-end 120 days	0.95%
2	EPM	The Company	2	Sales	135,314	Next month cash	1.03%
2	EPM	The Company	2	Accounts receivable	16,127	Next month cash	0.13%

Note 1. For the number:

1.0: The Parent Company

2: The numbers of subsidiaries are in numerical order starting with 1

Note 2. Relationship:

1. Parent Company to subsidiaries

2. Subsidiaries to Parent Company

3. Subsidiaries to subsidiaries

Note 3. Only one-side of sales, revenue and account receivables were revealed without the corresponding purchase, expense and account payables.

13.2. Information about derivatives of investees over which the Company has a controlling interest:

Information about derivatives of investees over which the Company has a controlling interest of 2016 was as follows: (China investees excluded)

(Thousand of shares)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of Dec. 31, 2016			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note	Investor Company
				Dec. 31, 2015	Dec. 31, 2014	Shares	%	Carrying Value				
The Company	Holy Stone Enterprise (H.K) Co., Ltd.	Hong Kong	MLCC and electronic components trading	49,046	49,046	11,500	100.00%	297,925	31,020	31,020	Subsidiary of the Company	
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	934,846	(95,569)	(96,786)	Subsidiary of the Company	
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	341,508	(46,279)	(26,698)	Subsidiary of the Company	
The Company	Mayatek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	20,000	8,500	100.00%	81,642	(13,784)	(13,784)	Subsidiary of the Company	
The Company	Rong Jhan Investments Co.	Taipei City	Investment activities	340,000	340,000	57,900	100.00%	482,414	(894)	(894)	Subsidiary of the Company	
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	222,525	226,493	6,900	100.00%	299,666	3,416	3,416	Subsidiary of Holy Stone Holdings Co., Ltd.	
Holy Stone Holdings Co., Ltd.	Holypaq Corporation	Cayman	Investment activities	38,700	39,390	1,200	100.00%	863	-	-	Subsidiary of Holy Stone Holdings Co.	
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd.	Samoa	Investment activities	40,010	40,723	1,310	100.00%	18,420	1,611	1,611	Subsidiary of Holy Stone Holdings Co.	
Holy Stone Holdings Co., Ltd.	Mayatek Co., Ltd.	Belize	Electric appliances, precision instrument, computers and machinery and equipment selling	450,726	458,762	2,500	100.00%	361,336	10,451	10,451	Subsidiary of Holy Stone Holdings Co.	
Holy Stone Holdings Co., Ltd.	Everplus Material Co., Ltd.	Japan	Electric appliances, precision instrument, computers and machinery and equipment selling	96,460	95,445	4	100.00%	91,708	217	217	Subsidiary of Holy Stone Holdings Co.	
Holy Stone Investments Co., Ltd.	Holy Stone Holdings (Singapore) Pte. Ltd.	Singapore	Electronic retailing and trading	3,225	3,283	100	100.00%	1,323	725	725	Subsidiary of Holy Stone Holdings Co.	
Everplus Material Co., Ltd.	Everplus Planning Co., Ltd.	Japan	Alcohol and produce retailing	827	818	0.3	75.00%	735	5	5	Subsidiary of Holy Stone Holdings Co.	
Green Glory Holdings Ltd.	Milestone Global Technology Ltd.	Shanghai, China	Electronic components developing and selling	16,125	16,413	500	100.00%	14,533	1,101	1,101	Subsidiary of Green Glory Holdings	
Green Glory Holdings Ltd.	Holystone (Europe) Ltd.	Shanghai, China	Electronic retailing and trading	22,152	22,547	350	100.00%	3,411	538	538	Subsidiary of Green Glory Holdings	
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co.	Dongguan, Guangdong province, China	Western medicine wholesaling and medical instruments wholesaling	410,557	276,370	21,422	31.63%	124,055	(219,878)	(67,438)	UHOLY's long-term investee recognized under equity method	
Holy Stone Healthcare Co.	MDT INTL SA	Shanghai, China	Medical instruments trading	78,768	78,768	2,550	100.00%	66,869	6,760	6,760	Subsidiary of Holy Stone Healthcare Co.	
Holy Stone Healthcare Co.	Global Search Holdings Ltd.	U.S.A	Investment activities	53,039	46,774	1,750	100.00%	7,279	(6,270)	(6,270)	Subsidiary of Holy Stone Healthcare Co.	
Global Search Holdings Ltd.	Holy Stone Biotech Co., Ltd.	England	Selling and authorization if medicine and medical instruments	54,390	49,068	1,050	100.00%	5,759	(6,223)	(6,223)	Second-tier Subsidiary of Holy Stone Healthcare Co.	
Global Search Holdings Ltd.	AIHOL Corporation	U.S.A	Patent application	645	657	10,000	100.00%	466	-	-	Second-tier Subsidiary of Holy Stone Healthcare Co.	

