



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

TWSE: 3026

# 2013 Annual Report (Translation)

Printed on May 20, 2014

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

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

## 1. Company Spokesman, Acting Spokesman, title and contact information

### Company Spokesperson

Name: Steven Huang  
Title: Director  
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E-mail: [stevenhuang@Holy Stone.com.tw](mailto:stevenhuang@Holy Stone.com.tw)

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Title: Vice President  
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E-mail: [sherrywu@Holy Stone.com.tw](mailto:sherrywu@Holy Stone.com.tw)

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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/>  
Tel: 886-2-2181-1911

## 4. Certified Public Accountants Auditing Financial Statements during recent years

Auditor: Pei-Chi Chen and Chia-Hsin Chang  
Company: KPMG  
Address: 68F, No.7, Sec. 5, Xinyi Rd., Taipei City 110, Taiwan (R.O.C.) (Taipei 101)  
Web Site: <http://www.kpmg.com.tw>  
Tel: 886-2-8101-6666

## 5. Foreign Securities Trade & Exchange

No foreign securities are issued by the Company.

## 6. Company Web Site

<http://www.Holy Stone.com.tw/>

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# 1. Letter to Shareholders

Dear Shareholders,

While worldwide PC shipment continuously to decline, demand for mobile devices, including Smartphone and tablets, soared in 2013; furthermore, according to Gartner, worldwide semiconductor revenues up 5.2 % in 2013, Holy Stone's revenues and profits in 2013 have beaten the average by the virtue of global strategy and employee engagement.

Consolidated revenue of 2013 totaled NT\$15,899 million, an increase of 8.8% YoY; gross profit totaled NT\$1,974 million (12.4% of total), an increase of 5.6% YoY; net income totaled NT\$664 million (4.2% of total sales), an increase of 4.9% YoY; net income after tax attributable to the Parent Company totaled NT\$696 million (4.4% of total sales), an increase of 8.8% YoY. Earning per shares after tax was NT\$2.44, an increase of 22.0% YoY.

Holy Stone's ceramic substrate products had doubled its shipment and production in the past year and, with years of research, its high quality was generally recognized by customers domestic and overseas. This year, we debottleneck to increase production to meet the need of customers and the development of market. In addition, demand of emerging market rised with the embedment of 4G of mobile devices, besides constantly providing relevant components, Holy Stone will bring out total solution in an effort to help domestic and overseas customers develop smart wearable devices. In terms of long-term development of techniques, the Company still eyes self-manufactured of ceramic material and automatic equipments.

Look ahead to 2014, Holy Stone will keep exercise strategy of Corporate Governance and technique development, diversify agent product, optimize organization, etc. Along with 2013 capital reduction, earning-generating capacity of each shares will be improved, as well as return on equity; moreover, Holy Stone keep improve the disclosure and transparency through attending Information Disclosure and Transparency Ranking System. Concerning social responsibilities, Holy Stone shows care for vulnerable and encourage employee's engagement of social affairs through Holy Stone Foundation. The Company conducts environmentally friendly measures, in which safety and hygiene working environment is upheld in accordance with relevant law.

Holy Stone appreciates dedication from employees, as well as support from customers, supplies, and shareholders. We will not forget our original intension to do our best for years to come.

Finally, we wish you all the best.

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.

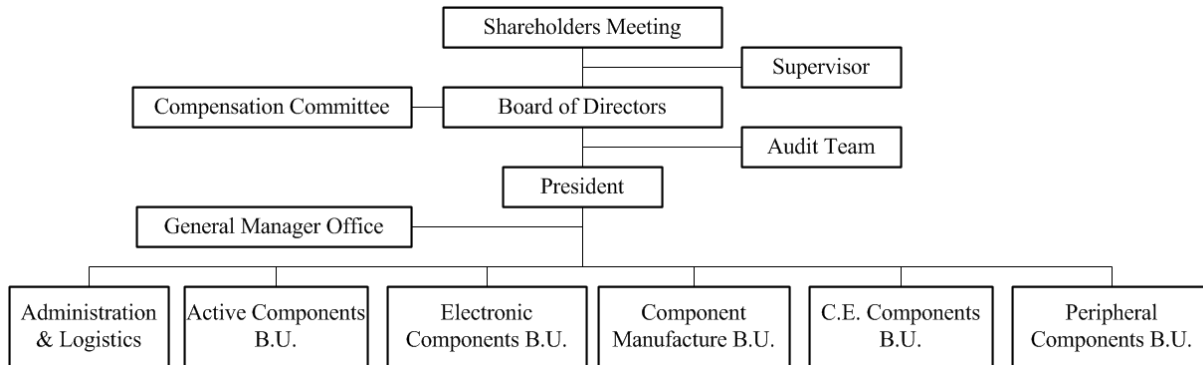
**2.2. Milestone:**

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 Longtan (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 Longtan (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.
		Holy Stone initiated capital increase by cash, totaled 33 million shares.
Aug.	2013	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	Name	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & children of minor age Shareholding	
					Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang	2012.06.05	3 years	1997.09.09	11,592,549	3.62	8,114,784	3.62	525,573	0.23
Director	Lin Tan Investment Co., Ltd.	2012.06.05	3 years	2003.05.28	14,707,623	4.59	10,295,336	4.59	-	-
Representative of Lin Tan Investment Co., Ltd.	Chyang Lo (Note 2)	2012.06.05	3 years	2010.01.01	2,405	0.00	1,683	0.00	3,356	0.00
Representative of Lin Tan Investment Co., Ltd.	Yu-Min Wu (Note 2)	2012.06.05	3 years	1999.04.23	1,165,292	0.36	815,704	0.36	12,557	0.01
Director & Executive Vice President	Shih-Yun Sheng	2012.06.05	3 years	1997.09.09	4,445,567	1.39	4,445,567	1.39	1,817,143	0.81
Director & Executive Vice President	Shao-Kuo Huang	2012.06.05	3 years	2006.06.09	2,569,292	0.80	1,728,504	0.77	-	-
Independent Director	Ken-Yi Cheng	2012.06.05	3 years	2003.05.28	-	-	-	-	-	-
Independent Director	Nai-Hua Wu	2012.06.05	3 years	2004.05.28	-	-	-	-	-	-
Supervisor	Tang-Ming Wu	2012.06.05	3 years	1999.04.23	943,764	0.29	676,634	0.30	-	-
Supervisor	Chung-Yi Yang	2012.06.05	3 years	1999.04.23	725,186	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.

Note 3: Total issued shares: 320,350,227 shares on 2012.06.05.

Note 4: Total issued shares: 224,152,218 shares on 2014.04.13.

Note 5: The minimum required combined shareholding of all directors by law: 12,000,000 shares. The combined shareholding of all directors on 2014.04.13: 23,250,520 shares

Note 6: The minimum required combined shareholding of all supervisors by law: 1,200,000 shares. The combined shareholding of all supervisors on 2014.01.13: 1,200,264 shares

#### Shareholders that are institutional shareholders

as of 2014.04.13

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 2014.04.13

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. Representative of institutional shareholder, Infotech (China) Co., Ltd.	-	-	-
-	-	Bachelor, Department of Physics, Tamkang University Doctoral in Management, Macau University of Science and Technology	Representative of institutional shareholder and President, Infotech (China) Co., Ltd Representative of institutional shareholder, Holy Stone International Trading (Shanghai) 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.	Chairman, Instant-Dict Co., Ltd Holy Stone Healthcare Co., Ltd.	-	-	-
-	-	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 2014.04.13

Shareholders that are institutional shareholders	Major Shareholders
Fang Hao Investment Co., Ltd.	Fang-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.

as of 2013.04.13

Criteria (Note 1)										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)
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1 (Note 2)
✓	-	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

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

Title	Name	Date Elected	Current Shareholding		Spouse & children of minor age Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang	1984.08.01	8,114,784	3.62%	525,573	0.23%	-	-
Director & Vice Executive President	Shih-Yun Sheng	2002.04.01	3,111,896	1.39%	1,817,143	0.81%	-	-
Director & Vice President	Shao-Kuo Huang	2004.07.01	1,728,504	0.77%	-	-	-	-
Director & Vice President	Yu-Min Wu	2005.06.01	815,704	0.36%	12,557	0.01%	-	-
Vice President	Sheng-Yao Lu	2009.01.15	310,564	0.14%	100,541	0.04%	-	-
Vice President	I-Ta Lee	2009.01.15	152,094	0.07%	-	-	-	-
Vice President	Hui-Bang Yeh	2009.01.15	236,967	0.11%	-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	2003.05.02	166,984	0.07%	-	-	-	-

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

Unit: Shares as of 2014.04.13

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, Infotech (China) Co., Ltd Representative of institutional shareholder, Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Business Management, Tatung University	Representative of institutional shareholder, Infotech International Trading (Shanghai) Ltd.	-	-	-
Bachelor, Department of Accounting, Providence University	Supervisor, eGalax_eMPIA Technology Inc. Representative of institutional shareholder, Infotech (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, Infotech (China) Co., Ltd. Representative of supervisors, eGalax_eMPIA Technology Inc.	-	-	-

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

#### Compensation Paid to Directors (including Independent Directors)

Title	Name	Compensation								Total Compensation (A+B+C+D) as a % of Net Income (Note 3)	
		Base Compensation (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)	-	-	-	-	15,181	15,241	720	840	2.29	2.31
Director	Shao-Kuo Huang (e)										
Independent Director	Ken-Yi Cheng (f)										
Independent Director	Nai-Hua Wu (g)										

Note 1: There was no retirement allowance paid during 2013.

Note 2: The proposed profit sharing of 2013 will take effect upon the approval of directors at the Board before the Annual Shareholder Meeting in 2014.

Note 3: Net Income means net income of the parent company in 2013.

Note 4: Compensation paid to those directors who held positions of employees should be proposed and estimated in accordance with the actual employee profits distribution ratio last year and the proposed ratio this year.

#### Compensation 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.	From Holy Stone	From All Reinvested Co.
Under NT\$2,000,000	b,d,e,f,g	b,e,f,g	f,g	f,g
NT\$2,000,000~NT\$5,000,000	c	c,d	c	c
NT\$5,000,000~NT\$10,000,000	a	a	b,d,e	b,d,e
NT\$10,000,000~NT\$15,000,000	-	-	a	-
NT\$15,000,000~NT\$30,000,000	-	-	-	a-
NT\$30,000,000~NT\$50,000,000	-	-	-	-
NT\$50,000,000~NT\$100,000,000	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total	7	7	7	7

Unit: Thousand shares/ NT\$ thousands as of 2013.12.31

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 (Note 3)		Compensation Paid to Directors from Nonconsolidated Affiliates
Base Compensation, Bonuses, and Allowances (E)		Retirement Allowance (F)		Employee Profit Sharing (G) (Note 4)				Exercisable Employee Stock Options (H)		Exercisable Employee Restricted Stock (I)		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	From Holy Stone	From All Companies within the Financial Report			
				Cash	Stock	Cash	Stock							
10,110	12,530	-	-	12,800	0	12,800	0	917	917	-	-	5.58	5.95	1,308

## Compensation Paid to Supervisors

Unit: NT\$ thousands as of 2013.12.31

Title	Name	Compensation Paid to Supervisors						Total Compensation (A+B+C) as a % of Net Income (Note 2)		Compensation Paid to Directors from Nonconsolidated Affiliates
		Base Compensation (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)	-	-	3,561	3,621	480	600	0.58	0.61	0
Supervisor	Chung-Yi Yang (b)	-	-							

Note 1: The proposed profit sharing of 2013 will take effect upon the approval of directors at the Board before the Shareholder Meeting in 2014

Note 2: Net Income: 2013 net income

## Compensation Paid to Supervisors

Compensation Paid to Supervisors of Holy Stone	Name of Supervisors	
	Total Compensation (A+B+C)	
	From Holy Stone	From All Companies within the Financial Report
Under NT\$2,000,000	-	-
NT\$2,000,000~NT\$5,000,000	a.b-	a.b
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	2	2

## Compensation Paid to President and Vice Presidents

Unit: Thousand shares/ NT\$ thousands as of 2013.12.31

Title	Name	Salary(A)		Retirement Allowance (B) (Note 1)		Bonuses and Allowances (C)		Employee Profit Sharing (D) (Note 2)				Total Compensation (A+B+C+D) as % of Net Income (%) (Note 3)		Exercisable Employee Stock Options		Exercisable Employee Restricted Stock		Compensation 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	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)	14,729	19,345	-	-	-	-	21,000	0	21,000	0	5.14	5.80	1,505	1,505	-	-	1,308
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)																	

Note 1: There was no retirement allowance during 2013.

Note 2: The amount of employee profit sharing granted to Manager was estimated according to the proposed employee profits distribution ratio this year and the actual ratio last year.

Note 3: Net income after tax was the 2013 net income after tax of the Parent Company.

## Compensation 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 Reinvested Co.
Under NT\$2,000,000	-	-
NT\$2,000,000~NT\$5,000,000	b.d.e.f.g	d.f.g
NT\$5,000,000~NT\$10,000,000	a.c	a.b.c.e
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	-	-
<b>Total</b>	<b>7</b>	<b>7</b>

## Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands as of 2013.12.31

	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	-	22,000	22,000	3.16
	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: The amount of employee profit sharing granted to Manager was estimated according to the proposed employee profits distribution ratio this year and the actual ratio last year.

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

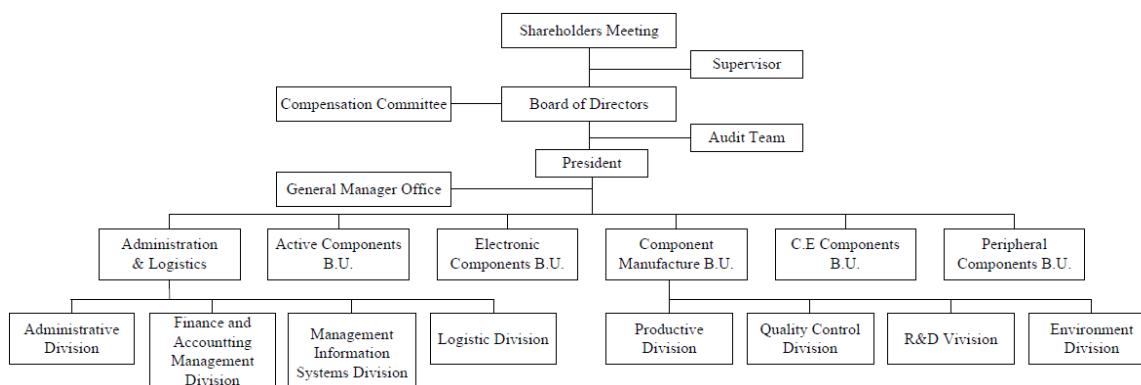
Item	Percentage of Total Compensation to Net Income (%)			
	2012		2013	
	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors	6.03	6.41	5.58	5.95
Supervisors	0.64	0.67	0.58	0.61
President & Vice Presidents	5.71	6.38	5.14	5.80

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.20 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

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 2013. 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	5	0	83.33	-
Director	Representative of Lin Tan Investment Co., Ltd.: Yu-Min Wu	6	0	100.00	-
Director	Shih-Yun Sheng	4	2	66.67	-
Director	Shao-Kuo Huang	5	1	83.33	-
Independent Director	Ken-Yi Cheng	4	0	66.67	-
Independent Director	Nai-Hua Wu	6	0	100.00	-
Supervisor	Tang-Ming Wu	6	0	100.00	-
Supervisor	Chung-Yi Yang	6	0	100.00	-

Annotations:

- 1.If an independent director had a dissenting or reserved opinion on the Board's resolution that conforms to the Securities Exchange Act Article 14-3 that is written or otherwise recorded, the meeting date, term, proposal contents, and all opinions of independent directors and handling of those opinions from corporate are stated as follow: None.
- 2.Recusals of directors due to conflicts of interests should state directors' name, proposal contents, reasons to avoid interests, and participation in votes: None.
- 3.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) 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 2013. The directors' attendance status is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate in Person (%) <b>【B/A】</b>	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). During the month following the completion of an audit project, an audit report is submitted to the supervisors. There were no dissenting opinions of supervisors on those audit reports.
      - (ii). An audit report is submitted preceding a regular board meeting. There were no dissenting opinions of supervisors on those audit reports.
    - 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:

Item	Implementation Status	Deviation from rules as required by the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons
<p>1. Shareholding Structure &amp; Shareholders' Rights</p> <p>(1) Method of handling shareholder suggestions or complaints</p> <p>(2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders</p> <p>(3) Risk management mechanisms and "firewall" between the Company and its affiliates</p>	<p>(1) i. The Company has spokesman, public relation team, and stock affairs office to handle relative matters.</p> <p>ii. Shareholders meetings are held by its corresponding discussion rules.</p> <p>(2) Other than analyzing the distribution profile of share ownership after the final 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.</p> <p>(3) The Company has established and managed in conformity to the internal control system, such as "Procedures Governing Specific Companies, Groups, and 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.</p>	<p>None</p> <p>None</p> <p>None</p>
<p>2. Composition and Responsibilities of the Board of Directors</p> <p>(1) Independent Directors</p> <p>(2) Regular evaluation of external auditors' independence</p>	<p>(1) Selecting two independent directors.</p> <p>(2) i. Before hiring a new accountant, the accountant will be evaluated on professionalism and independence by directors and supervisors with accounting and finance background.</p> <p>ii. On a regular basis, the Board will evaluate the CPAs' independence. The accountants and auditing company currently hired are neither related parties of the Company nor have any interests in the Company, and will hold the independency.</p>	<p>None</p> <p>None</p>
<p>3. Communication channel with stakeholders</p>	<p>(1) Designated personnel handle related matters.</p> <p>(2) Independent directors and supervisors shall contact stakeholders directly when necessary.</p> <p>(3) 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.</p>	<p>None</p>

Item	Implementation Status	Deviation from rules as required by the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons
<p>4. Information Disclosure</p> <p>(1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance status</p> <p>(2) Other information disclosure channels (e.g., maintaining an English website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)</p>	<p>(1) The Company has set up a website in both Chinese and English which is updated regularly with the latest information on products, corporate introduction, and financial statements.</p> <p>(2) 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.</p>	<p>None</p> <p>None</p>
<p>5. Operations of the Company's Nomination Committee, Compensation Committee, or other functional committees of the Board of Directors</p>	<p>The Company has established a Compensation Committee in 2011 and the meetings follow “Procedures for Compensation Committee”. For operational status, please refer to page 20 of this Annual Report.</p>	<p>Other than Compensation Committee, the Company has not established other committees such as the Nomination Committee, or other functional committees. For the purpose of corporate governance, the Company will discuss and evaluate proposed deliberation, and establish other committees in accordance to the need of business operations and regulations..</p>
<p>6. If the Company has established corporate governance policies based on TWSE Corporate Governance Best Practice Principles, please describe any discrepancy between the policies and their implementation:</p> <p>The Company is mapping out its corporate governance policies. Regarding directors’ and supervisors’ authority execution, internal control system, and relevant managing measures, we have complied on the basis of the TWSE principles and exercised accordingly.</p>		

Item	Implementation Status	Deviation from rules as required by the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons
<p>7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, stakeholders rights, directors' and supervisors' continuing education, implementation of risk management policies and risk evaluation measures, implementation of customer policies, and purchasing of insurance for directors and supervisors):</p> <p>(1) Employee rights and employee wellness</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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. According to 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 regularly and creating awareness on 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.”</p> <p>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> <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 as follow: <a href="mailto:IR@Holy Stone.com.tw">IR@Holy Stone.com.tw</a></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: <a href="http://Holy Stone.com.tw">http://Holy Stone.com.tw</a></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> <p>i. The Company's directors and supervisors have backgrounds and work experiences in the area of commerce, law, finance, accounting, and business management.</p> <p>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.</p> <p>iii. Website: <a href="http://mops.twse.com.tw">http://mops.twse.com.tw</a>.</p> <p>(6) Policies and implementation of risk management: Please refer to page 15-16 and 74-76 of this Annual Report.</p> <p>(7) The implementation of customer policies: The Company complies with ISO 9001 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.</p> <p>(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.</p>		
<p>8. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such evaluations, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None.</p>		

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

#### 3.4.4.1. Formation and Responsibilities

#### Information on Compensation 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	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	1 (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.

#### 3.4.4.2. Operational Status

#### Operating Information on Compensation 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: 2012.06.05 to 2015.06.04

There were 2 (A) compensation committee meeting(s) in 2013. The members’ attendance status is as follow:

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:

- 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.
- 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

Item	Implementation Status	Deviation from rules as stated by the “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
<p>1. Promote Corporate Governance</p> <p>(1) Status of establishing policies and systems for corporate social responsibilities and reviewing results</p> <p>(2) Status of designating personnel to promote CSR</p> <p>(3) Status of establishing awards/disciplinary policy based on employees’ performance in the regular training programs to promote business ethics for directors, supervisors and employees</p>	<p>(1) 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:</p> <ol style="list-style-type: none"> <li>1. Adhering to governmental laws and statutes and setting higher standards of code of conduct.</li> <li>2. Practice strong corporate governance, actively build corporate value and protect the rights and interests of our investors.</li> <li>3. Follow relevant laws, regulations and ISO 14001 requirements, engage in environmentally-friendly practices and create a green corporation.</li> <li>4. All operation units regardless of geographic area must be in compliance with applicable laws (“Labor Law”) in the employment of staff.</li> <li>5. Caring for employees’ safety and health by providing a comprehensive work environment in which safety and hygiene is upheld.</li> <li>6. Attending to the minorities through encouraging employees’ participation in community services.</li> </ol> <p>(2) The Company has designated personnel responsible for promoting CSR, reviewing executions regularly, and preparing CSR report.</p> <p>(3) Annual networking event for directors, supervisors and employees is held to promote corporate culture and management ideology. Its effectiveness is also included as a factor during an employee’s performance evaluation.</p>	<p>None. If necessary, execution will be based on rules of “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and other related regulations.</p> <p>None</p> <p>None</p>
<p>2. Develop Sustainable Environment</p> <p>(1) Status of maximizing resource utilization, using recycled materials to minimize the negative impacts on the environment</p> <p>(2) Status of establishing the ideal environmental protection system that best suits the industry</p> <p>(3) Status of establishing an environmental management division or personnel to act for the protection of the environment</p> <p>(4) Status of attending to climate impact on operating activities, and developing strategies to reduce carbon emissions and greenhouse gases</p>	<p>(1) Implement waste management, reuse waste solvents, reduce amount of purchase, and ultimately ease the impact of environmental harm.</p> <p>(2) Qualify for ISO 14001 Environmental Management System certificate.</p> <p>(3) Set up an Environmental Safety Division (E.H.S.)</p> <p>(4) Regularly check environment-related regulations to maintain compliance; promote energy-saving and environmental protection activities; and invest in pollution control equipments.</p>	<p>None</p> <p>None</p> <p>None</p> <p>None</p>

Item	Implementation Status	Deviation from rules as stated by the “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
3. Protect Social Welfare		
(1) Status of complying to labor laws, protecting the rights of employees, and framing suitable management procedures	(1)1. Establish Company policies based on Labor Law, and revise and update according to amendments to the law. 2. Based on the Gender Equality in Employment Act, establish a committee to handle complaints, create a complaint system and harassment prevention measures to protect employees’ rights.	None
(2) Status of providing a hazard-free work environment and regular training courses to employees on safety and health issues	(2)i. Conduct regular health examinations, hold health promotional activities, strengthen employees’ knowledge on health issues. 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. ii. Form suitable emergency response teams according to each geographic area and strengthen security protection in workplaces. iii. Conduct trainings for related professional staff according to Labor Safety and Health Act.	None
(3) Status of creating communication channels with employees and notifying employees in an appropriate manner on operational changes that might have a significant impact on the employee.	(3) 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
(4) Status of disclosing consumer rights policy and providing transparent and efficient complaints procedure for corresponding products and services	(4)i. Set up sales personnel to resolve customer complaints. ii. Handle customer complaints in accordance with “Customer Complaints Procedure.” iii. Periodically conduct customer satisfaction survey.	None
(5) Status of cooperation between the Company and its vendors to raise awareness of Corporate Social Responsibility	(5)i. Promote the Company’s environmental policies to build a green supply chain. Require vendors to use non-hazardous substances in their products, and provide Restriction of Hazardous Substances (RoHS) directive during approval of purchases of raw materials. ii. Suppliers are responsible to ensure their labor employment policies comply with international standards, grant employees human rights, and refuse to hire illegal employees.	None
(6) Status of the Company’s participation in charities or community development, through commercial activities, donations, community services, or other services	(6)i. Holy Stone Foundation was founded in December 2001 aiming to help the community and assist disadvantaged families. Other than establishing Emergency Aid to help disadvantaged families in emergency, scholarships are also offered to well-performing students or to those in need of financial aid, enabling them to advance further in their studies. Furthermore, we also sponsor	None

Item	Implementation Status	Deviation from rules as stated by the “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
	<p>several non-profit organizations to promote awareness for their cause.</p> <p>ii. Employee Donations: Since 1997, our employees have continuously made regular donations to non-profit organizations such as rural district hospitals and child care institutions.</p> <p>iii. Formed in 2011, Holy Stone Volunteers promotes corporate social responsibility, allowing employees to take action in helping the community while broadening each individual’s vision and experience.</p> <p>iv. Holy Stone’s Goodwill Team: The Goodwill Team holds second-hand sales, which proceeds are donated in full to non-profit foundations to help those living in remote areas.</p>	
<p>4. Strengthen Information Disclosure</p> <p>(1) Method of disclosing relevant and reliable information related to corporate social responsibility</p> <p>(2) Status of disclosing the promotion of corporate social responsibility in CSR report</p>	<p>(1) Disclose commitments on corporate social responsibility under “Corporate Social Responsibility” section on the corporate website.</p> <p>(2) Disclose CSR report annually on the corporate website. Please refer to: <a href="http://www.Holy Stone.com.tw">http://www.Holy Stone.com.tw</a></p>	<p>None</p> <p>None</p>
<p>5. If the Company has its own CSR guidelines in accordance with “Corporate Social Responsibility Best Practices Principles for TWSE/GTSM-Listed Companies,” please describe the difference in the Company’s guidelines and its actions:</p> <p>Corporate social responsibility is one of Holy Stone’s business strategies. Other than posting our corporate social responsibility commitment on the website, we have also prepared annual CSR reports based on the relevant regulations. The Company’s self-assessment result shows that there is no deviation between the two.</p>		
<p>6. Other supplementary information that is relevant to understanding the operations of CSR (e.g. the Company’s system and measures toward environment, community, community service, community welfare, consumer rights, human rights, safety and hygiene, and others):</p> <p>All information regarding CSR is fully disclosed in each year’s CSR Report; please refer to the Company’s website.</p>		
<p>7. Please describe, if any, the Company’s product or CSR report that have passed standard examinations by related certification body:</p> <p>The Company’s CSR Report was completed with the assistance from “Industrial Sustainable Development and International Environmental Protection Standards Project” from the Ministry of Economic Affairs, and has not seek consultation from external certification parties.</p>		

3.4.6. Ethical Corporate Management

Item	Implementation Status	Deviation from rules as stated by the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
<p>1. Establish policies and plans for ethical business practices</p> <p>(1) Explicitly state policies of ethical business practices in the Company’s regulations and public documents, and show commitments and initiatives among the Board of directors and management team.</p> <p>(2) Establish prevention measures against unethical business practices, its relevant procedures, conduct guidelines, and educational training</p> <p>(3) Establish prevention measures against activities with higher risks of unethical business practices, preventing behaviors such as briberies, illegal political offerings, etc.</p>	<p>(1) The Company has disclosed the policies for ethical business practices within our CSR commitment. This commitment can be found on company website in both Chinese and English. In addition, the Company has established policies for information disclosure and recusal of directors in the event where conflict of interest occurs and recorded in “Board of Directors Discussion Rules” and “Procedures for Important Internal Information Management”. “Accounting Policies” and “Internal Control Policies” and other relevant management measures are also in place to ensure the Board and management team perform ethical business practices.</p> <p>(2) Prevention measures against unethical business practices were as follow:</p> <ul style="list-style-type: none"> <li>i. State relevant regulations and consequences upon violation within the Company’s regulations.</li> <li>ii. Include ethical activities within the review process for employee performance and human resource policies.</li> <li>iii. Require new employees to commit and sign terms regarding integrity while Human Resource Department will explain Holy Stone’s policies concerning CSR and relevant information on company regulations.</li> <li>iv. When signing contracts with vendors and customers, require them to commit and sign terms regarding integrity.</li> <li>v. Promote ethical business practices through educational courses and internal communication channels within the company.</li> </ul> <p>(3) To prevent against unethical business practices within activities with higher risks of occurrence, require vendors to sign “Corporate Social Responsibility Commitment” along with the vendor contract to better manage Holy Stone’s supply chain. And similar for the customers, we also commit to each other in performing ethical business practices and preventing behaviors such as briberies, illegal political offerings from happening.</p>	<p>None. If necessary, execution will be based on rules of “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” and other relevant regulations.</p> <p>None</p> <p>None</p>
<p>2. Implement ethical business practices</p> <p>(1) Prevent from carrying out transactions with companies with records of unethical business operations, and also explicitly state terms of ethical behaviors in contracts</p> <p>(2) Designate personnel to implement</p>	<p>(1) Require vendors to sign “Corporate Social Responsibility Commitment”</p> <p>(2) Assign the Human Resources Department as the</p>	<p>None</p> <p>None</p>

Item	Implementation Status	Deviation from rules as stated by the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
<p>and promote ethical business practices, and supervision provided by the Board</p> <p>(3) Establish policies to prevent conflict of interest and provide appropriate communication channels for ease of reporting</p> <p>(4) Establish effective accounting policies and internal control policies based on ethical business practices, as well as status of internal auditing</p>	<p>designated unit, and the General Manager Office 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.</p> <p>(3) i. The Company has established policies for recusal of directors in the event where conflict of interest occurs and recorded in “Board of Directors Discussion Rules”. 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.</p> <p>(4) 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.</p>	<p>None</p> <p>None</p>
<p>3. Establish report channels and set up punishment for violation of the Company’s business ethics policies</p>	<p>The Company explicitly states punishments for violation of the Company’s business ethics policies in its regulation. Employees can report such matters during regular departmental meetings, and through email or the internal communication system. We also encourage employees to communicate with management team and directors directly</p>	<p>None</p>
<p>4. Strengthen Information Disclosure</p> <p>(1) Disclosing information related to business ethics on the Company website</p> <p>(2) Other methods of disclosure (setting up English website, designating personnel to organize and disclose information on the website)</p>	<p>(1) Disclose information on business ethics on the Company’s website in both Chinese and English.</p> <p>(2) Designated personnel maintain information on the website.</p>	<p>None</p> <p>None</p>
<p>5. If the Company has its own business ethics guidelines in accordance with “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies,” please describe the difference in the Company’s guidelines and its actions: The Company established business ethics policies, but has yet to establish best practice principles. However, the Company has followed laws and regulations to implement business ethics and disclosed information on Market Observation Post System. Each policy is periodically reviewed by the internal audit team, appointed accountant, and through internal control self-assessments. The results will be reported to the Board. The Company creates audit systems on corporate governance and risk control and continues to strive for corporate social responsibility and sustainable operations. There is no deviation between our best practice principles and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies.” And the Company intends to develop related measures on business ethics.</p>		
<p>6. Other supplementary information that is relevant to understanding the operations of business ethics (e.g. the Company promoting its business ethics and policies with business partners, and inviting them to participate in educational activities, and to review the Company’s business ethics policies):</p> <ol style="list-style-type: none"> <li>1. Customers and Suppliers: Business activities with partners within the supply chain follow equality, justice, and honesty.</li> <li>2. Employees: The Company’s business ethics policies and objectives are promoted within irregular educational activities.</li> <li>3. Investors/Shareholders: Regularly update the corporate website, disclosing an overview, basic information, and financial status of the Company. Information regarding the Company is also uploaded to the Market Observation Post System in a timely manner.</li> <li>4. Internal Control: Establish SOPs, limits of authority, internal audit systems, and related internal control measures. These measures are reviewed regularly on their effectiveness.</li> </ol>		

3.4.7. 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) Organizational Rules of the Compensation Committee

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

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

The Company has published CSR Report which is available on the website: [www.Holy Stone.com.tw](http://www.Holy Stone.com.tw)

### 3.4.9. Internal Control System Execution Status Items

#### 3.4.9.1. Statement of Internal Control System

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

Date: March 18, 2014

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, 2013 to December 31, 2013:

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 2013, 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 18, 2014, with zero 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:

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

3.4.10. 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.

3.4.11. 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
2013.06.14	Shareholders' Meeting	<ol style="list-style-type: none"> <li>1. The approval for 2012 business report and financial statements.</li> <li>2. The approval for the distribution of 2012 profits.</li> <li>3. The approval for the cash distribution of capital surplus.</li> <li>4. The approval for capital reduction.</li> <li>5. The approval for the "Process of Lending of Capital."</li> <li>6. The approval for the "Process of Endorsements and Guarantees."</li> </ol>	All resolutions have been passed without any participating shareholders expressing dissenting opinions and fully implemented accordingly.
2013.03.20	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval for the business plan for 2013.</li> <li>2. The approval for 2012 business report and financial statements (consolidated report included)</li> <li>3. The approval for the distribution of 2012 profits.</li> <li>4. The approval for capital reduction.</li> <li>5. The approval for the "Process of Lending of Capital."</li> <li>6. The approval for the "Process of Endorsements and Guarantees."</li> <li>7. The approval for convening the 2013 Annual Shareholders' Meeting.</li> <li>8. The approval for the amendment of "Internal Control System."</li> </ol>	<ol style="list-style-type: none"> <li>1. All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.</li> <li>2. Resolutions No. 2-6 have been passed without any participating shareholders expressing dissenting opinions and fully implemented accordingly.</li> </ol>
2013.05.08	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval for change in Certified Public Accountants auditing financial statements.</li> <li>2. The approval for the first quarter of 2013 financial statements and consolidated financial statements.</li> <li>3. The approval for endorsing/guaranteeing for Everplus Material Co., Ltd.</li> <li>4. The approval for executing cash deduction.</li> <li>5. The approval for the additional resolution within 2013 shareholders' meeting</li> </ol>	<ol style="list-style-type: none"> <li>1. All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.</li> <li>2. Resolution No. 4 has been passed without any participating shareholders expressing dissenting opinions and fully implemented accordingly.</li> </ol>
2013.06.14	Board Meeting	The approval for cash dividend exclusion and distributing cash from available surplus.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2012.06.24	Board Meeting	Unconsolidated Financial Report of 2013 quarter 1.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.

2013.08.08	Board Meeting	1. The approval for the record date of capital reduction, replacement of share certificates for the capital reduction and related issues. 2. The approval for regular reviews by Compensation Committee on matters related to compensations. 3. The approval for lending funds among subsidiaries.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2013.11.08	Board Meeting	1. The approval for amendment to "Internal Control System." 2. The approval of Internal Audit Plan of 2014.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2014.03.18	Board Meeting	1. The approval for the business plan of 2014. 2. The approval for 2013 business report and financial statements. 3. The approval for the distribution of 2013 profits. 4. The approval for amendment to "Company's Articles." 5. The approval for amendment to "Handling Acquisition and Disposal of Assets." 6. The approval for releasing directors' from the restriction of non-competition clause. 7. The approval for convening the 2014 Annual Shareholders' Meeting. 8. The approval for 2014 Statement of Internal Control System.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2014.5.06	Board Meeting	The approval for Writing off of treasury stock.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.

3.4.12. 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.

3.4.13. 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	Ching-Sung Wang	Chia-Hsin Chang	102.1.1~102.3.31	The auditor has been changed for the internal rotation of KPMG.
	Pei-Chi Chen	Chia-Hsin Chang	102.4.1~102.12.31	

Unit: NT\$ thousands

Range of Amount		Items of Fee	Audit Fee	Non-Audit Fee	Total
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				

- 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**

The auditor has been changed for the internal rotation of KPMG.

**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	2013(Note)		2014.01.01~2014.04.13	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & President	Jing-Rong Tang	0 (3,477,765)	-	-	-
Director	Lin Tan Investment Co., Ltd. Representative: Chyang Lo	0 (4,412,287)	-	-	-
Director	Lin Tan Investment Co., Ltd. Representative: Yu-Min Wu	0 (1,333,671)	-	-	-
Director & Vice Executive President	Shih-Yun Sheng	0 (840,788)	-	-	-
Director & Vice President	Shao-Kuo Huang	0	-	-	-
Independent Director	Nai-Hua Wu	0	-	-	-
Independent Director	Ken-Yi Cheng	0	-	-	-
Supervisor	Chung-Yi Yang	16,000 (217,556)	-	-	-
Supervisor	Tang-Ming Wu	16,000 (283,130)	-	-	-
Supervisor	Yu-Min Wu	0 (349,588)	-	-	-
Vice President	Sheng-Yao Lu	0 (133,100)	-	-	-
Vice President	I-Ta Lee	0 (65,184)	-	-	-
Vice President	Hui-Bang Yeh	0 (101,558)	-	-	-
Vice President	Shu-Ying Chang	0 (71,565)	-	-	-

Note: Holy Stone returned shares for capital reduction in 2013.

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 (Note 1)	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	
Lung Ko Investment Co., Ltd.	10,774,717	4.81%	N/A	N/A	N/A	N/A	None	None	
Lin Tan Investment Co., Ltd.	10,295,336	4.59%	N/A	N/A	N/A	N/A	None	None	
Nan Shan Life Insurance Co., Ltd.	9,274,433	4.14%	N/A	N/A	N/A	N/A	None	None	
Jing-Rong Tang	8,114,784	3.62%	N/A	N/A	N/A	N/A	None	None	
Fang Hao Investment Co., Ltd.	7,769,209	3.47%	N/A	N/A	N/A	N/A	None	None	
Shin Kong Life Insurance Co., Ltd.	7,139,489	3.19%	N/A	N/A	N/A	N/A	None	None	
Fubon Life Insurance Co., Ltd.	7,000,000	3.12%	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	
Fund Investment Account on Dimensional Emerging Markets Evaluation managed by Citibank	2,793,650	1.25%	N/A	N/A	N/A	N/A	None	None	
Lung Hsin Investment Co., Ltd.	2,581,614	1.15%	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 2014.12.31

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%
Martek Co., Ltd.	8,500,000	100.00%	-	-	8,500,000	100.00%
Rong Jhan Investment Co., Ltd.	56,500,000	100.00%	-	-	56,500,000	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\$960.653million(Note 16)	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. 0920134915.

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, 2013 and by FSC Ruling Chin-Kuan-Cheng 1020026067

Note 17: 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 2013.04.13

Type of Stocks	Authorized Share Capital			Note
	Outstanding Shares ( Listed )	Unissued Shares	Total	
Common Stock	224,152,218	225,847,782	450,000,000	None

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

## 4.1.2. Shareholder Structure

Unit: Shares as of 2014.04.13

Type	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury Stock	Total
Number of Shareholders	2	7	69	119	26,631	1	26,829
Number of Shareholding	44	24,942,434	40,951,227	23,129,261	134,525,152	604,100	224,152,218
Holding Percentage	0.00	11.13	18.27	10.32	60.01	0.27	100.00

## 4.1.3. Diffusion of Ownership

As of 2014.04.13

Shareholder Ownership	Number of Shareholders	Ownership	Ownership (%)
1-999	12,252	4,421,185	1.97%
1,000-5,000	10,470	24,166,162	10.78%
5,001-10,000	2,148	15,651,947	6.98%
10,001-15,000	747	9,315,841	4.16%
15,001-20,000	309	5,332,359	2.38%
20,001-30,000	333	8,151,847	3.64%
30,001-40,000	161	5,656,621	2.52%
40,001-50,000	85	3,809,470	1.70%
50,001-100,000	162	11,449,928	5.11%
100,001-200,000	63	8,311,550	3.71%
200,001-400,000	35	9,576,831	4.27%
400,001-600,000	17	8,279,409	3.69%
600,001-800,000	11	7,582,078	3.38%
800,001-1,000,000	9	7,682,637	3.43%
Over 1,000,001	27	94,764,353	42.28%
Total	26,829	224,152,218	100.00%

## 4.1.4. List of Principal Shareholders

As of 2014.04.13

Shareholders	Shares	Total Shares Owned	Ownership
Lung Ko Investment Co., Ltd.		10,774,717	4.81%
Lin Tan Investment Co., Ltd.		10,295,336	4.59%
Nan Shan Life Insurance Co., Ltd.		9,274,433	4.14%
Jing-Rong Tang		8,114,784	3.62%
Fang Hao Investment Co., Ltd.		7,769,209	3.47%
Shin Kong Life Insurance Co., Ltd.		7,139,489	3.19%
Fubon Life Assurance Co., Ltd.		7,000,000	3.12%
Shih-Yun Sheng		3,111,896	1.39%
Fund Investment Account on Dimensional Emerging Markets Evaluation managed by Citibank		2,793,650	1.25%
Lung Hsin Investment Co., Ltd.		2,581,614	1.15%

#### 4.1.5. Share Price, Net Worth, Earnings, Dividends per Common Share, and Relevant Information for the past two years

Unit: Thousand of shares / NT\$

Item		Fiscal Year	2012	2013	01/01/2014 ~04/30/2014
Market price per share	Highest market price		30.80	39.65	45.00
	Lowest market price		23.20	25.00	37.80
	Average market price		26.47	29.78	42.11
Net worth per share	Before distribution		28.12	36.89	37.70(Note 5)
	After distribution		26.12	34.09(Note 1)	-
Earnings per share	Weighted average shares		319,354	284,969	223,548(Note 5)
	Earnings per share		2.00	2.44	0.79(Note 5)
Dividends per share	Cash dividends		2.00	2.80(Note 1)	-
	Stock dividends	-	-	-	-
		-	-	-	-
	Accumulated undistributed dividends		-	-	-
Returns on investment	Price / Earnings Ratio (Note 2)		12.91	12.20	-
	Price / Dividend Ratio (Note 3)		13.24	10.64(Note 1)	-
	Cash Dividend Yield (Note 4)		7.56%	9.40%(Note 1)	-

Note 1: Finalize 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 March 31, 2014

#### 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 18, 2014, Holy Stone's Board of Directors approved a proposal for distribution of 2013 profits with a cash dividend of NT\$2.80 per share.  
After the approval of the Annual Shareholders' Meeting, the Board will decide on the date of distribution.
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

According to No.20 of the Company's Articles of Incorporation, retained earnings shall be distributed in the following order:

1. Pay all Income tax required by law.
2. Offset past accumulated deficits.
3. Distribute 10 percent to legal reserve after items 1 and 2, except if amount in legal reserve exceeds paid-in capital.
4. Distribute accordingly from special reserve or reverse special reserve based on applicable laws and regulations.
5. 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.

6. Surplus after items 1 to 5 is distributed as dividends and bonuses to shareholders after the decision is proposed by the Board and approved by the Annual Shareholders' Meeting..

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 2013 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 of 2013 were 16 percent and 3 percent respectively. Using this calculation, employees' bonus and directors'/supervisors' compensation of 2013 are NT\$99,956 thousand and NT\$18,742 thousand respectively..
2. The issued stock shares will be calculated using the closing price on the day before the 2013 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 18, 2014, the Board approved for the distribution of NT\$99,956 thousand of employee bonus and NT\$18,742 thousand of directors' and supervisors' compensation, which will be paid in cash, which is consistent with the expensed amount in 2013. Subsequently, if there is discrepancy after the Annual Shareholders' Meeting, the difference shall

be recognized as expenses in 2014.

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 2012

The Company distributed NT\$91,881 thousand of employee bonuses, and NT\$17,228 thousand of directors' and supervisors' compensation in 2012, both amount is consistent with the proposed amount by the Board.

#### 4.1.9. Buyback of Common Stock

The most recent buyback of Common stock was as follows:

As of 2014.04.30

Stage of Buy back	Fourth
Reason for Buy back	Distribution to employees
Period for Buy back	2011/03/21~2011/05/20
Buy back Price Range	28.00 ~ 48.00
Projected type and number of shares to Buy back	Common Stock 604,100 shares ( Note )
Amount of shares Bought back	NT\$28,253 thousand ( Note )
Cumulative number of shares of the Company	604,100 shares ( Note )
Percentage of cumulative number of shares over Total Outstanding shares	0.27%
Reason for incomplete buyback past the declared Buy back period	To maintain the interests of shareholders, taking into account the market trading mechanisms and price stability, while using funds effectively, the Company has adopted a policy to buy back in batches. And since the stock price has stabilized, the number of shares buyback is less than the projected amount.

Note: The original shares bought back was 863,000 shares, totaled NT\$30,842 thousand. Due to the Company initiated a 30% of cash reduction on August, 22, 2013, 258,900 shares of treasury stocks were canceled proportionally, and NT\$ 2589 thousand was returned.

## 4.2. Issuance of Corporate Bonds

### 4.2.1. Issuance of Corporate Bonds

As of 2014.04.30

Type of Corporate Bond	Third Domestic Unsecured Convertible Bond	
Date of Issuance	2010.06.23	
Par Value	Each bond has a par value of NT\$100,000	
Issuing and Listing Location	Not applicable	
Issuance Price	Full amount as indicated on each bond	
Total Amount	NT\$700,000,000	
Interest Rate	Annual rate of 0%	
Term	Five years	
Guarantor	None	
Trustee	China Trust Commercial Bank Co., Ltd.	
Underwriters	Mega Securities Co., Ltd.	
Appointed Licensed Lawyer	Jung-Jie Wei	
Appointed Licensed Accountant	Ching-Sung Wang and Chia-Hsin Chang	
Reimbursement Method	The convertible bonds, at maturity, will be paid back in one time with the par value stated on the bond, except those converted to shares according to Article 10, redeemed before maturity according to Article 18, or sold by the bond bearer beforehand according to Article 19.	
Amount Outstanding	NT\$104,500,000	
Redemption Clauses	Refer to Article 18	
Restrictive Covenants	None	
Credit Rating Agency/ Date/ Rating	Not applicable	
Convertibles	Amount Converted	NT\$0
	Issuance and Conversion Rules	Refer to Rules on Third Domestic Unsecured Convertible Corporate Bond Issuance and Conversion
Methods of Issuance, conversion, or warrant, impact to current shareholders' rights and potential dilution	EPS for 2013 was NT\$2.44, similar to NT\$2.00 in 2012; showing that past financing activity did not have significant dilution effect on equity value	
Custodian	Not applicable	

4.2.2. Information on Convertible Bonds

Type of Corporate Bond		Third Domestic Unsecured Convertible Bond		
Year		2012	2013	2014.01.01~2014.04.30
Item				
Market Price of Convertible Bond	Highest	102.00	102.50	105.50
	Lowest	99.55	99.90	103.00
	Average	100.19	100.52	103.83
Convertible Price		NT\$34.38 since 2012.08.14	NT\$45.89 since 2013.08.22	
Issuance Date and Convertible Price during Issuance		Issued on 2010.06.23, with convertible price of NT\$43.50		
Method of Conversion		Issuing new stocks		

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.

#### 4.5. 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 2014.04.30

<b>Employee Share Subscription Warrants</b>	<b>Fourth Warrant</b>
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 <sup>nd</sup> Year: up to 15% 3 <sup>rd</sup> Year: up to 15% 4 <sup>th</sup> Year: up to 25% 5 <sup>th</sup> Year: up to 25% 6 <sup>th</sup> Year: up to 20%
Shares Exercised	-
Value of Shares Exercised	-
Shares Unexercised	7,002,200 shares
Grant Price Per Share	NT\$43.70
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 2014.04.30

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	Value of Shares Unexercised	% of Shares Unexercised to Outstanding Common Shares
President	Jing-Rong Tang	1,659	0.74	0	0	0	0	1,659	43.7	72,521	0.74
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	43.7	92,105	0.94
	Shih-Yun Sheng										
	Yu-Min Wu										
	Shao-Kuo Huang										
	Sheng-Yao Lu										
	Yi-Da Lee										
	Hui-Bang Ye										
	Shu-Ying Chang										
	Fang-Ming Lo										
	Jun-Pian Ma										

Note 1: Employee stock options granted issuance in 2007.12.03 of 10,000 thousand shares, share options that not yet been conducted in 2013.08.22 was 9,780.8 thousand shares after 30% of capital reduction.

Note 2: Managers have not exercised employee stock options granted

Note 3: Current options granted price

#### 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

Up to the last quarter before the report's print date, the financial plans and implementation of capital increase, mergers, stock transfers or issuance of corporate bonds:

##### 4.9.1. Financial Plan:

1. Securities and Futures Bureau's approval date and number: May 28, 2010 FSC Ruling No. 0990025827 and 09900258271.
2. Capital needed: NT\$2,155,921 thousand.
3. Source of Capital:
  - (1) Issuance of 33 million new shares sold at premium, at NT\$34.00, each with par value of NT\$10.00. Capital increase projected to be NT\$1,122 million.
  - (2) Issuance of third domestic unsecured convertible bond, each with par value of NT\$100,000 at a five-year term, interest rate 0% with maximum issuance of 7,000 bonds. Capital increase projected to be NT\$700 million.
  - (3) Proceeds from bank loans – NT\$333,921 thousand for acquisition of plant by first quarter in 2010.

(4.) Financial Plans and Progress:

Unit: Thousands of NT\$

Plans	Estimate Completion	Total of Capital Needed	Progress of Capital Expenditure						
			2010				2011		2012
			Before 1Q	2Q	3Q	4Q	1Q	2Q	1Q
Repayments of Bank Loans	2010 Q2	660,000	-	660,000	-	-	-	-	-
Acquisition of Plant, Property & Equipment	2012 Q1	1,495,921	333,921	-	361,450	90,000	351,230	161,820	197,500
Total	2012 Q1	2,155,921	333,921	660,000	361,450	90,000	351,230	161,820	197,500

4.9.2. Implementation Status

Unit: Thousands of NT\$

Item	Implementation Status	Up to 2014 4Q	Implementation Status		Reasons of behind/ ahead of schedule and improvement plans
Repayments of Bank Loans	Capital Expensed	Projected	660,000	100%	Completed on schedule.
		Actual	660,000	100%	
Acquisition of Plant, Property & Equipment	Capital Expensed	Projected	1,495,921	100%	Completed.
		Actual	1,495,921	100%	
Total	Capital Expensed	Projected	2,155,921	100%	
		Actual	2,155,921	100%	

4.9.3. Evaluation of benefits

Unit: Thousands of NT\$

Item	Year	2012	2013	Increase (Decrease) in Capital	Increase (Decrease) Percentage
Current Assets		7,233,077	7,205,740	(27,337)	(0.38)
Long-term Assets		2,700,909	2,584,803	(116,106)	(4.30)
Current Liabilities		3,338,286	3,530,624	192,338	5.76
Total Liabilities		3,599,787	4,120,312	520,525	14.46
Revenue		12,454,958	13,681,808	1,226,850	9.85
Cost of Goods Sold		11,057,199	12,235,851	1,178,652	10.66
Operating Profit		651,761	680,112	28,351	4.35
Interest Expense		18,745	17,619	(1,126)	(6.01)
EPS (NT\$)		2.00	2.44	0.44	22.00

Note: The issuance of convertible bonds is part of the parent company's financial plan; therefore evaluation is conducted with the parent company's financials.

4.9.4. Declaration date required by Securities and Futures Bureau:

May 28, 2010.

## 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, tantalum capacitor, 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 (2013)

Item	Shares of Sales Revenue
Passive Components	27.54%
Active Components	26.20%
System & Module	15.36%
Others	30.90%
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:

Economic activities has revealed recovery in developed nations, and become much more active globally. International Monetary Fund (IMF) forecast the economic recovery will last until 2015. Taiwan Institute of Economics, Academia Sinica as stated that economic growth rate, from 2013 to 2014, will increase by 1.0 percent to 2.89%. To sum up, worldwide purchasing power will increase alongside with the recovery. Nevertheless, potential risks such as regional political crisis and critical weather condition may lead to uncertain economic environment.

The Company and Subsidiaries' products could be divided into four major categories: passive component, active component, system module and others. In terms of application, for the downstream manufacturers straddled across the whole electronic-related industry, the general situation of each industry was summarized as follows:

**Passive Components:** Passive components consist of resistors, capacitors and inductors. The general industrial trend went in line with the electronic industry downstream due to the passive components were applied to diverse electronic products such as computer, mobile phone, networking equipment, digital camera, household electric appliance, game player, industrial and automotive electronics, and more). Affected by decreasing demand of PC, laptop and digital camera worldwide, revenue from passive components of the Company and Subsidiaries declined for the first time. However, benefit from strong demand of mobile communication, the growth of passive components' revenue may be driven back to normal.

**Active Components:** The Company and Subsidiaries franchised a variety of semiconductor components, which contains a higher proportion of integrated circuit products. 2013 Revenue increased by 11% compared to 2012. Furthermore, the soaring demand in communication industry, with the appearance of Smartphone, Mobile Payment Services, and Wearable Devices, is expected to boom the revenue of active components in 2014.

**System Module:** The Company and Subsidiaries' system module focused on franchised add-on-value component and solutions for MCU (major) and other components. The growth rate of revenue neared 10% in 2013. After years dedicating in industrial control, automotive electronics, household electric appliance and medical electronics, the Company and Subsidiaries have raised our prestige and credibility. Our customer includes several international companies. With the traits long-periodic products of downstream companies, we are expecting a steady sales growth rate in 2014.

**Others:** Other than the aforementioned components, active components, passive components, and system modules, Holy Stone and the Subsidiaries franchised plenty of electronic components such as motor fan, electric filter, batteries, CD-ROM, mechanism...etc, likewise the health-care products from related parties. Other scored higher proportion of sales in 2013 than expected. Nevertheless, decline in CD-ROM market will lead Others to have a relatively lower proportion of sales in 2014.

Holy Stone and the Subsidiaries continue ploughing and weeding to produce passive components for niche market, the major material comes from international suppliers. The main competitors are international passive components manufacturers. While the franchising products from international tech suppliers, the major competitors are distributors domestically and overseas. We have diverse product lines, in which deploy widespreadly at customers from different industries, for instance, information and communication, industrial electronics, automotive electronics and consumer electronics. In general, the industrial fluctuations have little impact on Holy Stone.

### 5.1.3. Commitment to Research and Development

#### 5.1.3.1 R&D expenditures during the last fiscal year and as of the first quarter of 2014

Unit: Thousands of NT\$

Item	2013	Up to March 31, 2014
R&D expenditures	231,618	44,875
Net sales	15,898,687	3,848,430
Percentage	1.46%	1.17%

#### 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\$230,000 thousand.

### 5.1.4. Short-term and Long-term Development Strategies

#### 5.1.4.1 Promotion Strategies

##### (1) Short-term

- A. React to different applications in the market and provide customer development of LED / Net work 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.

##### (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 Ratio by Geographic Area in 2011 and 2012

Unit: Thousands of NT\$

Area \ Year	2012		2013	
	Gross Sales	Percentage	Gross Sales	Percentage
Taiwan	2,998,312	20.53%	4,776,155	30.04%
China	10,075,555	68.97%	9,798,437	61.63%
U.S.A.	508,421	3.48%	352,072	2.22%
Others	1,025,546	7.02%	972,023	6.11%
Total	14,607,834	100.00%	15,898,687	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\$15,898,687 thousand in 2013. 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 2014 forecasted growth in shipments made by international research institutions.

Product	2013 YoY	2014 YoY(F)
Personal Computer	(8%)	(1%)
Notebook	(14%)	(6%)
Tablet PC	51%	20%
Feature Phone	39%	(25%)
Smart Phone	43%	30%
LED Lighting	54%	48%
Automobile Industry	4%	4%
Automotive Electronics	7%	7%

\*Growth rate of Automotive electronics was expressed as compound annual growth rate.

\*Source: Digitimes、Gartner、IDC、IEK、Trendforce Research; organized 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 self-made 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 2013 totaled 322 million units, a decline of 8% compared to 2012. The declination came mainly from recession and the prosperity of mobile (handheld) devices; in addition to that, consumers tended to extend PCs useful life. PCs are expected to continue to decline with the total expected shipment of 321 million units.

Shipment of laptop on which tablet put pressure shank to 172 million units or so, a 14% decline from the same period last year. However, decline of laptop market growth rate are expected to stabilize and slow down to 6% with the aid of new products like 2-in1 laptop and a wave of replacement. The expected shipment totaled 162 million units. Portable tablet is gradually substituted for laptop because of the low price and touch panel. The shipment of tablet totaled 172 million units in 2013, a 51% annual growth rate. Tablet is expected to remain the strong growth rate at 20% and reaches shipment of 260 million units. 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 2013, Shipment of mobile phone had reached 1,915 million units in which the Smartphone and feature phone both shared 957 million units. Forecast of worldwide mobile phone shipment will soar to 1,967 million units where Smartphone will share 1,244 million units while feature phone shall decline to 722 million units. According to IDC, worldwide sales of Smartphone in 2014 1Q increased 28.6%, compared to the same period last year. Increasing demand in middle and entry-level Smartphone in China plays a vital role in this increase and is helpful for remaining the relevant supply chains brisk.

System module: Our main product in system module is value-added micro-controller. EETimes, an industrial media based in England, stated that the total market value of micro-controller was USD 152 million or so, and was expected to reach USD 157 million in 2014 with an annual growth rate of 3.8%. Among the increase, forecast showed that 4-bit and 8-bit products will decrease distinctly by 30%; 16-bit products will increase by 10%; and 32-bit products will increase 30 % or more which will share half of the market. 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, CD-RAM for information and communication industry. The aforementioned components eye on high-level application market; however, the shrinking market of CD-RAM in 2014 will have impact on sales.

#### 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
- D. Expand components distribution line and invest in system integration, establishing a variety of business development

##### (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.

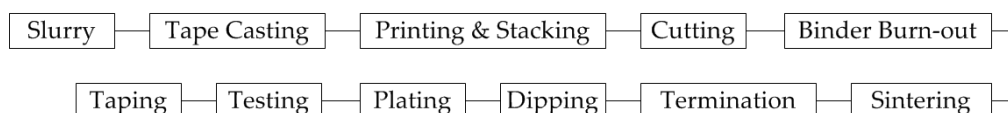
## 5.2.2. Application of Major Products and its Production Process

### 5.2.2.1 Major products and its application

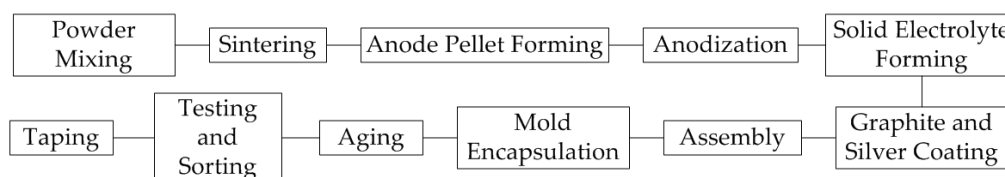
Capacitors are basic components in 3C electronics. In information industry, capacitors are applied to motherboards, VCG cards, sound cards, CD/DVD ROMs and so on. In communications industry, they are applied to mobile phones, fax machines, digital internet services, and modems and so on. Furthermore, 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

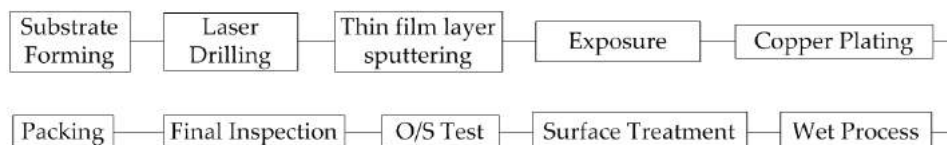
#### Surface-Mounted MLCC



#### Polymer Tantalum Capacitor



#### 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, Shoeni
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 having over 10% share of total amount)

Unit: Thousands of NT\$/ %

Item	2012				2013				First quarter of 2014			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	A	2,956,753	26.69	None	A	3,198,472	24.76	None	A	501,712	19.31	None
2	F	1,978,279	17.86	None	F	1,408,858	10.91	None	F	—	—	None
3	B	1,350,921	12.19	None	B	1,759,521	13.62	None	B	425,393	16.37	None
4	—	—	—	—	D	1,718,383	13.30	None	D	346,056	13.32	None
	Others	4,792,145	43.26	—	Others	4,831,712	37.41	—	Others	1,325,662	51.00	—
	Total	11,078,098	100.00	—	Total	12,916,946	100.00	—	Total	2,598,823	100.00	—

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

### 5.2.4.2 Major customers list (Customers having over 10% share of total amount)

Unit: Thousands of NT\$/ %

Item	2012				2013				First quarter of 2014			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	c	1,870,466	12.80	None	c	—	—	None	—	—	—	None
2	—	—	—	—	—	—	—	—	d	408,042	10.60	None
	Others	12,737,368	87.20	—	Others	15,898,687	100	—	Others	3,440,388	89.40	—
	Total	14,607,834	100.00	—	Total	15,898,687	100	—	Total	3,848,430	100.00	—

\*The figures above are customer information from the consolidated company.

## 5.2.5. Production Quantity & Value

Unit: KPCS/ Thousands of NT\$

	2012			2013		
	Capacity	Production Quantity	Production Value	Capacity	Production Quantity	Production Value
Capacitor	10,000,000	8,763,117	1,604,153	10,000,000	8,434,760	1,690,895

\*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	Year	2012				2013			
		Domestic Sales		Export Sales		Domestic Sales		Export Sales	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components		2,226,854	966,260	7,272,876	2,627,647	3,345,102	1,107,573	6,997,122	2,604,262
Active Components		122,159	556,919	617,237	3,057,479	99,552	421,559	441,245	3,643,653
System & Modules		33,518	749,602	80,651	1,078,247	26,435	588,093	106,052	1,498,945
Others		135,912	270,521	333,375	3,148,283	192,083	1,562,974	373,361	2,254,748
Total		2,518,443	2,543,302	8,304,139	9,911,656	3,663,172	3,680,200	7,917,780	10,001,608

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

### 5.3. Employee Data

Year		2012	2013	As of April 30, 2014
Number of Employees	Direct Employees	410	397	399
	Indirect Employees	454	436	429
	Total	864	833	828
Average Age		35.27	35.27	36.10
Average Years of Employment		6.26	6.26	7.02
Level of Education (%)	Ph.D.	0.12	0.24	0.24
	Master's Degree	6.25	6.24	5.93
	Bachelor's & Associate Degree	52.77	51.14	50.42
	Senior High School	38.31	39.5	40.75
	Others	2.55	2.88	2.66

\*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

None.

#### 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\$2.34 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: [www.HolyStone.com.tw](http://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	\$	2,340
2	Testing fees for exhaust gas		540
3	Testing fees for polluted water emission		77
4	Disposal fees for polluted water		13,280
5	Disposal fees for waste		12,823
6	Environmental testing fees		524
7	Replacement fees for consumptive materials from exhaust gas		18,710
8	Others		9,600
		\$	57,894

## 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 health insurance, 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, channels for diversified learning experiences, knowledge development platform, and dual-track training program.

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 2014.04.30

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	Hitachi	2014.04.01-2015.03.31	Capacitor	None
Distributorship and Agent Agreement	Skyworks	2012.10.01-2014.09.30	IC	None
Distributorship and Agent Agreement	Microchip	2014.04.01-2015.03.31	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 2009 to 2013					As of March 31, 2014 (Note)
		2009	2010	2011	2012	2013	
Current assets		-	-	-	8,965,666	9,521,533	9,492,514
Property, plant and equipment		-	-	-	3,035,586	3,084,655	3,504,992
Intangible assets		-	-	-	575,084	563,222	564,611
Other assets		-	-	-	1,314,925	1,078,067	620,027
Total assets		-	-	-	13,891,261	14,247,477	14,182,144
Current liabilities	Before distribution	-	-	-	3,972,492	4,287,535	4,075,165
	After distribution	-	-	-	4,611,201	Undistributed	Undistributed
Noncurrent liabilities		-	-	-	350,260	671,290	641,606
Total liabilities	Before distribution	-	-	-	4,322,752	4,958,825	4,716,771
	After distribution	-	-	-	4,961,461	Undistributed	Undistributed
Equity attributable to parent company		-	-	-	8,977,287	8,268,574	8,451,633
Common stock		-	-	-	3,202,175	2,241,522	2,241,522
Capital surplus		-	-	-	3,681,259	3,572,820	3,572,783
Retained earnings	Before distribution	-	-	-	1,954,775	2,173,679	2,350,164
	After distribution	-	-	-	1,475,743	Undistributed	Undistributed
Other equity		-	-	-	169,920	308,806	315,417
Treasury stock		-	-	-	(30,842)	(28,253)	(28,253)
Non-controlling equity		-	-	-	591,222	1,020,078	1,013,740
Total stockholders' equity	Before distribution	-	-	-	9,568,509	9,288,652	9,465,373
	After distribution	-	-	-	8,929,800	Undistributed	Undistributed

Note : The financial information of Q1 2014 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 2009 to 2013					As of March 31, 2014 (Note 1)
		2009	2010	2011	2012	2013	
Net sales		-	-	-	14,607,834	15,898,687	3,848,430
Gross profit		-	-	-	1,868,724	1,974,026	489,670
Operating income (loss)		-	-	-	633,275	664,463	196,153
Non-operating income and expenses		-	-	-	126,607	137,822	5,124
Income before income tax		-	-	-	759,882	802,285	201,277
Net income from continuing operations		-	-	-	620,425	627,746	170,371
Loss from discontinued operations		-	-	-	-	-	-
Net income (loss)		-	-	-	620,425	627,746	170,371
Other comprehensive gains and losses (net amount after tax)		-	-	-	(136,316)	241,181	6,047
Total comprehensive profit or loss		-	-	-	484,109	868,927	176,418
Net income attributable to stockholders of parent company		-	-	-	639,620	695,665	176,485
Net income attributable to non-controlling equity		-	-	-	(19,195)	(67,919)	(6,114)
Comprehensive gains and losses attributable to stockholders of parent company		-	-	-	507,752	836,822	183,096
Comprehensive gains and losses attributable to non-controlling equity		-	-	-	(26,463)	32,105	(6,678)
Earnings per share (NT\$) (Note 2)		-	-	-	2.00	2.44	0.79

Note 1: The financial information of Q1 2014 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 2009 to 2013					As of March 31, 2014
		2009	2010	2011	2012	2013	
Current assets		-	-	-	7,233,077	7,205,740	-
Property, plant and equipment		-	-	-	2,547,730	2,523,726	-
Intangible assets		-	-	-	-	-	-
Other assets		-	-	-	2,796,267	2,659,420	-
Total assets		-	-	-	12,577,074	12,388,886	-
Current liabilities	Before distribution	-	-	-	3,338,286	3,530,624	-
	After distribution	-	-	-	3,976,995	Undistributed	-
Noncurrent liabilities		-	-	-	261,501	589,688	-
Total liabilities	Before distribution	-	-	-	3,599,787	4,120,312	-
	After distribution	-	-	-	4,238,496	Undistributed	-
Equity attributable to parent company		-	-	-	8,977,287	8,268,574	-
Common stock		-	-	-	3,202,175	2,241,522	-
Capital surplus		-	-	-	3,681,259	3,572,820	-
Retained earnings	Before distribution	-	-	-	1,954,775	2,173,679	-
	After distribution	-	-	-	1,475,743	Undistributed	-
Other equity		-	-	-	169,920	308,806	-
Treasury stock		-	-	-	(30,842)	(28,253)	-
Non-controlling equity		-	-	-	-	-	-
Total stockholders' equity	Before distribution	-	-	-	8,977,287	8,268,574	-
	After distribution	-	-	-	8,338,578	Undistributed	-

## 6.1.4. Condensed Income Statement—International Financial Reporting Standards

## - Unconsolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2009 to 2013					As of March 31, 2013
		2009	2010	2011	2012	2013	
Net sales		-	-	-	12,454,958	13,681,808	-
Gross profit		-	-	-	1,395,599	1,443,559	-
Operating income (loss)		-	-	-	651,761	680,112	-
Non-operating income and expenses		-	-	-	105,414	150,690	-
Income before income tax		-	-	-	757,175	830,802	-
Net income from continuing operations		-	-	-	639,620	695,665	-
Loss from discontinued operations		-	-	-	-	-	-
Net income (loss)		-	-	-	639,620	695,665	-
Other comprehensive gains and losses (net amount after tax)		-	-	-	(131,868)	141,157	-
Total comprehensive profit or loss		-	-	-	507,752	836,822	-
Net income attributable to stockholders of parent company		-	-	-	639,620	695,665	-
Net income attributable to non-controlling equity		-	-	-	-	-	-
Comprehensive gains and losses attributable to stockholders of parent company		-	-	-	507,752	836,822	-
Comprehensive gains and losses attributable to non-controlling equity		-	-	-	-	-	-
Earnings per share (NT\$) (Note 1)		-	-	-	2.00	2.44	-

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 2009 to 2013 (Note 1)					As of March 31, 2013
		2009	2010	2011	2012	2013	
Current assets		8,311,148	9,358,910	9,604,133	8,994,689	-	-
Fund and long-term investment		1,578,423	1,721,664	1,059,516	1,048,276	-	-
Fixed assets		2,506,074	3,052,310	3,187,487	3,245,579	-	-
Intangible assets		606,107	596,853	598,577	575,084	-	-
Other assets		7,541	20,972	18,971	18,513	-	-
Total assets		13,009,293	14,750,709	14,468,684	13,882,141	-	-
Current liabilities	Before distribution	3,169,128	3,638,467	4,520,404	3,965,510	-	-
	After distribution	4,030,780	4,374,967	5,159,113	4,604,219	-	-
Long-term liabilities		1,016,833	1,031,364	217,050	238,596	-	-
Other liabilities		54,539	67,049	69,017	82,530	-	-
Total liabilities	Before distribution	4,240,500	4,736,880	4,806,471	4,286,636	-	-
	After distribution	5,102,152	5,473,380	5,445,180	4,925,345	-	-
Parent Company's shareholder's equity		8,173,642	9,374,296	9,093,102	9,004,283		
Common stock		2,872,175	3,202,175	3,202,175	3,202,175	-	-
Capital surplus		2,763,032	3,652,343	3,626,354	3,622,923	-	-
Retained earnings	Before distribution	2,065,228	2,035,809	2,060,819	2,077,233	-	-
	After distribution	1,203,576	1,299,309	1,422,110	1,598,202	-	-
Unrealized gain or loss on financial instruments		454,949	528,873	202,477	196,930	-	-
Cumulative translation adjustments		34,041	(24,681)	32,119	(27,010)	-	-
Net loss not recognized as Pension Cost		(15,783)	(20,223)	-	(37,126)	-	-
Treasury stock		-	-	(30,482)	(30,842)	-	-
Minority interest		595,151	639,533	569,111	591,222		
Total stockholders' equity	Before distribution	8,768,793	10,013,829	9,662,213	9,595,505	-	-
	After distribution	7,907,141	9,277,329	9,023,504	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 2008 to 2012 (Note 1)					As of March 31, 2014
		2009	2010	2011	2012	2013	
Net sales		13,223,071	14,879,625	15,637,080	14,607,834	-	-
Gross profit		2,089,848	2,124,229	1,939,854	1,868,724	-	-
Operating income		1,007,272	948,665	726,258	648,778	-	-
Non-operating income and gains		253,616	220,411	259,827	247,154	-	-
Non-operating expenses and losses		83,362	167,888	143,220	120,547	-	-
Income before income tax from continuing operations		1,177,526	1,001,188	842,865	775,385	-	-
Net income from continuing operations		921,037	830,118	767,735	635,928	-	-
Income from discontinued operations		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		921,037	830,118	767,735	635,928	-	-
Net profit attributable to shareholders of the parent company		849,611	832,234	761,510	655,123		
Minority interest income		71,426	(2,116)	6,225	(19,195)		
Earnings per share (NT\$) (Note 1)		2.96	2.77	2.38	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 2009 to 2013 (Note 1)					As of March 31, 2013
		2009	2010	2011	2012	2013	
Current assets		6,605,074	7,617,009	7,451,373	7,260,809	-	-
Fund and long-term investment		2,853,091	3,040,842	2,710,635	2,627,763	-	-
Fixed assets		2,343,154	2,607,536	2,703,902	2,700,909	-	-
Intangible assets		-	-	-	-	-	-
Other assets		6,197	1,938	1,952	2,038	-	-
Total assets		11,807,516	13,267,325	12,867,862	12,591,519	-	-
Current liabilities	Before distribution	2,560,709	2,955,069	3,646,157	3,351,281	-	-
	After distribution	3,422,361	3,691,569	4,284,866	3,989,990	-	-
Long-term liabilities		1,016,833	881,364	73,167	150,000	-	-
Other liabilities		56,332	56,596	55,436	85,955	-	-
Total liabilities	Before distribution	3,633,874	3,893,029	3,774,760	3,587,236	-	-
	After distribution	4,495,526	4,629,529	4,413,469	4,225,945	-	-
Common stock		2,872,175	3,202,175	3,202,175	3,202,175	-	-
Capital surplus		2,763,032	3,652,343	3,626,354	3,622,923	-	-
Retained earnings	Before distribution	2,065,228	2,035,809	2,060,819	2,077,233	-	-
	After distribution	1,203,576	1,299,309	1,422,110	1,598,201	-	-
Unrealized gain or loss on financial instruments		454,949	528,873	202,477	196,930	-	-
Cumulative translation adjustments		34,041	(24,681)	32,119	(27,010)	-	-
Net Loss Unrecognized as Pension Cost		(15,783)	(20,223)	-	(37,126)	-	-
Treasury stock		-	-	(30,482)	(30,842)	-	-
Total stockholders' equity	Before distribution	8,173,642	9,374,296	9,093,102	9,004,283	-	-
	After distribution	7,311,990	8,637,796	8,454,393	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 2008 to 2012 (Note 1)					As of March 31, 2013
		2009	2010	2011	2012	2013	
Net sales		11,105,929	12,680,725	13,146,941	12,454,958	-	-
Gross profit		1,435,479	1,481,670	1,280,861	1,397,759	-	-
Operating income		761,308	713,286	551,604	667,264	-	-
Non-operating income and gains		320,491	371,945	349,912	194,046	-	-
Non-operating expenses and losses		46,746	114,540	106,027	88,632	-	-
Income before income tax from continuing operations		1,035,053	970,691	795,489	772,678	-	-
Net income from continuing operations		849,611	832,234	761,510	655,123	-	-
Income from discontinued operations		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		849,611	832,234	761,510	655,123	-	-
Earnings per share (NT\$) (Note 1)		2.96	2.77	2.38	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.

### 6.1.9. Auditors' Opinions

Year	Accounting Firm	CPA	Audit Opinion
2009	KPMG	Ching-Sung Wang and Heng-Sheng Lin	A Modified Unqualified Opinion
2010	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified 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

## 6.2. Financial Analysis

### 6.2.1. International Financial Reporting Standard - Consolidated

Item (Note 2)		Year	Financial Analysis from 2009 to 2013					As of March 31, 2014 (Note 1)
			2009	2010	2011	2012	2013	
Capital Structure Analysis (%)	Debt Ratio	-	-	-	31.12	34.80	33.26	
	Long-term Fund to Fixed Assets Ratio	-	-	-	326.75	322.89	330.83	
Liquidity Analysis %	Current ratio	-	-	-	225.69	222.07	232.94	
	Quick Ratio	-	-	-	172.37	164.40	178.25	
	Times Interest Earned	-	-	-	31.88	33.18	26.54	
Operating Performance Analysis	Average Collection Turnover (Times)	-	-	-	4.18	4.71	4.43	
	Days Sales Outstanding	-	-	-	87	77	82	
	Average Inventory Turnover (Times)	-	-	-	5.91	6.21	5.84	
	Average Payment Turnover (Times)	-	-	-	39.44	32.38	33.17	
	Average Inventory Turnover Days	-	-	-	62	59	62	
	Fixed Asset Turnover (Times)	-	-	-	4.69	5.20	5.01	
	Total Asset Turnover (Times)	-	-	-	1.05	1.12	1.09	
Profitability Analysis	Return on Total Assets (%)	-	-	-	4.52	4.60	4.98	
	Return on Equity (%)	-	-	-	6.45	6.66	7.27	
	To Paid-in Capital Ratio (%)	Operating Income	-	-	-	19.78	29.64	35.00
		Income before income tax	-	-	-	23.73	35.79	35.92
	Net Margin (%)	-	-	-	4.25	3.95	4.43	
	Earnings Per Share (NT\$) (Note 2)	-	-	-	2.00	2.44	0.79	
Cash Flow (%)	Cash Flow Ratio (%)	-	-	-	30.65	3.65	15.46	
	Cash Flow Adequacy Ratio (%)	-	-	-	60.70	49.61	63.65	
	Cash Flow Reinvestment Ratio (%)	-	-	-	5.34	(4.31)	5.52	
Leverage	Operating Leverage	-	-	-	1.00	1.00	1.00	
	Financial Leverage	-	-	-	1.04	1.04	1.04	

The explanation of the change in financial ratios in recent two years:

- 1.The operating income and net income before tax to ratio was more than previous period. The gains in operating income and net income before tax were mainly driven by growth of operating sales.
- 2.The ratio of cashflow and cash reinvestment were less than previous period, which is caused by outflow of cash from operating net activities,

Note 1: The financial information of Q1 2014 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.

Note 3: Glossary: as page 66.

## 6.2.2. International Financial Reporting Standards - Unconsolidated

Item (Note 2)		Year	Financial Analysis from 2009 to 2013 (Note 1)					As of March 31, 2014
			2009	2010	2011	2012	2013	
Capital Structure Analysis (%)	Debt Ratio	-	-	-	28.62	33.26	-	
	Long-term Fund to Fixed Assets Ratio	-	-	-	358.25	346.31	-	
Liquidity Analysis %	Current ratio	-	-	-	216.67	204.09	-	
	Quick Ratio	-	-	-	165.97	144.17	-	
	Times Interest Earned	-	-	-	41.40	48.15	-	
Operating Performance Analysis	Average Collection Turnover (Times)	-	-	-	4.11	4.20	-	
	Days Sales Outstanding	-	-	-	89	87	-	
	Average Inventory Turnover (Times)	-	-	-	6.65	6.49	-	
	Average Payment Turnover (Times)	-	-	-	35.68	34.30	--	
	Average Inventory Turnover Days	-	-	-	55	56	-	
	Fixed Asset Turnover (Times)	-	-	-	4.89	5.40	-	
	Total Asset Turnover (Times)	-	-	-	0.99	1.10	-	
Profitability Analysis	Return on Total Assets (%)	-	-	-	5.21	5.69	-	
	Return on Equity (%)	-	-	-	7.12	8.07	-	
	To Paid-in Capital Ratio (%)	Operating Income	-	-	-	20.35	30.34	-
		Income before income tax	-	-	-	23.65	37.06	-
	Net Margin (%)	-	-	-	5.14	5.08	-	
Earnings Per Share (NT\$) (Note 1)	-	-	-	2.00	2.44	-		
Cash Flow (%)	Cash Flow Ratio (%)	-	-	-	30.28	10.28	-	
	Cash Flow Adequacy Ratio (%)	-	-	-	107.36	61.68	-	
	Cash Flow Reinvestment Ratio (%)	-	-	-	3.51	(2.64)	-	
Leverage	Operating Leverage	-	-	-	1.00	1.00	-	
	Financial Leverage	-	-	-	1.03	1.03	-	

The explanation of the change in financial ratios in recent two years:

- 1.The operating income and net income before tax to ratio was more than previous period. The gains in operating income and net income before tax were mainly driven by growth of operating sales.
- 2.The ratio of cashflow, cashflow adequacy and cash reinvestment were less than previous period, which is caused by outflow of cash from operating net activities.

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: as page 66.

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. International Financial Reporting Standards - Consolidated

Item (Note 2)		Year	Financial Analysis from 2009 to 2013 (Note 1)					As of March 31, 2014	
			2009	2010	2011	2012	2013		
Capital Structure Analysis (%)	Debt Ratio		32.60	32.11	33.22	30.88	-	-	
	Long-term Fund to Fixed Assets Ratio		390.48	361.86	309.94	303.00	-	-	
Liquidity Analysis %	Current ratio		262.25	257.22	212.46	226.82	-	-	
	Quick Ratio		207.53	184.24	161.42	173.41	-	-	
	Times Interest Earned		73.32	43.71	33.76	32.51	-	-	
Operating Performance Analysis	Average Collection Turnover (Times)		3.93	4.11	4.05	4.11	-	-	
	Days Sales Outstanding		93	89	90	89	-	-	
	Average Inventory Turnover (Times)		6.10	6.01	5.69	5.91	-	-	
	Average Payment Turnover (Times)		8.80	8.90	8.62	9.25	-	-	
	Average Inventory Turnover Days		60	61	64	62	-	-	
	Fixed Asset Turnover (Times)		5.25	5.35	5.01	4.54	-	-	
	Total Asset Turnover (Times)		1.02	1.01	1.08	1.05	-	-	
Profitability Analysis	Return on Total Assets (%)		7.62	6.12	5.42	4.63	-	-	
	Return on Equity (%)		11.22	8.84	7.80	6.60	-	-	
	To Paid-in Capital Ratio (%)	Operating Income		35.07	29.63	22.68	20.26	-	-
		Income before income tax		41.00	31.27	26.32	24.21	-	-
	Net Margin (%)		6.97	5.58	4.91	4.35	-	-	
	Earnings Per Share (NT\$) (Note 1)		2.96	2.77	2.38	2.05	-	-	
Cash Flow (%)	Cash Flow Ratio (%)		41.52	5.55	30.41	30.96	-	-	
	Cash Flow Adequacy Ratio (%)		55.67	39.91	52.30	70.71	-	-	
	Cash Flow Reinvestment Ratio (%)		8.13	(5.71)	6.00	5.43	-	-	
Leverage	Operating Leverage		1.00	1.00	1.00	1.00	-	-	
	Financial Leverage		1.02	1.03	1.04	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: as page 69.

## 6.2.4. International Financial Reporting Standards - Consolidated

Item (Note 2)		Year	Financial Analysis from 2009 to 2013 (Note 1)					As of March 31, 2014	
			2009	2010	2011	2012	2013		
Capital Structure Analysis (%)	Debt Ratio		30.78	29.34	29.33	28.49	-	-	
	Long-term Fund to Fixed Assets Ratio		392.23	393.31	339.00	338.93	-	-	
Liquidity Analysis %	Current ratio		257.94	257.76	204.36	216.66	-	-	
	Quick Ratio		202.03	186.85	157.35	166.16	-	-	
	Times Interest Earned		66.72	50.14	41.62	42.22	-	-	
Operating Performance Analysis	Average Collection Turnover (Times)		3.85	4.12	3.82	3.79	-	-	
	Days Sales Outstanding		95	89	95	96	-	-	
	Average Inventory Turnover (Times)		6.26	6.37	6.26	6.57	-	-	
	Average Payment Turnover (Times)		9.25	9.04	8.65	9.54	-	-	
	Average Inventory Turnover Days		58	57	58	56	-	-	
	Fixed Asset Turnover (Times)		4.74	5.12	4.95	4.61	-	-	
	Total Asset Turnover (Times)		0.94	0.96	1.02	0.99	-	-	
Profitability Analysis	Return on Total Assets (%)		7.66	6.77	5.97	5.27	-	-	
	Return on Equity (%)		10.98	9.49	8.25	7.24	-	-	
	To Paid-in Capital Ratio (%)	Operating Income		26.51	22.11	17.23	20.84	-	-
		Income before income tax		36.04	30.31	24.84	24.13	-	-
	Net Margin (%)		7.65	6.56	5.79	5.26	-	-	
Earnings Per Share (NT\$) (Note 1)		2.96	2.77	2.38	2.05	-	-		
Cash Flow (%)	Cash Flow Ratio (%)		52.46	2.49	25.29	30.25	-	-	
	Cash Flow Adequacy Ratio (%)		112.80	77.82	71.99	73.28	-	-	
	Cash Flow Reinvestment Ratio (%)		8.44	(7.00)	1.79	3.54	-	-	
Leverage	Operating Leverage		0.98	1.00	1.00	1.00	-	-	
	Financial Leverage		1.02	1.03	1.04	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: as page 69.

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.

## **5.1. Supervisors' Report**

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

The Board of Directors has prepared the Company's 2013 Business Report, Financial Statements, and proposal for allocation of profits. Both CPA Pei-Chi Chen and Chia-Hsin Chang at the CPA firm of 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, 2013

Supervisor: Tang-Ming Wu

Chung-Yi Yang

March 31, 2014

- 5.2. Financial Report of 2013:** Please refer to P.80 to P.158 in this report.
- 5.3. Consolidated Financial Report of 2013** Please refer to P.159 to P.227 in this report.
- 5.4. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2012 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 NTS

Item	Year	2013	2012	Difference	
				Amount	%
Current asset		9,521,533	8,965,666	555,867	6.20
Financial assets – non-current		952,745	1,048,276	(95,531)	(9.11)
Property, plant and equipment		3,084,655	3,035,586	49,069	1.62
Other assets		688,544	841,733	(153,189)	(18.20)
Total assets		14,247,477	13,891,261	356,216	2.56
Current liabilities		4,287,535	3,972,492	315,043	7.93
Long-term liabilities		552,767	238,596	314,171	131.67
Other liabilities		118,523	111,664	6,859	6.14
Total liabilities		4,958,825	4,322,752	636,073	14.71
Capital stock		2,241,522	3,202,175	(960,653)	(30.00)
Capital surplus		3,572,820	3,681,259	(108,439)	(2.95)
Retained earnings		2,173,679	1,954,775	218,904	11.20
Unrealized gain or loss on financial instruments available-for-sale		335,591	196,930	138,661	70.41
The translation of financial statements for foreign operations		(26,785)	(27,010)	225	(0.83)
Treasury stock		(28,253)	(30,842)	2,589	(8.39)
Uncontrollable equity		1,020,078	591,222	428,856	72.54
Total shareholders' equity		9,288,652	9,568,509	(279,857)	(2.92)
<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) An increase of NT\$314,171 thousand in long-term liabilities: Borrowing long-term loans..</p> <p>(2) A decrease of NT\$960,653 thousand in common stock: Capital reduction by cash.</p> <p>(3) An increase of NT\$138,661 thousand in financial instruments available-for-sale: Financial assets evaluation</p> <p>(4) An increase of NT\$428,856 thousand in uncontrollable equity: Subsidiary Capital increase by cash (due to increase of uncontrollable equity investment)</p>					

## 7.2. Operating Results

### Operating Results Analysis Table

Unit: Thousands of NT\$

Item	Year	2013	2012	Amount increased (decreased)	Changing ratio%
	Net sales		15,898,687	14,607,834	1,290,853
Cost of goods sold		<u>(13,924,661)</u>	<u>(12,739,110)</u>	<u>1,185,551</u>	<u>9.31</u>
Gross profit		1,974,026	1,868,724	105,302	5.63
Operating expenses		<u>(1,309,563)</u>	<u>(1,235,449)</u>	<u>74,114</u>	<u>6.00</u>
Operating income		664,463	633,275	31,188	4.92
Non-operating expenses and income		137,822	126,607	11,215	8.86
Income before income tax from continuing operations		802,285	759,882	42,403	5.58
Income tax expenses		<u>(174,539)</u>	<u>(139,457)</u>	<u>35,082</u>	<u>25.16</u>
Net Income from continuing operations		<u>627,746</u>	<u>620,425</u>	<u>7,321</u>	<u>1.18</u>
Other comprehensive income (Net value after tax)		241,181	(136,316)	377,497	276.93
Total other comprehensive income for current period		<u>868,927</u>	<u>484,109</u>	<u>384,818</u>	<u>79.49</u>

Note 1: Analysis of significant changes between 2012 and 2013 (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000):

- (1) An increase of NT\$35,082 thousand in income tax expenses: Gained tax credit from investing in resource-scarce areas in 2011.
- (2) An increase of NT\$377,497 thousand in other comprehensive income: Evaluation of financial assets available-for-sale

Note 2: Probable impact on company's financial business: No significant impacts.

Note 3: Sales quantity forecast and related information : Not applicable.

## 7.3. Cash Flow Analysis

### Analysis of Cash Flow

Unit: Thousands of NT\$

Beginning cash balance	Net cash provided by operating activities in 2013	Net cash outflow in 2013	Ending cash balance	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
3,025,810	156,641	(472,737)	2,553,073	-	-

1. Analysis of cash flow:
  - (1) Net cash provided by operating activities: Resulted from increase in net income.
  - (2) Net cash outflow: Mainly resulted from net cash provided by investing and financing activities. Expected net cash outflows are summarized as follows.
    - a. Net cash provided by investing activities: Net cash inflow in investing activities resulted from disposal of financial assets carried at cost.
    - b. Net cash provided by financing activities: Net cash outflow by paying capital deduction and distributing cash dividends.
2. Analysis of liquidity:
 

A decrease of NT\$1,061,034 thousand in net cash outflow in 2013 on a year-over-year basis.