RongJhan Investments Co.	OHGA Electronics Co., Ltd.	Taipei City	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70.00%	223,907	(9,213)	(6,449)	Subsidiary of Rong Jhan Investments Co.
RongJhan Investments Co.	Holy Stone Healthcare Co.	Switzerland	Western medicine wholesaling and medical instruments wholesaling	54,444	31,135	2,266	3.35%	20,351	(219,878)	(6,774)	UHOLY's long-term investee recognized under equity method
OHGA Electronics Co., Ltd.	Holy Stone Healthcare Co.	Samoa	Western medicine wholesaling and medical instruments wholesaling	184	154	9	0.01%	94	(219,878)	(30)	UHOLY's long-term investee recognized under equity method

Note: Transaction has been reversed by the time this report was compiled.

13.3. Information on Investment in Mainland China

13.3.1. Names, locations, and related information of investees on which the Company exercises significant influence:

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method Note (1)	Accumulated Remittance as of Jan. 1, 2015	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2015	Gains and losses of current period of Investees Note (2)	Ownership Held by The Company (Direct and Indirect)	Highest ownership and capital contribution	Current Recognized Investment Gain (Loss) (Note 2 & 3)	Ending Balance of Investment	The Investment Gain (Loss) Remitted as of Dec. 31, 2015
					Remitted	Collected							
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	129,323	(2)	116,423	-	-	116,423	1,346	100.00%	100.00%	1,346	175,843	-
Infortech International Trading (Shanghai) Ltd.	Electronic components R&D and selling	32,250	(2)	32,250	-	-	32,250 (Notes 4)	-	-	-%	-	-	-
Infortech (CHINA) Co., Ltd.	Electronic components selling	67,725	(2)	67,725	-	-	67,725	2,145	100.00%	100.00%	2,145	123,146	-

Note 1: Three kinds of investment are noted:

- (1) Direct investment in China.
- (2) Reinvestment in China through other region
- (3) Other method.

Note 2: Recognition basis of gains and losses on investment came from audited financial statement of Parent Company.

Note 3: Transaction had been reversed by the time this report was compiled.

Note 4: Infortech International Trading (Shanghai) Ltd. had been liquidated by April 2015, and application of cancellation was complete by July 29th 2015.

13.3.2. Quota of reinvestment in Mainland China:

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	Investment quota in Mainland China according to Investment Commissions, Ministry of Economic Affairs
216,398	229,298	4,943,746

13.3.3. Significant Transaction Information

Significant transaction information of direct and indirect investment in Investee Company in Mainland China in 2016 (has been offset in the preparation of this consolidated report) is described in “Related Significant Transaction Information” and “Parent-Subsidiaries Business Relationship and Significant Transactions”.

14. Segment Financial Information

The Consolidate Companies’ operating units and adjustments were as follows:

14.1 General Information

The Consolidated Company consists of two reported sectors: the Electronics sector and the Other sector. The Electronics sector is involved in the development, design, manufacturing and sales of electronics related industries. The Other sector is involved in professional investment businesses, and medicine and medical instrument wholesaling. Other Sector did not reach the threshold quantization for the

year ended December 31, 2016 and 2015.