Cash flow ratio: 3.65%. Cash adequacy ratio: 49.61%. Cash reinvestment ratio: (4.31)%.
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
1,047,469	1,484,581	(898,011)	1,634,039	-	-

Note: The aforementioned are analysis of cash flow of the Parent 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.	Gain NT\$15,569	Invested to enter into other industry.	The investee companies have made profits.	NA	Assessing the necessity of increasing investment considering operating scale.
Uholy Investment Co., Ltd.	Gain NT\$22,982	Invested to enter into other industry.	The investee companies have made profits.	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 2013 and as of printed date of this Annual Report:

Unit: NT\$ thousands

Item	2013	As of March 31, 2014
Interest Expense	24,935	7,882
Gain (loss) on Foreign Exchange	68,276	(5,198)

Source: Consolidated Financial statement of 2013 has been audited by CPA, and the first-quarter 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 0.16% and 0.20% of net sales in 2013 and as of March 31, 2014; 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 2013. The Company and Subsidiaries' Endorsement & Guarantee were NT\$653,855 thousand and NT\$666,250 thousand on December 31, 2013 and as of the printed date of this annual report, respectively; the Company and Subsidiaries' loaning of funds was NT\$107,299 thousand and NT\$109,692 thousand on December 31, 2013 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\$230,000 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

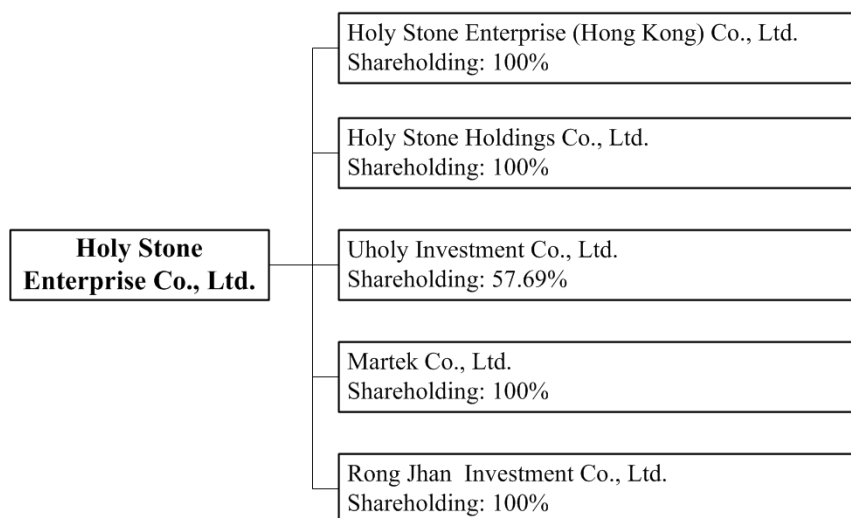
## 8. Special Notes

### 8.1. Affiliates

#### 8.1.1. Affiliates Consolidated Operating Report

##### 8.1.1.1 Holy Stone affiliated companies chart

as of 2013.12.31



##### 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
Martek 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 565,000,000	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 Roster of directors, supervisors, and presidents of Holy Stone's affiliated companies

Unit: dollars/ shares/ % as of 2013.12.31

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%
Uholly 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%
Martek 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	565,000,000/ 56,500,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	565,000,000/ 56,500,000	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	460,808	223,412	237,396	1,018,863	23,398	32,325	2.81
Holy Stone Holdings Co., Ltd. (Note 2)	841,951	2,082,564	1,128,687	953,877	2,261,244	(24,320)	17,044	0.63
Uholly Investment Co., Ltd. (Note 2)	390,000	1,614,249	59,605	1,554,644	571,196	(36,732)	(45,526)	(1.17)
Martek Co., Ltd. (Note 2)	565,000	922,423	205,861	716,562	800,564	(1,848)	2,034	0.04
Rong Jhan Investment Co., Ltd. (Note 2)	85,000	131,534	13,857	117,677	133,064	8,844	12,261	1.44

Note 1: Foreign exchange rates were NT\$29.805 and NT\$29.6888 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 2 of Article 36 of Securities and Exchange Law of Taiwan**

Holy Stone resolved a capital reduction by 30% at Shareholders' Meeting on June 14, 2013, which is initiated on August 22, 2013 and returned cash of NT\$3.0 per share. The reduction totaled NT\$960,653 thousand, a total of 96,065 thousand shares were canceled. The paid-in capital after reduction was NT\$2,241,522 thousand.

The Company resolved to initiate the 4<sup>th</sup> buyback of treasury stock at the Board of Meeting held on May 6, 2014. (Original buyback of treasury stock totaled 863,000 shares. 258,900 shares of treasury stock were cancelled proportionally due to capital reduction which initiated on August 22, 2013, shares after reduction totaled 604,100 shares), a 0.27% of reduction ratio. The report date of this treasury buyback was set on May 20, 2014; whereas remaining shares totaled 2,235,481,180 shares after the reduction.

## **Independent Auditors' Report**

The Board of Directors and Shareholders  
Holy Stone Enterprise Company Limited

We have audited the accompanying balance sheets of Holy Stone Enterprise Company Limited as of December 31, 2013 and 2012, and January 1, 2012 and the related statements of income, changes in shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. 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, 2013 and 2012, and January 31, 2012 the investment amounts accounted under equity method were NT\$1,428,392 thousand, NT\$1,179,643 thousand, and 1,321,523 thousand; 11.53%, 9.38% and 10.28% of total assets, respectively; the gains or losses from subsidiaries accounted under equity method for the year ended December 31, 2013 and 2012 were NT\$67,818 thousand and 43,803 thousand; 8.16% and 5.70% of Net income before tax, respectively.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holy Stone Enterprise Company Limited as of December 31, 2013 and 2012, and January 1, 2012, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

**KPMG**

Accountants:

Ms. Pei-Chi Chen

Mr. Chia-Hsin Chang

Taipei, Taiwan  
Republic of China

March 18, 2014

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

**Balance Sheets**

**December 31, 2013, 2012 and January 1, 2012**  
**(Expressed in Thousands of New Taiwan Dollars)**

Assets		2013.12.31		2012.12.31		2012.1.1			Liabilities and Equity		2013.12.31		2012.12.31		2012.1.1	
		Amount	%	Amount	%	Amount	%				Amount	%	Amount	%		
<b>Current Assets:</b>									<b>Current Liabilities:</b>							
1100	Cash and Cash Equivalents (Note6.1)	\$ 1,047,469	8	1,940,139	15	1,703,114	14	2100	Short-term Loans (Note6.10)	\$ 1,681,305	14	1,723,943	14	1,186,661	9	
1110	Financial Assets at Fair Value through Profit or Loss - Current (Note6.2)	452,444	4	386,496	3	244,101	2	2120	Financial Liabilities at Fair Value through Profit or Loss - Current (Note6.2&6.12)	595	-	1,417	-	3,980	-	
1150	Notes and Accounts Receivable, net (Note6.5)	2,771,211	23	2,253,940	18	2,372,162	18	2170	Notes and Accounts Payable	1,173,450	10	1,003,084	8	1,248,925	10	
1180	Account Receivable - Related Parties (Note6.5&6.7)	716,193	6	777,407	6	1,166,041	9	2180	Accounts Payable - Related Parties (Note7)	45,488	-	77,775	1	66,678	1	
1200	Other Receivables (Note6.5)	84,883	1	152,536	1	151,635	2	2200	Other Receivables	459,150	4	340,604	3	404,858	3	
130X	Inventories (Note6.6)	2,107,804	17	1,663,340	14	1,703,965	13	2230	Current Period Income Tax Liability	39,389	-	16,996	-	10,000	-	
1410	Prepaid Expenses and Other Current Assets (Note6.5&6.8)	25,736	-	59,219	-	61,152	-	2321	Current Portion of Puttable Corporate Bonds (Note6.12)	102,580	1	101,300	1	567,863	4	
1460	Held-for-sale Noncurrent Assets (Note6.7)	-	-	-	-	30,000	-	2322	Current Portion of Long-term Debt (Note6.11)	28,667	-	73,167	1	146,333	1	
	<b>Total Current Assets</b>	<u>7,205,740</u>	<u>59</u>	<u>7,233,077</u>	<u>57</u>	<u>7,432,170</u>	<u>58</u>		<b>Total Current Liabilities*</b>	<u>3,530,624</u>	<u>29</u>	<u>3,338,286</u>	<u>28</u>	<u>3,635,298</u>	<u>28</u>	
<b>Noncurrent Assets:</b>									<b>Noncurrent Liabilities:</b>							
1523	Available-for-sale Financial Assets - Noncurrent (Note6.3)	77,285	1	71,105	1	97,809	1	2540	Long-term Loans (Note6.11)	471,333	4	150,000	1	73,167	1	
1543	Financial Assets Carried at Cost - Noncurrent (Note6.4)	-	-	300,000	2	300,000	2	2570	Deferred Income Tax Liabilities (Note6.14)	59,537	-	48,159	-	54,649	-	
1550	Investments under Equity Method (Note6.8)	2,489,192	20	2,236,681	19	2,295,009	18	2640	Accrued Pension Liabilities (Note6.13)	58,818	-	62,076	-	-	-	
1600	Property, Plant and Equipment (Note6.9)	2,523,726	20	2,547,730	20	2,477,885	19	2670	Other Noncurrent Liabilities - Others	-	-	1,266	-	268	-	
1840	Deferred Income Tax Assets (Note6.14)	30,066	-	33,264	-	26,494	-		<b>Total Noncurrent Liabilities</b>	<u>589,688</u>	<u>4</u>	<u>261,501</u>	<u>1</u>	<u>128,084</u>	<u>1</u>	
1915	Prepaid Expense on Equipment	61,077	-	153,179	1	226,017	2	3110	<b>Total Liabilities</b>	<u>4,120,312</u>	<u>33</u>	<u>3,599,787</u>	<u>29</u>	<u>3,763,382</u>	<u>29</u>	
1990	Other Noncurrent Assets - Others (Note6.13)	1,800	-	2,038	-	4,825	-	3200	<b>Equity (Note6.12&amp;6.15):</b>							
	<b>Total Noncurrent Assets</b>	<u>5,183,146</u>	<u>41</u>	<u>5,343,997</u>	<u>43</u>	<u>5,428,039</u>	<u>42</u>	3110	Common Stock	<u>2,241,522</u>	<u>18</u>	<u>3,202,175</u>	<u>25</u>	<u>3,202,175</u>	<u>25</u>	
	<b>Total Assets</b>	<u>\$ 12,388,886</u>	<u>100</u>	<u>12,577,074</u>	<u>100</u>	<u>12,860,209</u>	<u>100</u>	3200	Capital Surplus	<u>3,572,820</u>	<u>29</u>	<u>3,681,259</u>	<u>29</u>	<u>3,669,842</u>	<u>28</u>	
										Retained Earnings:						
								3310	Legal Reserve	1,001,724	8	936,212	7	860,061	7	
								3350	Unappropriated Earnings	1,171,955	9	1,018,563	8	1,160,995	9	
									Total Retained Earnings	<u>2,173,679</u>	<u>17</u>	<u>1,954,775</u>	<u>15</u>	<u>2,021,056</u>	<u>16</u>	
									Other Equity:							
								3410	Exchange Differences on Translation of Financial Statements of Foreign Operations	(26,785)	-	(27,010)	-	32,119	-	
								3425	Unrealized Gains and Losses on Available-for-sale Financial Assets	335,591	3	196,930	2	202,477	2	
									Total Other Equity	<u>308,806</u>	<u>3</u>	<u>169,920</u>	<u>2</u>	<u>234,596</u>	<u>2</u>	
								3500	Treasury Stock	(28,253)	-	(30,842)	-	(30,842)	-	
									<b>Total Equity</b>	<u>8,268,574</u>	<u>67</u>	<u>8,977,287</u>	<u>71</u>	<u>9,096,827</u>	<u>71</u>	
									<b>Total Liabilities and Equity</b>	<u>\$ 12,388,886</u>	<u>100</u>	<u>12,577,074</u>	<u>100</u>	<u>12,860,209</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**

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

**For the years ended December 31, 2013, 2012 and January 1, 2012**

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

		<u>2013</u>		<u>2012</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Net Sales (Note6.18&7)	\$ 13,681,808	100	12,454,958	100
5000	Cost of Goods Sold (Note6.6&7)	12,235,851	89	11,057,199	89
	<b>Gross Profit</b>	1,445,957	11	1,397,759	11
5910	Unrealized Gains and Losses on Sales	2,398	-	2,160	-
	<b>Gross Profit</b>	1,443,559	11	1,395,599	11
	<b>Operating Expense (Note7)</b>				
6100	Selling and Administrative*	634,746	5	619,621	5
6300	Research and Development	128,701	1	124,217	1
	<b>Total Operating Expense</b>	763,447	6	743,838	6
	<b>Operating Income</b>	680,112	5	651,761	5
	<b>Non-Operating Income and Expenses (Note6.12&amp;7):</b>				
7020	Other Gains and Losses	57,725	-	36,340	-
7050	Financial Costs	(17,619)	-	(18,745)	-
7070	Gains of Losses from Subsidiary Using Equity Method	95,649	1	75,344	1
7100	Interest Income	14,935	-	12,475	-
	<b>Total Non-Operating Income and Expenses</b>	150,690	1	105,414	1
7900	<b>Income before Income Tax</b>	830,802	6	757,175	6
7950	<b>Less: Income Tax Expense (Note6.14)</b>	135,137	1	117,555	1
8200	<b>Net Income for Current Period</b>	695,665	5	639,620	5
8300	<b>Other Comprehensive Gains and Losses:</b>				
8310	Exchange Differences on Translation of Financial Statements of Foreign Operations	271	-	(71,239)	(1)
8325	Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	138,661	1	(5,547)	-
8360	Actuarial Gains and Losses on the Defined-Benefit Plan (Note6.13)	2,271	-	(67,192)	-
8399	Less: Income Tax related to Other Comprehensive Gains and Losses (Note6.14)	46	-	(12,110)	-
8300	<b>Other Comprehensive Gains and Losses (Net of Tax)</b>	141,157	1	(131,868)	(1)
8500	<b>Total Comprehensive Profit or Loss for Current Period</b>	<b>\$ 836,822</b>	<b>6</b>	<b>507,752</b>	<b>4</b>
	<b>Basic Earnings per Share (Dollar) (Note6.17)</b>				
9750	<b>Basic Earnings per Share (Unit: NT Dollar)*</b>	<b>\$ 2.44</b>		<b>2.00</b>	
9850	<b>Diluted Earnings per Share (Unit: NT Dollar)*</b>	<b>\$ 2.39</b>		<b>1.93</b>	

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

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

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

**HOLY STONE ENTERPRISE COMPANY LIMITED**

**Statements of Changes in Stockholders' Equity**

**For the years ended December 31, 2013, 2012 and January 1, 2012**

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

	Equity Attributable to Stockholders of Parent Company							Total Equity
	Common Stock	Capital Surplus	Retained Earnings		Other Equity		Treasury Stock	
			Legal Reserve	Unappropriated Earnings*	Exchange Differences on Translation Of financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Products		
<b>Beginning Balance, January 1, 2012</b>	\$ 3,202,175	3,669,842	860,061	1,160,995	32,119	202,477	(30,842)	9,096,827
Appropriation and Distribution of Earnings *(1):								
Provision for Legal Reserve	-	-	76,151	(76,151)	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(638,709)	-	-	-	(638,709)
Other changes in Capital Surplus:								
Equity component from issuance of Convertible Bonds - Stock Options	-	(5,180)	-	-	-	-	-	(5,180)
Net Income for Current Period	-	-	-	639,620	-	-	-	639,620
Other Comprehensive Profit or Loss for Current Period	-	-	-	(67,192)	(59,129)	(5,547)	-	(131,868)
Total Comprehensive Profit or Loss for Current Period	-	-	-	572,428	(59,129)	(5,547)	-	507,752
Difference between Option Price and Book Value of the Acquisition or Disposal of Subsidiaries' Equity	-	1,749	-	-	-	-	-	1,749
Share-based Payment Transactions	-	14,848	-	-	-	-	-	14,848
<b>Ending Balance, September 30, 2012</b>	3,202,175	3,681,259	936,212	1,018,563	(27,010)	196,930	(30,842)	8,977,287
Appropriation and Distribution of Earnings *(2):								
Provision for Legal Reserve	-	-	65,512	(65,512)	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(479,032)	-	-	-	(479,032)
<b>Other changes in Capital Surplus:</b>								
Cash Dividend from Capital Surplus	-	(159,677)	-	-	-	-	-	(159,677)
Net Income for Current Period	-	-	-	695,665	-	-	-	695,665
Other Comprehensive Profit or Loss for Current Period	-	-	-	2,271	225	138,661	-	141,157
Total Comprehensive Profit or Loss for Current Period	-	-	-	697,936	225	138,661	-	836,822
Capital Decrease	(960,653)	-	-	-	-	-	2,589	(958,064)
Difference between Option Price and Book Value of the Acquisition or Disposal of Subsidiaries' Equity	-	45,508	-	-	-	-	-	45,508
Share-based Payment Transactions	-	5,730	-	-	-	-	-	5,730
<b>Ending Balance, December 30, 2013</b>	\$ 2,241,522	3,572,820	1,001,724	1,171,955	(26,785)	335,591	(28,253)	8,268,574

\*(1) : Compensation of directors and supervisors NT\$19,818 employee benefit NT\$105,693 have been deducted in Comprehensive Income Statement

\*(2) : Compensation of directors and supervisors NT\$17,228 employee benefit NT\$91,881 have been deducted in 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, 2013, 2012 and January 1, 2012**

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

	<u>2013</u>	<u>2012</u>
<b>Cash Flows generated from Operating activities:</b>		
<b>Income before Income Tax</b>	\$ 830,802	757,175
<b>Adjusted Items:</b>		
Incomes or Expenses		
Depreciation	281,088	256,004
Bad Debt*	10,953	-
Interest Expense*	17,619	18,745
Interest Income*	(14,935)	(12,475)
Costs of Share-based Compensation*	5,730	14,848
Gain or Losses on Disposal and Scrap of Property and Equipment*	6,250	(1,117)
Gain or Losses on Sales of Available-for-Sales	-	(31,856)
Gains of Losses from Subsidiary Using Equity Method	(95,649)	(75,344)
Unrealized Gains and Losses on Sales	2,398	2,160
Loss on Corporate Bonds Buyback*	-	8,455
Total Incomes or Expenses*	<u>213,454</u>	<u>179,420</u>
Change in Assets and Liabilities related to Operating Activities:		
Net Change in Assets related to Operating Activities:		
Financial Assets at Fair Value through Profit or Loss - Current*	(65,948)	(142,395)
Account and Notes Payable*	(528,224)	118,222
Accounts Payable - Related Parties	61,214	388,634
Other Receivables	57,895	(800)
Inventory*	(444,464)	40,625
Prepaid Expenses and Other Current Assets*	33,483	1,933
Total of Net Change in Assets related to Operating Activities*	<u>(886,044)</u>	<u>406,219</u>
Net Change in Liabilities related to Operating Activities:		
Financial Liabilities at Fair Value through Profit or Loss - Current*	(822)	1,680
Notes and Accounts Payable	170,366	(245,841)
Accounts Payable - Related Parties	(32,287)	11,097
Other Payables	140,387	(50,229)
Accrued Pension Liabilities	(987)	(5,116)
Total Net Change in Liabilities related to Operating Activities	<u>276,657</u>	<u>(288,409)</u>
Total Net Change in Assets and Liabilities related to Operating Activities	<u>(609,387)</u>	<u>117,810</u>
Total of Adjusted Items	<u>(395,933)</u>	<u>297,230</u>
Cash Flow generated from Operations	434,869	1,054,405
Interest Collected	24,693	12,374
Dividends Collected	19,000	69,250
Interest Paid	(17,240)	(13,340)
Income Tax Paid	(98,214)	(111,709)
<b>Net Cash Flows generated from Operating activities*</b>	<u>363,108</u>	<u>1,010,980</u>
<b>Cash Flows generated from Investing Activities:</b>		
Sale of Available-for-sale Financial Assets	-	45,784
Sale of Financial Assets carried at Cost	300,000	-
Sale of Held-for-sale Noncurrent Assets	-	30,000
Acquisition of Property and Equipments*	(202,796)	(302,983)
Sale of Property and Equipments*	10,624	35,842
Decrease in Other Noncurrent Assets*	238	2,787
<b>Net Cash Flows generated from (used in) Investing Activities*</b>	<u>108,066</u>	<u>(188,570)</u>
<b>Cash Flows generated from Financing Activities:</b>		
Increase (Decrease) in Short-term Loans	(42,638)	537,282
Repayments on Bonds*	-	(488,623)
Borrowings on Long-term Loans	400,000	150,000
Repayments on Long-term Loans	(123,167)	(146,333)
Increase (Decrease) in Other Noncurrent Liabilities*	(1,266)	998
Cash Dividend	(638,709)	(638,709)
Reduction of Cash Capital	(960,653)	-
Write-Down of Treasury Stock	2,589	-
<b>Net Cash Flows used in Financing Activities*</b>	<u>(1,363,844)</u>	<u>(585,385)</u>
<b>Increase (Decrease) in Cash and Cash in Banks of Current Period</b>	<u>(892,670)</u>	<u>237,025</u>
<b>Cash and Cash in Banks at Beginning of the Period</b>	<u>1,940,139</u>	<u>1,703,114</u>
<b>Cash and Cash in Banks at End of the Period</b>	<u>\$ 1,047,469</u>	<u>1,940,139</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, 2013 AND 2012  
(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 18, 2014.

**3. New Standards and Interpretations Not yet Adopted**

**3.1. New standards and interpretations endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) but not yet in effect**

The International Accounting Standards Board (“IASB”) issued International Financial Reporting Standard 9 Financial Instruments (“IFRS 9”), which took effect on January 1, 2013. (The IASB extended the effective date to January 1, 2015, on December 2011, and announced the repeal of the mandatory effective date on January 1, 2015, to have more time to transition to the new standards for financial statement preparation. The new effective date has not been announced yet.) This standard has been endorsed by the FSC; however, at the end of the reporting periods (the reporting date), the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and the Company shall follow the guidance in the 2009 version of International Accounting Standard 39 Financial Instruments (“IAS 39”). At the adoption of this new standard, it is expected there will be impacts on the classification and measurement of financial instruments in the consolidated financial statements.

**3.2. New standards and interpretations not yet endorsed by the FSC**

A summary of the new standards and amendments issued by the IASB that may have an impact on the consolidated financial statements that have not yet been endorsed by the FSC:

<u>Issue Date</u>	<u>New Standards and Amendments</u>	<u>Description and Influence</u>	<u>Effective Date per IASB</u>
May 12, 2011	IFRSS 10 <i>Consolidated Financial Statements</i>	On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments. The new standards provide a single model in determining whether an entity has control over an investee (including special purpose entities) other than the consolidation process, for which the original guidance and method applies. In addition, joint arrangements are separated into joint operations (concepts from jointly controlled assets and jointly controlled operations), and joint ventures (concepts from jointly controlled entities), and the new standards remove the proportionate consolidation method.	January 1, 2013
June 28, 2012	IFRSS 11 <i>Joint Arrangements</i> IFRSS 12 <i>Disclosure of Interests in Other Entities</i> Amended IAS 27 <i>Separate Financial Statements</i> Amended IAS 28 <i>Investments in Associates and Joint Ventures</i>	On June 28, 2012, amendments were issued clarifying the guidance over the transition period. At the adoption of the above standards, some of the determinations of the investees could be changed, which would increase the disclosure of the equity of the subsidiaries and associates.	

English Translations of Notes Originally Issued in Chinese

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

May 12, 2011	IFRSS 13 <i>Fair Value Measurement</i>	IFRSS 13 replaces fair value measurement Guidance in other standards and integrates them as one single guidance. At the adoption of this standard, the Company should analyze the impact on the measurement of assets and liabilities. The amendment could also increase the disclosure of their fair value.	January 1, 2013
June 16, 2011	Amended IAS 1 <i>Presentation of Financial Statements</i>	Items presented in other comprehensive income shall be expressed based on whether they are potentially reclassifiable to profit or loss subsequently. Upon adoption, this standard could change the disclosure of the other comprehensive income in the comprehensive income statement.	July 1, 2012
June 16, 2011	Amended IAS 19 <i>Employee Benefits</i>	The amendments eliminate the corridor method and require enterprises to recognize changes in the net defined benefit liability (asset) in profit or loss; in addition, require the immediate recognition of past service cost. Upon adoption, the standard could change the measurement and presentation of the pension liability and actuarial gains or losses.	January 1, 2013
December 16, 2011	• Amended IAS 32 <i>Financial Instruments Presentation</i> • Amended IFRSS 7 <i>Financial Instruments: Disclosures</i>	The amendments modified the offsetting a financial asset and a financial liability (provided more direction) Upon adoption, the standard could change the measurement and presentation of the financial report.	January.1.2014(Presentation Provisions) January.1.2013(Disclosure Provisions)
December 16, 2011	• Amended IFRSS 7 <i>Financial Instruments: Disclosures</i> • Amended IFRSS 9 <i>Financial Instruments</i>	The amendments modified the adoption date (effective date postponed from January.1.2013 to January.1.2015) and Transition. IASC has deleted the January.1.2015 as effective date on November.2013, in order to prepare the report writers for adoption)	Unconfirmed. Early adoption is permitted.
October 31, 2012	• Amended IFRSS 10 <i>Consolidated Financial Statements</i> • Amended IAS 27 <i>Separate Financial Statements</i> • Amended IAS 28 <i>Investments in Associates and Joint Ventures</i>	An investment entity should be required to measure all controlling financial interests in another investment entity at fair value, rather than consolidating those subsidiaries. The amendment could also change the measurement and presentation of investment under equity method.	January 1, 2014. Early adoption is permitted.
May 29, 2013	Amended IAS 36 <i>Impairment of Assets</i>	The previous version of IAS 36, effective January 1, 2013, required an entity to disclose the recoverable amount of each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) was significant. The narrow-scope amendments require an entity to disclose the recoverable amount of an individual asset (including goodwill) or a cash-generating unit for which the Company has recognized or reversed an impairment loss. In	January 1, 2014 Early adoption is permitted.

English Translations of Notes Originally Issued in Chinese

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

		addition, the amendments to IAS 36 require an entity to disclose additional information about the fair value less costs of disposal for an individual asset including the level of the fair value hierarchy and key assumptions used in the measurement of fair value categorized within “Level 2” and “Level 3” of the fair value hierarchy.	
November 19, 2013	Amended IFRSS 9 <i>Financial Instruments</i>	Adoption of more Principle-Based Standard, allowing the hedge accounting to meet the risk management, including achievement, continuance and stop of amendment. A more variety of exposure can now be hedged. The amendment could increase the transaction under hedging accounting, and the measurement and presentation of hedged items to related hedging instruments.	Unconfirmed. Early adoption is permitted.
November 21, 2013	Amended IAS 19 <i>Employee Benefits</i>	The standard establishes the principle that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, The amendment could permit increases the transaction under hedging accounting, and the measurement and presentation of hedged items to related hedging instruments. It permits a practical expedient of the amount to be recognized as a reduction in the service cost in the period in which the related service is rendered. The amendment could change the measurement and presentation of accrued pension liabilities.	January 1, 2014 Early adoption is permitted.

#### **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, 2012, 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 unconsolidated financial statements report is the first annual report that have been 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

NOTES TO FINANCIAL STATEMENTS (Continued)

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 Holy Stone'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 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 and are listed as follows:

- 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 an liability as current when any one of the following requirements is met.

NOTES TO FINANCIAL STATEMENTS (Continued)

Liabilities that are not classified as current are non-current liabilities and are listed as follows:

- 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 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.

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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 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.

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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.

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

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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 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.

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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

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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. Non-current assets held for sale**

Whenever the disposal group consists of non-current assets or some associated liabilities is held for sale or distribution to owner, not held to collect the carrying value, it shall be classified as held-for-sale or held-for-distribution to owners. Non-current assets or disposal group accord with the aforementioned type shall be available for immediate sale, the sale is highly probable, within 12 months of classification as held for sale. Components of assets or disposal group shall be reevaluated based if Company's accounting policy before classified as held for sale/distribution to owners. Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. After classification as held for sale. Any of the impairment loss of disposal group shall be first amortized to goodwill, and further proportionally amortized to other assets and liabilities. Yet, the loss shall not be allocated to assets not defined in IAS 36 (Impairment of Assets), and shall be measured with the Company's accounting policy. Recognized impairment loss that is initially classified as held for sale or held for distribution to owners and the gains and losses from reevaluation shall be recognized as income. However, the rebounding interest shall not exceed the recognized accumulated impairment loss.

Intangible asset and real property, plant and equipment shall not be depreciated or amortized when classified as held for sale or held for distribution to owners. Besides, when investment is recognized as held for sale or held for distribution to owners under equity method, it shall stop adopting equity method.

**4.9. 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

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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.

**4.10. Property, plant and equipment**

4.10.1. 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.

4.10.2. 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.

4.10.3. 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.

#### **4.11. 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.

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.

#### **4.12. Treasury stock**

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Shares that are owned by TWM's subsidiaries are seen as identical to treasury shares. Gains on disposal of treasury shares should be recognized under "capital reserve – treasury share transactions"; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there is

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insufficient capital reserve to offset the losses, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted-average method and grouped by the type of repurchase.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus – premium on stock account and capital stock account should be debited proportionately according to the share ratio. The difference should be credited to capital surplus or debited to capital surplus and/or retained earnings. If any insufficient, it shall offset from retained earnings; if the carrying amount is lower than combination of carrying amount and premium on stock, and debited to capital surplus – from treasury stock transactions account which from the same class of the treasury stock.

**4.13. 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.

**4.14. Employee's bonus**

**4.14.1. 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.

**4.14.2. Defined Benefit Plans**

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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, 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.

**4.14.3. 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.

**4.15. 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

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

#### **4.16. 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

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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.

**4.17. 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.

**4.18. 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**

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	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Cash on hand	\$ 1,078	827	1,405
Current deposit	607,422	1,567,048	1,354,709
Deposit account	438,969	372,264	347,000
	<u><b>\$ 1,047,469</b></u>	<u><b>1,940,139</b></u>	<u><b>1,703,114</b></u>

Please refer to Note 6.19 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

6.2.1. Details:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Financial assets at fair value through profit or loss:			
Non-hedge derivatives :			
Exchange rate swap contract	\$ 276	195	-
Non-derivative financial assets:			
Foreign stocks	7,244	20,256	12,234
Bonds	409,457	311,330	224,712
Open-ended funds	35,467	54,715	7,155
Total	<u><b>\$ 452,444</b></u>	<u><b>386,496</b></u>	<u><b>244,101</b></u>
Financial liabilities at fair value through profit or loss:			
Cooperate bond	\$ 595	1,417	3,873
Non-hedge derivatives:			
Exchange rate SWAP contract	-	-	107
Total	<u><b>\$ 595</b></u>	<u><b>1,417</b></u>	<u><b>3,980</b></u>

6.2.2 Non-hedge Derivatives

Engagement of financial instruments is to avoid exchange rate and interest rate risk caused by operating, financing and investing activities. Derivatives not qualified for hedge accounting as of December 31, 2013 and 2012 and January 1, 2012 of the Company were as follows:

Exchange Rate SWAP Contract:

<u>2013.12.31</u>		
<u>Principal (USD thousand)</u>	<u>Term</u>	
\$ 2,200	2013.12.31~2014.01.14	
5,340	2013.12.31~2014.01.14	
9,400	2013.12.31~2014.01.14	
<u><b>\$ 16,940</b></u>		

<u>2012.12.31</u>		
<u>Principal (USD thousand)</u>	<u>Term</u>	
\$ 2,200	2012.12.24~2013.01.22	

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	5,340	2012.12.24~2013.01.22
	<u>9,400</u>	2012.12.24~2013.01.22
<b>\$</b>	<b><u>16,940</u></b>	

<b>2012.1.1</b>		
<b>Principal (USD thousand)</b>	<b>Term</b>	
\$	2,900	2011.12.29~2012.01.17
	9,400	2011.12.29~2012.01.17
	3,200	2011.12.29~2012.01.17
	<u>5,340</u>	2011.12.29~2012.01.17
<b>\$</b>	<b><u>20,840</u></b>	

6.3. Available-for-Sale Financial Assets

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Investment of Stock:			
Domestic Stock (OTC & TSEC listed)	\$ -	-	15,384
Foreign Stock (listed companies)	<u>77,285</u>	<u>71,105</u>	<u>82,425</u>
Total	<b><u>\$ 77,285</u></b>	<b><u>71,105</u></b>	<b><u>97,809</u></b>

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>2013</u>		<u>2012</u>	
	<b>Other post-tax comprehensive profit and loss</b>	<b>Post-tax profit and loss</b>	<b>Other post-tax comprehensive profit and loss</b>	<b>Post-tax profit and loss</b>
<b>Bond price on reporting date</b>				
<b>Increased by 1%</b>	<u>\$ 773</u>	<u>-</u>	<u>711</u>	<u>-</u>
<b>Decreased by 1%</b>	<u>\$ (773)</u>	<u>-</u>	<u>(711)</u>	<u>-</u>

Material foreign currency equity investment on reporting is as follows:

	<u>2013.12.31</u>			<u>2012.12.31</u>			<u>2012.1.1</u>		
	<b>Foreign currency</b>	<b>Rate</b>	<b>NT\$</b>	<b>Foreign currency</b>	<b>Rate</b>	<b>NT\$</b>	<b>Foreign currency</b>	<b>Rate</b>	<b>NT\$</b>
USD	2,593	29.805	77,285	2,449	29.04	71,105	2,723	30.275	82,425

As of December 31, 2013 and 2012 and January 1, 2012, the Company's available-for-sale financial assets had never been pledged as collaterals.

6.4. Financial Assets Carried at Cost

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Domestic preferred stock (TSEC & OTC listed)	<u>\$ -</u>	<u>300,000</u>	<u>300,000</u>

The stock investment above held by the 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.

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As of December 31, 2013 and 2012 and January 1, 2012, the Company's financial assets carried at cost had never been pledged as collaterals.

6.5 Notes, Account and Other Receivable, Net

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Notes receivable	\$ 58,378	82,420	88,472
Account receivable	2,776,536	2,224,270	2,336,968
Account receivable – related parties	716,193	777,407	1,166,041
Other receivable	84,883	152,536	151,635
Less: Allowance for Uncollectible Accounts	<u>(63,703)</u>	<u>(52,750)</u>	<u>(53,278)</u>
	<b><u>\$ 3,572,287</u></b>	<b><u>3,183,883</u></b>	<b><u>3,689,838</u></b>

As of December 31, 2013 and 2012 and January 1, 2012, the notes, account and other receivable aging were as follows:

	<u>2013.12.31</u>		<u>2012.12.31</u>		<u>2012.1.1</u>	
	<u>Amount</u>	<u>Impairment</u>	<u>Amount</u>	<u>Impairment</u>	<u>Amount</u>	<u>Impairment</u>
Unexpired	\$ 3,474,692	21,835	3,082,882	20,863	3,582,911	31,756
1~30 days overdue	112,273	18,085	109,542	12,347	146,488	7,813
30~60 days overdue	47,094	21,852	25,788	1,292	4,157	4,149
Over 90 days overdue	<u>1,931</u>	<u>1,931</u>	<u>18,421</u>	<u>18,248</u>	<u>9,560</u>	<u>9,560</u>
	<b><u>\$ 3,635,990</u></b>	<b><u>63,703</u></b>	<b><u>3,236,633</u></b>	<b><u>52,750</u></b>	<b><u>3,743,116</u></b>	<b><u>53,278</u></b>

The Company's evaluation on impairment of notes, account and other receivables included individual and group evaluations. As of December 31, 2013 and 2012 and January 1, 2012, the statement of change in allowance for uncollectible accounts of notes, account and other receivable were as follows:

	<u>2013</u>	<u>2012</u>
Beginning balance, January 1	\$ 52,750	53,278
Impairment loss recognition	10,953	-
Offset (current period)	<u>-</u>	<u>(528)</u>
Ending balance, December 31	<b><u>\$ 63,703</u></b>	<b><u>52,750</u></b>

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.

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.

35 % of the notes and account receivables including remains from the most significant client, come from the clients with favorable payment history.

As of December 31, 2013 and 2012 and January 1, 2012, the account receivable of Company had never been pledged as collateral,

6.6 Inventories

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	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Raw Material	\$ 91,668	105,784	121,730
Supplies	4,178	4,371	4,802
Work in process	143,879	119,515	68,724
Semi-finished goods	93,975	64,312	95,222
Finished goods	274,759	258,638	250,869
Merchandise	1,499,345	1,110,720	1,162,618
	<u>\$ 2,107,804</u>	<u>1,663,340</u>	<u>1,703,965</u>

The inventory cost from cost of goods sold and expense recognized at the end of 2013 and 2012 was NT\$12,231,967 thousand and NT\$11,047,136 thousand. 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\$21,378 thousand and NT\$1,155 thousand, respectfully.

As of December 31, 2013 and 2012 and January 1, 2012, the inventories of Company had never been pledged as collateral,

6.7. Held-for Sale Noncurrent Assets

On December, 2001, the Company decided to sell part of machinery and equipment and expected to finish selling within a year. These equipments are recognized as held-for sale according to this decision. The assets value of this group of held-for-sale was NT\$30,000 thousand as of January 1, 2012.

Details:

	<u>2012.1.1</u>
Machinery and equipment	\$ 66,656
Less: accumulated depreciation	(27,728)
Accumulated loss	(8,928)
Total	<u>\$ 30,000</u>

6.8. Investment under equity method

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

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Subsidiaries	<u>\$ 2,489,192</u>	<u>2,236,681</u>	<u>2,295,009</u>

For more information of subsidiaries, please refer to the Company's 2013 consolidated report.

6.8.2. As of December 31, 2013 and 2012 and January 1, 2012, the Company's investment had never been pledged as collateral.

6.9. Property, Plant and Equipment

Details on cost, accumulated depreciation, and impairment loss of the Company for the year ended December 31, 2013 and 2012 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, 2013	\$ 626,348	1,206,333	1,837,898	236,027	3,906,606

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Purchasing & adjustment	-	35,015	211,560	27,383	273,958
Disposal	-	(5,446)	(46,160)	(15,123)	(66,729)
Ending balance December, 31 2013	<b>\$ 626,348</b>	<b>1,235,902</b>	<b>2,003,298</b>	<b>248,287</b>	<b>4,113,835</b>
Beginning balance, January 1, 2012	\$ 626,348	1,158,556	1,611,809	216,941	3,613,654
Purchasing & adjustment	-	47,777	287,590	25,207	360,574
Disposal	-	-	(61,501)	(6,121)	(67,622)
Ending balance December, 31 2012	<b>\$ 626,348</b>	<b>1,206,333</b>	<b>1,837,898</b>	<b>236,027</b>	<b>3,906,606</b>
Accumulated depreciation & impairment loss					
Beginning balance, January, 1 2013	\$ -	239,844	953,756	165,276	1,358,876
Current year depreciation	-	47,464	205,760	27,864	281,088
Disposal	-	(5,135)	(36,485)	(8,235)	(49,855)
Ending balance, December 31, 2013	<b>\$ -</b>	<b>282,173</b>	<b>1,123,031</b>	<b>184,905</b>	<b>1,590,109</b>
Beginning balance, January 1, 2012	\$ -	195,072	801,301	139,396	1,135,769
Current year depreciation	-	44,772	181,749	29,483	256,004
Disposal	-	-	(29,294)	(3,603)	(32,897)
Ending balance, December 31, 2012	<b>\$ -</b>	<b>239,844</b>	<b>953,756</b>	<b>165,276</b>	<b>1,358,876</b>
Book value:					
Ending balance, December 31, 2013	<b>\$ 626,348</b>	<b>953,729</b>	<b>880,267</b>	<b>63,382</b>	<b>2,523,726</b>
Ending balance, December 31, 2013	<b>\$ 626,348</b>	<b>966,489</b>	<b>884,142</b>	<b>70,751</b>	<b>2,547,730</b>
Beginning balance, January 1, 2012	<b>\$ 626,348</b>	<b>963,484</b>	<b>810,508</b>	<b>77,545</b>	<b>2,477,885</b>

As of December 31, 2013 and 2012 and January 1, 2012, the property, plant and equipment of the Company had never been pledged as collateral.

6.10. Short-Term Loan

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

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Unsecured bank loans	<b>\$ 1,681,305</b>	<b>1,723,943</b>	<b>1,186,661</b>
Undrawn quotas	<b>\$ 2,206,976</b>	<b>2,007,290</b>	<b>2,040,385</b>
Range of interest rates	<b><u>0.9%~2%</u></b>	<b><u>0.75%~1.297%</u></b>	<b><u>0.82%~1.4%</u></b>

6.11. Long-Term Loans

Detail, condition, and provision to the long-term loan of the Company were as follows:

	<u>2013.12.31</u>			
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	1.3488%~1.5349%	2017	\$ 500,000
Less: current portion				(28,667)
Total				<b>\$ 471,333</b>
Undrawn quotas				<b>\$ 100,000</b>
	<u>2012.12.31</u>			
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>

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Unsecured bank loans	TWD	1.333%~1.457%	2017	\$	223,167
Less: current portion					<u>(73,167)</u>
Total				\$	<u><b>150,000</b></u>
Undrawn quotas				\$	<u><b>600,000</b></u>

<b>2012.1.1</b>					
	<b>Currency</b>	<b>Range of interest rates</b>	<b>Maturity year</b>		<b>Amount</b>
Unsecured bank loans	TWD	1.3002%~1.3118%	2013	\$	219,500
Less: current portion					<u>(146,333)</u>
Total				\$	<u><b>73,167</b></u>
Undrawn quotas				\$	<u><b>-</b></u>

6.12. Bond payable

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

	<b>2013.12.31</b>	<b>2012.12.31</b>	<b>2012.1.1</b>
Total amount of convertible bonds issued	\$ 700,000	700,000	700,000
Unamortized discount on bond payable	(1,920)	(3,200)	(25,337)
Accumulated redemption	<u>(595,500)</u>	<u>(595,500)</u>	<u>(106,800)</u>
Ending balance of bond payable	<u><b>\$ 102,580</b></u>	<u><b>101,300</b></u>	<u><b>567,863</b></u>
Embedded derivatives – call and put options (reported in financial assets at fair value through profit or loss)	<u><b>\$ (595)</b></u>	<u><b>(1,417)</b></u>	<u><b>(3,873)</b></u>
Equity component – conversion right (reported in capital surplus)	<u><b>\$ 16,909</b></u>	<u><b>16,909</b></u>	<u><b>95,986</b></u>
	<u><b>2013</b></u>	<u><b>2012</b></u>	
Embedded derivatives – gain or loss of call and put options reevaluated at fair value	<u><b>\$ 822</b></u>	<u><b>1,788</b></u>	
Interest expense	<u><b>\$ 1,280</b></u>	<u><b>4,183</b></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 at on August 22, 2013.

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

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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.

6.13. Employee Benefits

6.13.1. Defined Benefit Plan

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

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Total present value of obligation	\$ 140,940	145,137	82,021
Fair value of plan assets	(82,122)	(83,061)	(84,894)
Defined benefit obligation liabilities recognized (assets)	<u>\$ 58,818</u>	<u>62,076</u>	<u>(2,873)</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.

6.13.1.1. Composition of Assets

The pension funds appropriated by the Company in accordance with Labor Standard Law are managed by Labor Pension Fund Supervisory Committee (abbreviated to LPSC 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, 2013 in labor retirement reserve account was NT\$82,122 thousand. The labor pension funds include return and assets allocation on funds, for more information, please visit website of Labor Pension Fund Supervisory Committee.

6.13.1.2. Changes of Current Value of Defined Benefit Obligation

Changes of Current Value of Defined Benefit Obligation for the year ended December 31, 2012

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and 2013 were as follows:

	<u>2013</u>	<u>2012</u>
Defined benefit obligation on January 1	\$ 145,137	82,021
Benefit plan payment	(5,688)	(6,310)
Current service cost and interest	3,955	2,691
Actuarial Gains or losses	(2,464)	66,735
Defined benefit obligation on December 31	<u>\$ 140,940</u>	<u>145,137</u>

6.13.1.3. Changes of Fair Value of the Plan Assets

The changes of current value for benefit plan for the year ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Fair value of the plan assets on January 1	\$ 83,061	84,894
Appropriation for the plan	3,696	3,660
Benefit plan payment	(5,688)	(6,309)
Expected return on plan assets	1,246	1,273
Actuarial Gains or losses	(193)	(457)
Plan assets at fair value on December 31	<u>\$ 82,122</u>	<u>83,061</u>

6.13.1.4 Expense recognized as gain or loss

The details of the Company's expense for the year ended December 2013 and 2012 are reported as follows:

	<u>2013</u>	<u>2012</u>
Current service cost	\$ 1,778	1,461
Interest cost	2,177	1,230
Expected return on plan assets	(1,246)	(1,273)
	<u>\$ 2,709</u>	<u>1,418</u>
Operating cost	\$ 1,304	787
Operating expense	1,405	631
	<u>\$ 2,709</u>	<u>1,418</u>

6.13.1.5. 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, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Beginning accumulated balance on January 1	\$ (67,192)	-
Recognition in current period	2,271	(67,192)
Ending accumulated balance on December 31	<u>\$ (64,921)</u>	<u>(67,192)</u>

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6.13.1.6 Actuarial Assumption

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

	<u>2013.12.31</u>	<u>2012.12.31</u>
Discount rate	1.75%	1.50%
Expected return on plan assets	1.75%	1.50%
Gains on future wages	1.00%	1.50%

Expected return on long-term assets is based on portfolio, not the return of sum of individual assets. This return rate is only based on historical return rate without adjustment.

6.13.1.7. Historical Information of Experience Adjustment

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Present value of the defined benefit obligation \$	140,940	145,137	82,021
Plan asset at fair value	<u>(82,122)</u>	<u>(83,061)</u>	<u>(84,894)</u>
Net defined benefit obligation liabilities(Assets)	<u><b>\$ 58,818</b></u>	<u><b>62,076</b></u>	<u><b>(2,873)</b></u>
Experience adjustment of present value of defined benefit plan	<u><b>\$ 2,464</b></u>	<u><b>(66,735)</b></u>	<u><b>-</b></u>
Experience adjustment of plan asset at fair value	<u><b>\$ (193)</b></u>	<u><b>(457)</b></u>	<u><b>-</b></u>

The Company expects to pay NT\$2,435 thousands for defined benefit plan in a year after 2013 reporting date.

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

As of December 31, 2013 and 2012, the Company had appreciated NT\$24,789 and NT\$23,976 thousand for pension expense to Bureau of Labor Insurance.

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6.14. Income Tax

6.14.1. Income Tax Expense

14.1.1. As of December 31, 2013 and 2012, the income tax expense in details is as follows:

	<u>2013</u>	<u>2012</u>
Present value of income tax expense		
Expense generated from current period	\$ 120,607	118,705
Deferred income tax expense		
Temporary differences incurred or reversed	14,530	(1,150)
	<u>\$ 135,137</u>	<u>117,555</u>

6.14.1.2. As of December 31, 2013 and 2012, income tax profit (expense) that recognized under other comprehensive income is as follows:

	<u>2013</u>	<u>2012</u>
Exchange differences from translation of financial report of foreign operation	\$ (46)	<u>12,110</u>

6.14.1.3. As of December 31, 2013 and 2012, the adjustment of income tax expense and net income before tax were as follows:

	<u>2013</u>	<u>2012</u>
Net income before tax	\$ <u>830,802</u>	<u>757,175</u>
Income tax calculated by using local tax rate of the Company	\$ 141,236	128,720
Tax-exempt income and rental tax credit	(29,666)	(12,891)
10 % more on undistributed earnings	11,058	4,665
Other	12,509	(2,939)
Total	<u>\$ 135,137</u>	<u>117,555</u>

6.14.2. Deferred Income Tax Assets and Liabilities

As of December 31, 2013 and 2012, changes of deferred income tax assets and liabilities were as follows:

	<u>Loss due to market decline on inventory</u>	<u>Other</u>	<u>Total</u>
<b>Deferred income tax asset:</b>			
Beginning balance, January 1, 2013	\$ 21,559	11,705	33,264
(Debit) Credit income statement	(3,635)	483	(3,152)
Credit to other comprehensive income	-	(46)	(46)
<b>Ending balance, December 31, 2013</b>	<u>\$ 17,924</u>	<u>12,142</u>	<u>30,066</u>
Beginning balance, January 1, 2012	\$ 21,755	4,739	26,494
(Debit) Credit income statement	(196)	1,434	1,238
Credit to other comprehensive income	-	5,532	5,532
<b>Ending balance, December 31, 2012</b>	<u>\$ 21,559</u>	<u>11,705</u>	<u>33,264</u>

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	Gains of Losses from Subsidiary Using Equity Method\	Exchange differences from translation of financial report of foreign operation	Other	Total
<b>Deferred income tax liabilities:</b>				
Beginning balance, January 1, 2013	\$ 48,159	-	-	48,159
Debit income statement	8,142	-	3,236	11,378
<b>Ending balance, December, 31 2013</b>	<b>\$ 56,301</b>		<b>3,236</b>	<b>59,537</b>
Beginning balance, January 1, 2012	\$ 40,780	6,578	7,291	54,649
Debit (Credit) income statement	7,379	-	(7,291)	88
Credit to other comprehensive income	-	(6,578)	-	(6,578)
<b>Ending balance, December 31, 2012</b>	<b>\$ 48,159</b>			<b>48,159</b>

6.14.3. Income Tax Assessment

The income tax has been examined and cleared by the tax authorities to the year 2011.

6.14.4. Related Information of Integrated Income Tax

Integrated income tax is as follows:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Undistributed earnings after 1998	\$ <u>1,171,955</u>	<u>1,018,563</u>	<u>1,160,995</u>
Balance in the shareholder deductible tax	\$ <u>144,193</u>	<u>131,923</u>	<u>105,248</u>
	<u>2013 (expected)</u>	<u>2012 (actual)</u>	
Tax deduction ratio of earning distribution to residents in ROC	<u>15.66%</u>	<u>17.44%</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.

6.15. Capital and Other Equities

As of December 31, 2013, 2012 and January 1, 2012, Holy Stone 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, 2013, 2012 and January 1, 2012, 224,153 thousand shares, 320,218 thousand shares, and 320,218 thousand shares, respectively. All of the payment of issued shares was collected.

The Reconciliation of shares outstanding as of December 31, 2013 and 2012 is as follows:

	<u>Common Stock (Thousand)</u>	
	<u>2013</u>	<u>2012</u>
Beginning balance, January 1	320,218	320,218
Capital reduction	(96,065)	-
<b>Ending balance, December 31</b>	<b><u>224,153</u></b>	<b><u>320,218</u></b>

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6.15.1. Capital stock

To increase return on equity and manage the capital properly, the capital reduction resolution passed during 2013 Annual General Shareholders' Meeting on June 14, The Company returned cash to shareholders, a total of NT\$960,653 thousand, and canceled 96,065 thousand shares. The recording date of the capital reduction was August 22, 2013. The Statutory procedures had all been rendered and settled.

6.15.2. The components of capital surplus were as follows:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
From Floating share premium	\$ 1,528,212	1,687,890	1,687,890
From convertible bonds	1,463,082	1,463,082	1,463,082
From bond options	16,909	16,909	95,986
From treasury stock	21,358	21,358	11,133
From Merger	144,225	144,225	144,225
From employees stock option	272,695	266,964	252,116
From employees' bonus	15,410	15,410	15,410
From Differences between book value and equity price of acquisition or disposal of subsidiaries	47,257	1,749	-
From expired option	63,672	63,672	-
	<u>\$ 3,572,820</u>	<u>3,681,259</u>	<u>3,669,842</u>

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.

6.15.3. 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. 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 i. to iv. 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.

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- f. The surplus remaining after deductions of items i. to v. 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.

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

Holy Stone's estimated bonuses to employees amounted to NT\$99,956 thousand and NT\$91,881 thousand for the years ended December 31, 2013 and 2012, respectively. The estimated remuneration to directors amounted to NT\$18,742 thousand and NT\$17,228 thousand for the years ended December 31, 2013 and 2012, respectively.

The above distribution was estimated using earning distribution method and priority, employee bonuses, and proportion of remuneration to directors that listed in the article of association. The distribution was reported in as operating cost or expenses for the year ended December 31, 2013 and 2012. The actual distribution of bonuses to employees and remuneration to directors for the year ended December 31, 2012 were same as estimated. The distribution of bonuses to employees, remuneration to directors and the owners' dividends shall be proposed by board of directors and resolved on shareholders' meeting. The related information shall be available on Market Observation Post System after the related meeting. If there are differences between estimates and actual distribution, the amount shall be considered and reported as income for the year ended December 31, 2013.

On June 14, 2013, and June 5, 2012, the distribution of owners' dividends resolved in the 2012 and 2011 earnings appropriations and 2012 distributions of available Cash from capital surplus in shareholders' meeting were as follows:

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	2012		2013	
	dividend allotment (dollars)	Amount	dividend allotment (dollars)	Amount
Common stock dividends:				
Cash dividends from earnings	\$ 1.50	479,032	2.00	638,709
Cash dividends from capital surplus	0.50	<u>159,677</u>	-	<u>-</u>
Total		<u>\$ 638,709</u>		<u>638,709</u>

6.15.4 Treasury stock

- i. The Company bought back common stock of 863 thousand shares (Adjusted to 604 thousand shares due to capital reduction on August 22, 2013) to transfer to employees. As of December 31, 2012, 2013 and January 1, 2012, number of shares not transferred totaled 604, 863 and 863 thousand shares, respectively.
- ii. According to the Securities Exchange Act, the proportion of the Company's shares buyback cannot exceed 10% of the total issued shares; the total amount to buyback shares cannot exceed the sum of retained earnings plus premium on shares and realized capital reserve. The highest amount of shares the Company held from buyback for the period is NT\$30,842 thousand, which is in compliance to the Securities Exchange Act. December 31, 2010 as the record date, the Company's upper limit of shares to buy back is 32,022 thousand shares, and the corresponding amount totaled NT\$4,798,637 thousand. Up till December 31, 2013, 2012, and January 1, 2012, the Company's buyback in treasury stock was 863 thousand shares, and the amount totaled NT\$30,842 thousand.
- iii. According to Holy Stone's Articles of Incorporation, the Company's treasury stock, also end of period book value of treasury stock in retained earnings, is not allowed for the distribution of dividends.
- iv. According to the Securities Exchange Act, the Company's treasury stock is not to be pledged, and before transfer/sale, shall not be entitled to shareholders' rights.

6.15.5. Other Equity

	Exchange differences from translation of financial report of foreign operation	Available-for-sale investment
Beginning balance, January 1, 2013	\$ (27,010)	196,930
Exchange differences (Net value after tax):		
The Company	225	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	6,180
Subsidiaries	-	<u>132,481</u>
Ending balance, December 31, 2013	<u>\$ (26,785)</u>	<u>335,591</u>

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	Exchange differences from translation of financial report of foreign operation	Available-for-sale investment
Beginning balance, January 1, 2012	\$ 32,119	202,477
Exchange differences (Net value after tax):		
The Company	(59,129)	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	(12,776)
Subsidiaries	-	7,229
Ending balance, December 31, 2012	\$ (27,010)	196,930

6.16. Share-based Payment

As of December 31, 2013, details of share-based payment were as follows:

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

6.16.1. 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:

	First employment stock option plan in 2007
Price on grant date (TWD)	18.755
Stock price on grant date (TWD)	50.00
Exercise price on 3.31.2013 (2013)	32.80
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

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

(Unit: Thousands of NT\$)	2013		2012	
	Weighted average exercise price (dollars)	Numbers of option (Unit: Thousands)	Weighted average exercise price (dollars)	Numbers of option (Unit: Thousands)
Outstanding on January 1	\$ 33.81	13,500	35.77	15,000
Numbers granted for current period	-	-	-	-
Numbers abandoned for current period	-	-	-	-
Numbers exercised for current period	-	-	-	-
Numbers expired for current period	-	(3,500)	-	(1,500)
Adjustment of Cash reduction	-	(219)	-	(1,500)
Outstanding numbers on December 31	43.70	9,781	33.81	12,000
Exercisable numbers on December 31	43.70	9,781	33.98	11,500
		Exercise price(dollars)		

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<u>Issue Date</u>	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
2006.08.21	-	31.40	31.40
2007.06.15	-	36.70	38.70
2007.12.03	43.70	32.80	35.40

<u>Issue Date</u>	<u>Weighted average remain duration</u>		
	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
2006.08.21	-year	- year	0.64 year
2007.06.15	- year	0.45 year	1.45 year
2007.12.03	3.93 year	4.93 year	5.93 year

3. Employment expenses and liabilities:

As of December 31, 2012 and 2013, the expenses and liabilities generated by share-based payment were as follows:

	<u>2013</u>	<u>2012</u>
Expenses from ESO	<u>\$ 5,731</u>	<u>14,848</u>

**6.17. Earnings per Share**

6.17.1. Basic EPS

As of December 31, 2013 and 2012, the basic EPS is calculated using the following items, NT\$695,665 and NT\$639,620 thousand of net income available to common shareholders, and NT\$284,969 and NT\$319,354 thousand shares of weighted average of outstanding common stock. The calculation is as follows:

6.17.1.1. Net income available to common shareholders (Diluted)

	<u>2013</u>	<u>2012</u>
Net income available to common shareholders	<u>\$ 695,665</u>	<u>639,620</u>

6.17.1.2. Weighted average of outstanding common stock

Unit: thousand shares	<u>2013</u>	<u>2012</u>
Outstanding common stock on January 1	319,354	319,354
Effect of cash refund of capital reduction	(34,385)	-
Weighted average of outstanding common stock on December 31	<u>284,969</u>	<u>319,354</u>

6.17.2. Diluted EPS

As of December 31, 2013 and 2012, the diluted EPS is calculated using the following items, NT\$696,945 and NT\$643,803 thousand of net income available to common shareholders, and NT\$291,384 and NT\$333,334 thousand shares of weighted average of outstanding common stock. The calculation is as follows:

i. Net income available to common shareholders

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	<u>2013</u>	<u>2012</u>
Net income available to common shareholders (Basic)	\$ 695,665	639,620
Interest expense after tax of convertible bond	1,280	4,183
Net income available to common shareholders (Diluted)	<u><b>\$ 696,945</b></u>	<u><b>643,803</b></u>

ii. Weighted average of outstanding shares (Diluted)

Unit: thousand shares	<u>2013</u>	<u>2012</u>
Weighted average of outstanding common shares(Basic)	284,969	319,354
Effect of conversion of convertible bonds	2,277	8,511
Effect of employee bonus share	4,138	5,469
Ending balance of weighted average of outstanding common shares (Diluted) December 31	<u><b>291,384</b></u>	<u><b>333,334</b></u>

6.18. Revenues

The operating revenues of the Company are detailed as follows:

	<u>2013</u>	<u>2012</u>
Merchandise sales	\$ 13,665,223	12,441,376
Other	16,585	13,582
	<u><b>\$ 13,681,808</b></u>	<u><b>12,454,958</b></u>

6.19. Financial Instruments

6.19.1. Categories of financial instruments

i. Financial Assets

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Financial assets at fair value through profit or loss – current	\$ 452,444	386,496	244,101
Available-for-sale financial assets	77,285	71,105	97,809
Loans and receivables:			
Cash and cash equivalent	1,047,469	1,940,139	1,703,114
Notes and accounts receivable	2,771,211	2,253,940	2,372,162
Other receivables	84,883	152,536	151,635
Account receivable - related parties	716,193	777,407	1,166,041
Subtotal	4,619,756	5,124,022	5,392,952
Total	<u><b>\$ 5,149,485</b></u>	<u><b>5,581,623</b></u>	<u><b>5,734,862</b></u>

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ii. Financial Liabilities

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Financial liabilities at fair value through profit or loss – current	\$ 595	1,417	3,980
Available-for-sale financial liabilities :			
Short-term loans	1,681,305	1,723,943	1,186,661
Notes and account payables	1,173,450	1,003,084	1,248,925
Account payable – related parties	45,488	77,775	66,678
Bond payables	102,580	101,300	567,863
Long-term loans	500,000	223,167	219,500
Subtotal	<u>3,502,823</u>	<u>3,129,269</u>	<u>3,289,627</u>
Total	<u><b>\$ 3,503,418</b></u>	<u><b>3,130,686</b></u>	<u><b>3,293,607</b></u>

6.19.2. Credit Risk

i. Credit Risk Exposure

The maximum credit risk exposure of the Company's financial instruments is equal to the carrying amount. As of December 31, 2013, 2012 and January 1, January, the maximum credit risk exposure totaled NT\$149,485, 5,581,623, and 5,734,862 thousand.

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.

6.19.3. 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>
December 31, 2013					
Non-derivative financial liabilities					
Unsecured Corporate Bond	\$ 102,580	102,580	102,580	-	-
Unsecured Loans	2,181,305	2,294,960	2,191,292	103,668	-
	<u><b>\$ 2,283,885</b></u>	<u><b>2,397,540</b></u>	<u><b>2,293,872</b></u>	<u><b>103,668</b></u>	<u><b>-</b></u>
December 31, 2012					
Non-derivative financial liabilities					
Unsecured Corporate Bond	\$ 101,300	101,300	101,300	-	-
Unsecured Loans	1,947,110	2,019,247	1,861,664	157,583	-
	<u><b>\$ 2,048,410</b></u>	<u><b>2,120,547</b></u>	<u><b>1,962,964</b></u>	<u><b>157,583</b></u>	<u><b>-</b></u>
January 1, 2012					
Non-derivative financial liabilities					

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Unsecured Corporate Bond	\$	567,863	567,863	567,863	-	-
Unsecured Loans		1,406,161	1,410,237	1,335,713	74,524	-
	<b>\$</b>	<b>1,974,024</b>	<b>1,978,100</b>	<b>1,903,576</b>	<b>74,524</b>	<b>-</b>

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

6.19.4. Currency Risk

i. Exposure to Currency Risk

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

Unit: NT\$ Thousand

	2013.12.31			2012.12.31			2012.1.1			
	Foreign currency	Exchange rate	New Taiwan dollar	Foreign currency	Exchange rate	New Taiwan dollar	Foreign currency	Exchange rate	New Taiwan dollar	
<b>Financial Assets</b>										
<u>Monetary Items</u>										
USD	\$	132,767	29.8050	3,955,923	99,860	29.0400	2,899,943	109,712	30.275	3,321,543
EUR		369	41.0900	15,148	134	38.4900	5,171	30	39.1800	1,183
HKD		14,717	3.8430	56,557	12,264	3.7470	45,953	13,049	3.897	50,855
JPY		384,918	0.2839	109,278	440,611	0.3644	148,221	309,863	0.3906	121,032
<b>Financial Liabilities</b>										
<u>Monetary Items</u>										
USD		103,766	29.8050	3,092,749	92,568	29.0400	2,688,174	75,157	30.2750	2,275,378
EUR		16	49.2800	813	10	46.8300	458	28	46.7300	1,313
HKD		481,702	0.2389	136,755	469,557	0.3364	157,959	412,816	0.3906	161,246

ii. Sensibility 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, 2013 and 2012, 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\$45,329 thousand and NT\$12,635 thousand. The analysis of these two periods is based on the same basis.

6.19.5. 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.

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If the interest rate increased or dropped by 1%, other variations remain unchanged, the Company's net profit as of December 31, 2013 and 2012 would increase or decrease NT\$21,813 dollar and NT\$19,471 dollar. The chief reason of this is because the Company adopts floating rates loans.

6.19.6. Fair Value

i. Fair Value and Carrying Amount

The Company considers that the carrying amounts of financial assets and financial liabilities recognized in the parent company only financial statements approximate their fair values.

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) Other financial assets and liabilities except for the aforementioned are determined by general pricing model calculated using discounted cash flow.

iii. Level of Fair Value

The following table is the analysis of financial instruments carried at fair value based on the valuation method. The definition of each level are:

- (i) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2013.12.31</b>				
Financial assets measured at fair value				
Funds	\$ 35,467	-	-	35,467
Bonds investment	409,457	-	-	409,457
Domestic/Foreign Stock	7,244	-	-	7,244
Available-for-sale financial assets				
Foreign stock	77,285	-	-	77,285
Derivative financial assets				
Interest rate SWAP	-	276	-	276
	<u>\$ 529,453</u>	<u>276</u>	<u>-</u>	<u>529,729</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2012.12.31</b>				
Financial assets measured at fair value				
Funds	\$ 54,715	-	-	54,715
Bonds investment	311,330	-	-	311,330
Domestic/Foreign Stock	20,256	-	-	20,256
Available-for-sale financial assets				
Foreign stock	71,105	-	-	71,105
Derivative financial assets				
Interest rate SWAP	-	195	-	195
	<u>\$ 457,406</u>	<u>195</u>	<u>-</u>	<u>457,601</u>
<b>2012.1.1</b>				
Financial assets measured at fair value				
Funds	\$ 7,155	-	-	7,155
Bonds investment	224,712	-	-	224,712
Domestic/Foreign Stock	12,234	-	-	12,234
Available-for-sale financial assets				
Foreign stock	97,809	-	-	97,809
Derivative financial assets				
Interest rate SWAP	-	(107)	-	(107)
	<u>\$ 341,910</u>	<u>(107)</u>	<u>-</u>	<u>341,803</u>

6.20. Financial Risk Management

6.20.1. 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.

6.20.2. 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

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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.

6.20.3. 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. 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, 2013, 2012 and January 1, 2012, 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

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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, 2013, 2012 and January 1, 2012, the unexpended short-term loan commitments are NT\$2,206,976, NT\$2,007,290, and NT\$2,040,385 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.

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

6.21. Capital Management

The board of directors' policy aims at keeping a healthy capital basis, in order to uphold confidence of

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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, 2013, 2012, and January 1, 2012, the liabilities to debt ratio were as follows:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Total liabilities	\$ 4,120,312	3,599,787	3,763,382
Less: Cash and cash equivalent	<u>(1,047,469)</u>	<u>(1,940,139)</u>	<u>(1,703,114)</u>
Net liabilities	<u><b>\$ 3,072,843</b></u>	<u><b>1,659,648</b></u>	<u><b>2,060,268</b></u>
Total equity	\$ 8,268,574	8,977,287	9,096,827
Less: Adjustment	-	-	-
Adjusted capital	<u><b>\$ 8,268,574</b></u>	<u><b>8,977,287</b></u>	<u><b>9,096,827</b></u>
Liabilities to debt ratio	<u><b>37.16%</b></u>	<u><b>18.49%</b></u>	<u><b>22.65%</b></u>

**7. Related-Party Transactions**

7.1. Subsidiaries of Holy Stone are detailed as follows:

<b>Investor Companies</b>	<b>Subsidiaries</b>	<b>Location</b>	<b>Shareholding ratio</b>		
			<b>2013.12.31</b>	<b>2012.12.31</b>	<b>2012.1.1</b>
The Company	Holy Stone Enterprise (Hong Kong) Co., Ltd. (Holy Stone H.K)	Hong Kong	100.00%	100.00%	100.00%
The Company	Holy Stone Holdings Co., Ltd. (HSH)	Samoa	100.00%	100.00%	100.00%
The Company	UHOLY Investments Co., Ltd. (UHOLY Investments)	Taiwan	57.69%	57.69%	57.69%
The Company	Martek Co., Ltd. (Martek)	Taiwan	100.00%	100.00%	100.00%
The Company	Rong Jhan Investments Co., Ltd. (Rong Jhan Investments)	Taiwan	100.00%	100.00%	100.00%
HSH	Holy Stone Investments Co., Ltd. (HSIC)	Hong Kong	100.00%	100.00%	100.00%
HSH	Holypaq Corporation (HC)	Cayman Islands (British Overseas Territory)	100.00%	100.00%	100.00%
HSH	Green Glory Holdings Ltd. (GGH)	Samoa	100.00%	100.00%	100.00%
HSH	Mayatek Co., Ltd. (Mayatek)	Belize	100.00%	100.00%	100.00%
HSH	Holy Stone Polytech Co., Ltd. (HPC)	Japan	100.00%	98.78%	98.57%
HSH	Everplus Material Co., Ltd. (EPM)	Japan	100.00%	100.00%	-
HSIC	Holy Stone international trading (Shanghai) Co., Ltd. (Holy Stone Shanghai)	China	100.00%	100.00%	100.00%
HSIC	Infortech (Shanghai) Co., Ltd. (Infortech)	China	100.00%	100.00%	100.00%
HC	HolyPAQ (Dongguan) Corporation (HPD)	China	100.00%	100.00%	100.00%
GGH	Infortech International Trading (Shanghai) Ltd. (Infortech International)	China	100.00%	100.00%	100.00%
GGH	Milestone Global Technology Ltd.(MGT)	U.S.A	100.00%	100.00%	100.00%
GGH	Holy Stone (Europe) Ltd. (HSE)	England	100.00%	100.00%	100.00%
Union Venture Investments	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare)	Taiwan	29.02%	36.45%	39.16%
	Global Search Holdings Ltd.(GSH)	Samoa	100.00%	100.00%	100.00%

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Holy Stone Healthcare GSH	MDT INT'L SA (MDT)	Switzerland	62.50%	62.00%	50.00%
Rong Jhan Investment	Holy Stone Biotech Co., Ltd. (Biotech)	England	100.00%	- %	- %
Rong Jhan Investment	OHGA Electronics Co.,Ltd.( Ohga Electronics)	Taiwan	70.00%	70.00%	70.00%
Rong Jhan Investment	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare)	Taiwan	2.64%	-	-
Rong Jhan Investment	Aveo Multimedia Corporation (Aveo)	Taiwan	(Note)	34.18%	34.18%
OHGA Electronics Co., Ltd.	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare)	Taiwan	2.14%	-	-
OHGA Electronics Co., Ltd.	Aveo Multimedia Corporation (Aveo Multimedia)	Taiwan	(Note)	10.00%	10.00%
Aveo Multimedia	HAV Co., Ltd.(HAV 公司)	Samoa	(Note)	100.00%	100.00%

(Note) Aveo Multimedia has been merged by eMPIA Technology Corp., and not under command of the Company since.

6.2. 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:

	<b>Sales</b>		<b>Account receivables- related parties</b>		
	<b>2013</b>	<b>2012</b>	<b>2013.12.31</b>	<b>2012.12.31</b>	<b>2012.1.1</b>
Subsidiaries	\$ 2,198,233	2,058,617	709,004	776,493	1,165,698
Related parties	3,276	2,183	537	607	114
	<b>\$ 2,201,509</b>	<b>2,060,800</b>	<b>709,541</b>	<b>777,100</b>	<b>1,165,812</b>

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 150 days and month-end 30 to 45 days, respectively.

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

	<b>Purchases</b>		<b>Account payables-related parties</b>		
	<b>2013</b>	<b>2012</b>	<b>2013.12.31</b>	<b>2012.12.31</b>	<b>2012.1.1</b>
Subsidiaries	\$ 184,912	327,519	15,913	17,977	38,026
Related parties	44,813	52,581	13,355	5,797	23,026
	<b>\$ 229,725</b>	<b>380,100</b>	<b>29,268</b>	<b>23,774</b>	<b>61,052</b>

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 150 days and month-end 30 to 45 days,

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

respectively.

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

	Trading amount		Account payables-related parties		
	2013	2012	2013.12.31	2012.12.31	2012.1.1
Subsidiaries - business					
promotion	\$ 52,012	52,784	4,039	2,741	4,315
Subsidiaries - technique					
and consulting service	31,801	33,445	11,951	16,694	-
	<b>\$ 83,813</b>	<b>86,229</b>	<b>15,990</b>	<b>19,435</b>	<b>4,315</b>

7.3.4. Purchase or sell of equipment, other assets, and other receivables (payables) were as follows:

	Trading amount		Profit or loss from sales		Other account receivables (payables)-related parties		
	2013	2012	2013	2012	2013.12.31	2012.12.31	2012.1.1
Subsidiaries - machinery							
and equipment purchased	\$ 220	6,200	-	-	-	-	-
Subsidiaries - machinery							
and equipment sold	\$ 10,477	4,051	1,412	929	6,473	-	-

7.3.5 Endorsements/Guarantees

- i. On December 31, 2013, 2012, and January 1, 2012, the Company endorsed purchases of subsidiaries for NT\$0, NT\$0, and NT\$20,000 thousand, respectively.
- ii. On December 31, 2013, 2012, and January 1, 2012, the Company endorsed loans of subsidiaries for NT\$653,855 thousand, NT\$585,600 thousand, and NT\$302,750 thousand, respectively, of which actual amount used were both JPY700,000 thousand, JPY500,000 thousand, and JPY500,000 thousand, respectively.

7.3.6. Other

- i. As of December 31, 2013 and 2012, the Company purchased machinery and equipments through subsidiaries for NT\$89,602 thousand and NT\$4,721 thousand. As of December 31, 2013, 2012 and January 1, 2012, the outstanding payments totaled NT\$0, NT\$34,566 thousand and NT\$0.
- ii. As of December 31, 2013 and 2012, and January 1, 2013, receivables from subsidiaries and related parties due to on behalf of the Company, collection and payment fees, expenses and other expenditure, amounted to NT\$179 thousand, NT\$307 thousand, and NT\$229 thousand, respectively. Other expenses and other expenditure amounted to NT\$230 thousand, NT0 and NT\$1,311 thousand, respectively.

7.4. Compensation of key management personnel

The compensation to other key management personnel is as follows:

	2013	2012
Short-term employee benefits	\$ 34,729	37,383

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**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>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Certificate deposit	Import duties	\$ 14,478	24,469	48,699

**9. Contingent Liabilities and Unrecognized Commitment**

As of December 31, 2013, 2012 and January 1 2011, the Company's outstanding letters of credit amounted to NT\$81,359 thousand, NT\$89,746 thousand, and NT\$ 355,382, respectively.

8. Significant Disaster Loss: None.

9. Significant Subsequent Events: None.

**10. Significant Disaster Loss: None.**

**11. Significant Subsequent Events: None.**

**12. Other**

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

<b>Characters</b>	<b>Functions</b>	<b>2013</b>			<b>2012</b>		
		<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>
Welfare Expenses							
	Payroll	225,780	347,683	573,463	193,928	380,247	574,175
	Labor and health insurance	23,183	22,478	45,661	20,702	22,883	43,585
	Pension expense	12,866	11,897	24,763	12,168	16,255	28,423
	Others	7,048	7,909	14,957	6,256	8,593	14,849
Depreciation		239,858	16,146	256,004	209,251	15,945	225,196

**13. Additional Disclosure**

**13.1. Significant Transaction Information**

In 2013, the additional disclosures required by the Regulations Governing the Preparation of Financial Report were as follows:

**13.1.1. Financing to related parties:**

No.	Lender	Borrower	Subject	Related parties Or not	Maximum of current period	Ending Balance	Actual amount used	Interest Rate	Nature of financing (Note2)	Amount of business interaction	Reason for short-term Loan	Allowance for doubtful Account	Collateral		Credit line for single party	Total Credit Line (Note 1)
													Name	Value		
1	Holy Stone Enterprise (HK) Co., Ltd.	Holy Stone Holdings Co., Ltd.	Other Receivables	Yes	45,000	44,708	44,708	1.8%	2	-	Reversal for operation	-	-	-	118,698	237,396
2	Holy Stone Holdings Co., Ltd.	Holy Stone international trading (Shanghai) Co., Ltd.	Other Receivables	Yes	75,000	62,591	62,591	2.20%	2	-	Reversal for operation	-	-	-	476,938	953,877

Note 1: The quota for others was 100% of the Lender's net value, and for a Single Enterprise was 50% of Lender's net value.

Note 2: To fill out the form of the nature of financing:

1. 1 for the ones with business interaction.

2. 2 for companies in need of short-term financing.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

13.1.2. Endorsement/guarantee provided:

No.	Endorser/ guarantor Company	Endorsee/Guarantee		Quotas of	Endorsement/ Guarantee	Endorsement/ Guarantee	Actual Amount	Endorsement/ Guarantee	Accumulated Endorsement/ Guarantee to	Highest Quotas of	Endorsement/ Guarantee for	Endorsement/ Guarantee for	Endorsement/ Guarantee for
		Company	Nature of Relationships	Guarantee for Single Enterprise	Balance, Highest	Balance, Ended	Used	Warranted by Property	Financial Statement's Net Value Rate	Guarantee	Subsidiaries by the parent company	parent Company by subsidiaries	China region
0	The Company	Holy Stone Polytech Co., Ltd.	3	1,653,714	300,000	298,050	141,950	-	3.60%	4,134,287	Y	N	N
0	The Company	Holy Stone Holdings Co., Ltd.	2	1,653,714	150,000	149,025	-	-	1.80%	4,134,287	Y	N	N
0	The Company	Rong Han Investment	2	1,653,714	150,000	150,000	-	-	1.81%	4,134,287	Y	N	N
0	The Company	Everplus Material Co., Ltd.	3	1,653,714	61,320	56,780	-	-	0.69%	4,134,287	Y	N	N

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 NT\$

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2013				Note
				Shares	Carrying amount	Ratio of ownership	Fair value	
The Company	Cathay Mandarin	-	Financial assets at fair value through profit or loss - current - open-ended fund	489	4,805	-	4,805	-
The Company	Cathay China Emerging Industries	-	"	667	10,253	-	10,253	-
The Company	JPMorgan (Taiwan) Greater Europe	-	"	615	10,289	-	10,289	-
The Company	HSBC China A-Share Focused	-	"	1,000	10,120	-	10,120	-
The Company	radium life tech 3rd unsecured conv.	-	Financial assets at fair value through profit or loss - current - domestic stock	200	20,604	-	20,604	-
The Company	Cvilux 3rd unsecured conv.	-	"	400	40,000	-	40,000	-
The Company	Asia Plastic Recycling Corporate Bond A	-	"	250	26,530	-	26,530	-
The Company	Taiwan Calsonic Corporate Bond A	-	"	500	50,000	-	50,000	-
The Company	Cayman Tung Ling Corporate Bond A	-	"	100	10,100	-	10,100	-
The Company	Xxentria Technology Materials Corporate Bond D	-	"	500	50,501	-	50,501	-
The Company	Browave Corporate Bond A	-	"	500	51,005	-	51,005	-
The Company	Ledlink Corporate Bond	-	"	300	30,603	-	30,603	-
The Company	KINGCAN Corporate Bond A	-	"	300	30,603	-	30,603	-
The Company	Apex Corporate Bond A	-	"	350	36,061	-	36,061	-
The Company	Lanner Corporate Bond A	-	"	200	20,000	-	20,000	-
The Company	MegaHoldings Convertible Bond (288601) (288601)	-	"	260	25,987	-	25,987	-
The Company	INVECO EUROPEAN SMALL FUND	-	"	1	6,239	-	6,239	-

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

The Company	CONVERTIBLE BONDS	-	"	20	9,430	-	9,430	-
The Company	FTSE A50	-	"	50	1,794	-	1,794	-
The Company	CIMC ENRIC	-	Financial assets at fair value through profit or loss - current – foreign stock	50	2,402	-	2,402	-
The Company	CHINA MODERN DAIRY	-	"	300	4,842	-	4,842	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial instruments - noncurrent	391	77,285	1.82 %	77,285	-
Holy Stone Enterprise (H.K)	JPMorgan Japan	-	Financial assets at fair value through profit or loss - current – foreign fund	1	7,540	-	7,540	-
Holy Stone Enterprise (H.K)	Invesco European Small	-	Financial assets at fair value through profit or loss - current – bund investment	-	7,692	-	7,692	-
Holy Stone Enterprise (H.K)	iShares FTSE A50 China Index	-	"	50	1,796	-	1,796	-
Holy Stone Enterprise (H.K)	Newocean Energy Hldgs Ltd	-	Financial assets at fair value through profit or loss - current – foreign stock	230	5,588	-	5,588	-
Holy Stone Enterprise (H.K)	China Lesso Group Holdings Ltd	-	"	100	2,075	-	2,075	-
Holy Stone Enterprise (H.K)	China Singyes Solar Tech	-	"	50	1,498	-	1,498	-
Holy Stone Enterprise (H.K)	FIH Mobile Ltd	-	"	200	3,205	-	3,205	-
UHOLY Investments Co., Ltd. Stock	ING Global Luxury Brands	-	Financial assets at fair value through profit or loss - current – open-ended fund	443	10,036	-	10,036	-
UHOLY Investments Co.	Cathay China Domestic Demand Growth	-	"	886	11,364	-	11,364	-
UHOLY Investments Co.	eGalax_eMPIA Technology Inc.	-	Available-for-sale financial instruments - noncurrent	5,674	522,043	10.84 %	522,043	-
UHOLY Investments Co.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost – non current	8,900	89,000	19.78 %	90,927	-
UHOLY Investments Co.	C2 MICROSYSTEMS INC. Preferred stocks	-	"	1,200	-	3.20 %	-	-
UHOLY Investments Co.	Zelltek Technology Corp. Stocks	-	"	859	19,757	3.50 %	7,422	-
UHOLY Investments Co.	Metanoia Communication Inc. Stocks	-	"	599	2,995	1.44 %	1,634	-
UHOLY Investments Co.	Innostone Venture Capital Corp. Stocks	-	"	5,900	59,000	19.67 %	60,017	-
Holy Stone Healthcare Co., Ltd.	radium life tech 4th unsecured conv.	-	Financial assets at fair value through profit or loss - current – bund investment	200	20,604	-	20,604	-
Holy Stone Healthcare Co.	WNC Corporate Bond A	-	"	200	20,000	-	20,000	-
Holy Stone Healthcare Co.	GUIC Corporate Bond B	-	"	100	10,450	-	10,450	-
Martek Co., Ltd. Stock	Yuanta Wan Tai Money Market	-	Financial assets at fair value through profit or loss - current – open-ended fund	2,097	31,060	-	31,060	-
Rong Jhan Investments Co., Ltd. Stock	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost – non current	150	4,500	0.36 %	408	-

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

Rong Jhan Investments Co.	Grand Fortune Securities Co., Ltd. Stocks	-	"	5,000	45,000	2.50 %	46,694	-
Rong Jhan Investments Co.	Jya-Nay Co., Ltd. Stocks	-	"	2,976	32,741	12.40 %	28,371	-
Rong Jhan Investments Co.	CNO Co., Ltd Stocks	-	"	494	34,355	7.26 %	41,829	-
Rong Jhan Investments Co.	BioMaty Co., Ltd.	-	"	400	4,000	3.33 %	3,681	-
Rong Jhan Investments Co.	Global Display Taiwan Co., Ltd.	-	"	600	30,000	3.09 %	9,518	-
Rong Jhan Investments Co.	eMPIA Technology Corp. Stocks	-	"	1,846	24,874	11.99 %	24,226	-
Rong Jhan Investments Co.	Cathay China Emerging Industries	-	Financial assets at fair value through profit or loss - current – open-ended fund	346	5,322	-	5,322	-
Rong Jhan Investments Co.	JPMorgan (Taiwan) Greater Europe	-	"	597	9,988	-	9,988	-
Rong Jhan Investments Co.	Cathay Mandarin	-	"	528	5,190	-	5,190	-
Rong Jhan Investments Co.	Calin Technology. Stocks	-	Financial assets at fair value through profit or loss - current – domestic stock	11	315	-	315	-
Rong Jhan Investments Co.	Kwong Fong Industries Group of Companies. Stocks	-	"	80	1,564	-	1,564	-
Rong Jhan Investments Co.	Single well Industry Corp. Stock	-	"	95	2,470	-	2,470	-
Rong Jhan Investments Co.	Zhen Ding Technology Holding Limited. Stocks.	-	"	28	1,992	-	1,992	-
Rong Jhan Investments Co.	KD Holding Corporation. Stocks	-	"	12	2,334	-	2,334	-
Rong Jhan Investments Co.	Career Tech. Stocks	-	"	75	2,123	-	2,123	-
Rong Jhan Investments Co.	WALSIN LIHWA CORPORATION. stocks	-	"	400	3,824	-	3,824	-
Rong Jhan Investments Co.	Tung Ho Steel Enterprise Corp. Stocks.	-	"	100	2,620	-	2,620	-
Rong Jhan Investments Co.	SUN MFG LTD. Stocks	-	"	100	2,055	-	2,055	-
Rong Jhan Investments Co.	INNOLUX CORPORATION. Stocks	-	"	300	3,405	-	3,405	-
Rong Jhan Investments Co.	MediaTek Inc. Stock	-	"	20	8,870	-	8,870	-
Rong Jhan Investments Co.	JENTECH PRECISION INDUSTRIAL CO., LTD. Stock	-	"	69	5,568	-	5,568	-
Rong Jhan Investments Co.	BOARDTEK ELECTRONICS COR. Stock	-	"	70	2,412	-	2,412	-
Rong Jhan Investments Co.	MStar Semiconductor, Inc. Stock	-	"	15	5,205	-	5,205	-
Rong Jhan Investments Co.	Unizyx Holding Corporation. Stock	-	"	203	3,796	-	3,796	-
Rong Jhan Investments Co.	Everlight Electronics Co., Ltd. Stock	-	"	40	2,740	-	2,740	-
OHGA Electronics Co.	eMPIA Technology Corp. Stock	-	Financial assets carried at cost – non current	540	7,195	3.51 %	7,092	-
OHGA Electronics Co.	ASW Cvilux C	-	Financial assets at fair value through profit or loss - current – bund investment	50	5,000	-	5,000	-
OHGA Electronics Co.	ASW Wah Hong A	-	"	90	9,552	-	9,552	-
OHGA Electronics Co.	ASW Ledlink A	-	"	50	5,101	-	5,101	-
OHGA Electronics	ASW FEEDBACKC	-	"	50	5,267	-	5,267	-

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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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	Share	Amount	Carrying Value	Gain (Loss) on Disposal	Share	Amount
The Company	Mega Diamond Currency Market Fund	Financial assets at fair value through profit or loss - current -	-	-	-	-	59,960	730,000	59,960	731,156	730,000	1,156	-	-
The Company	Taishin 1699 Money Market	"	-	-	-	-	38,018	500,000	38,018	500,505	500,000	505	-	-
The Company	Yuanta Cosmos Currency Market	Financial assets at fair value through profit or loss - current -	-	-	-	-	79,309	1,170,000	79,309	1,171,154	1,170,000	1,154	-	-
The Company	Capital Secure Currency Market	"	-	-	-	-	66,247	1,040,000	66,247	1,041,286	1,040,000	1,286	-	-
The Company	Franklin Templeton Sinoam Money Market	"	-	-	-	-	41,828	420,000	41,828	423,530	420,000	530	-	-
The Company	CTBC HOLDING Preferred stocks	Financial assets carried at cost-non current			7,500	300,000	-	-	7,500	300,000	300,000	-	-	-

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		Note
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	768,165	5.61 %	Next month-end 150 days	-	-	397,962	11.41%	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	979,592	7.16 %	Next month-end 120 days	-	-	211,132	6.05%	-
The Company	Infotech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	441,818	3.23 %	Month-end 120 days	-	-	99,423	2.85%	-
The Company	Holy Stone Polytech Co., Ltd.	Second-tier Subsidiary	Purchases	102,301	0.88 %	Month-end 45 days	-	-	(9,856)	0.81%	-

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	Allowance for Bad Debts
					Amount	Action Taken		
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	397,962	1.82	-	-	116,715	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	211,132	4.61	-	-	48,685	-

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13.1.9. Derivatives transaction: please refer to Note 6.2 to get the Company's derivatives transaction information. The reported loss on financial assets (liabilities) measure at fair value through gains and losses was NT\$304 thousand for the year ended December 31, 2013.

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 2013 was follows:

(China investees excluded)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of Dec. 31, 2013			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2012	Dec. 31, 2011	Shares	%	Carrying Value			
The Company	Holy Stone Enterprise (H.K) Co., Ltd.	Hong Kong	MLCC and electronic components trading	49,0	49,046	11,500	100.00%	223,581	32,325	32,325	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,9	841,951	26,976	100.00%	943,123	16,553	15,569	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,0	225,000	22,500	57.69%	587,769	40,099	22,983	Subsidiary of the Company
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,0	20,000	8,500	100.00%	117,677	12,261	12,261	Subsidiary of the Company
The Company	Rong Jhan Investments Co.	Taipei City	Investment activities	340,0	340,000	56,500	100.00%	617,042	12,511	12,511	Subsidiary of the Company
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	205,6	205,655	6,900	100.00%	317,616	33,263	33,263	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings Co., Ltd.	Holypaq Corporation	Cayman	Investment activities	35,7	35,796	1,200	100.00%	797	(276)	(276)	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd.	Samoa	Investment activities	63,8	63,801	2,210	100.00%	44,702	(3,251)	(3,251)	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	416,5	416,555	2,500	100.00%	476,081	7,924	7,924	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd.	Japan	Electric appliances, precision instrument, computers and machinery and equipment selling	137,3	137,351	49	100.00%	67,455	(28,968)	(28,968)	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	99,3	99,365	4	100.00%	94,204	90	90	Subsidiary of Holy Stone Holdings Co.
Green Glory Holdings Ltd.	Milestone Global Technology Ltd.	Shanghai, China	Electronic components developing and selling	14,9	14,903	500	100.00%	14,201	1,194	1,194	Subsidiary of Green Glory Holdings
Green Glory Holdings Ltd.	Holy Stone (Europe) Ltd.	Shanghai, China	Electronic retailing and trading	20,4	20,472	350	100.00%	4,667	(2,464)	(2,464)	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co.	Dongguan, Guangdong province, China	Western medicine wholesaling and medical instruments wholesaling	276,3	135,107	17,588	29.02%	207,468	(137,115)	(42,337)	UHOLY's long-term investee recognized under equity method
Holy Stone Healthcare Co.	MDT INT'L SA	Shanghai, China	Medical instruments trading	46,5	46,101	1,594	62.50%	51,242	31,690	19,536	Subsidiary of Holy Stone Healthcare Co.
Holy Stone Healthcare Co.	Global Search Holdings Ltd.	U.S.A	Investment activities	21,0	4,750	700	100.00%	(1,222)	(20,603)	(20,603)	Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	Holy Stone Biotech Co., Ltd.	England	Selling and authorization if medicine and medical instruments	-	-	-	100.00%	(20,802)	(20,546)	(20,546)	Second-tier Subsidiary of Holy Stone Healthcare Co.
Rong Jhan Investments Co.	OHGA Electronics Co., Ltd.	Taipei City	Electronic appliances and audio-visual electronics manufacturing	332,6	332,640	15,120	70.00%	399,317	(2,676)	(1,873)	Subsidiary of Rong Jhan Investments Co.
Rong Jhan Investments Co.	Holy Stone Healthcare Co.	Switzerland	Western medicine wholesaling and medical instruments wholesaling	31,1	-	1,600	2.64%	26,086	(137,115)	(3,288)	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	23,7	-	1,298	2.14%	21,609	(137,115)	(3,639)	UHOLY's long-term investee recognized under equity method

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13.3. Information on Investment in Mainland China

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, 2013	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2012	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	The Investment Gain (Loss) Remitted as of Dec. 31, 2012
					Remitted	Collected						
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	119,598	(2)	107,596	-	-	107,596	10,004	100.00%	10,004	185,2	-
Holypaq (Dongguan) Corporation	Capacitors manufacturing and selling	29,805	(2)	29,805	-	-	29,805	(276)	100.00%	(276)	2	-
Infortech International Trading (Shanghai) Ltd.	Electronic components R&D and selling	29,805	(2)	29,805	-