14.2 Information on the reported sectors' profit and loss, sector assets, liabilities, measurement basis and regulations

The income before tax of each sector from internal management report which the Consolidated Company used as the basis for management to allocate and evaluate the performance. The Consolidated Company has not allocated income tax expense (profit) or non-frequent profit and loss to the reported sectors. In addition, not all the profit or loss from the reported sectors includes significant non-cash items other than depreciation and amortization. The reported amount and the report used by operating decision makers are identical.

The accounting policies adopted by the Consolidated Companies are the same as the Significant Accounting Policies (note 4). Profit and loss of the operating sectors are measured by operating income, and it is used as the basis for performance assessment.

Inter-company sales and transfers are treated as transactions with third parties; therefore, current market prices are used.

The Consolidated Companies operating units' information and adjustments were as follows:

	2016			
	Electronics sector	Investment sector	Adjustments and Elimination	Total
Income:				
Income from external customers	\$ 12,628,256	538,316	-	13,166,572
Interest income	15,335	2,333	-	17,668
Total income	<u>\$ 12,643,591</u>	<u>540,649</u>	<u>-</u>	<u>13,184,240</u>
Interest expense	<u>\$ 13,932</u>	<u>2,211</u>	<u>-</u>	<u>16,143</u>
Sector profit and loss	<u>\$ 652,634</u>	<u>(197,711)</u>	<u>-</u>	<u>454,923</u>
Sector Assets	<u>\$ 10,906,393</u>	<u>1,418,091</u>	<u>-</u>	<u>12,324,484</u>
Sector Liabilities	<u>\$ 3,413,663</u>	<u>77,941</u>	<u>-</u>	<u>3,491,604</u>
	2015			
	Electronics sector	Investment sector	Adjustments and Elimination	Total
Income:				
Income from external customers	\$ 12,745,055	850,764	-	13,595,819
Interest income	21,216	3,128	-	24,344
Total income	<u>\$ 12,766,271</u>	<u>853,892</u>	<u>-</u>	<u>13,620,163</u>
Interest expense	<u>\$ 12,919</u>	<u>2,940</u>	<u>-</u>	<u>15,859</u>
Sector profit and loss	<u>\$ 845,478</u>	<u>(230,840)</u>	<u>-</u>	<u>614,638</u>
Sector Assets	<u>\$ 10,506,512</u>	<u>1,668,726</u>	<u>-</u>	<u>12,175,238</u>
Sector Liabilities	<u>\$ 3,065,784</u>	<u>107,461</u>	<u>-</u>	<u>3,173,245</u>

14.3. Product information

Information on income from external customers was as follows:

<u>Product type</u>	<u>2016</u>	<u>2015</u>
Passive Components	\$ 3,303,879	3,418,249
Active Components	4,764,491	5,137,404
System and Modules	3,427,727	2,766,533
Others	1,670,475	2,273,633
Total	<u>\$ 13,166,572</u>	<u>13,595,819</u>

14.4. Sales area information

Information on sales area was as follow, in which income is based on the location of the customer, and for noncurrent assets the income is based on the location of the assets.

Income from external customers:

<u>Territory</u>	<u>2016</u>	<u>2015</u>
Revenue generated from customers outside		
China	\$ 9,850,311	9,148,056
R.O.C.	2,339,257	3,318,818
U.S.A.	349,834	337,992
Others	627,170	790,953
	<u>\$ 13,166,572</u>	<u>13,595,819</u>
Noncurrent assets:		
R.O.C	\$ 2,294,750	2,503,905
China	322,406	394,187
Others	77,098	138,149
Total	<u>\$ 2,694,254</u>	<u>3,036,241</u>

Non-current assets consist of property, plant and equipment, intangible assets, prepayment for equipment and other non-current assets – other, the financial instruments and deferred income tax assets were excluded.

14.5. Important customers' information

There is no customer required to be disclosed during 2016.

Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang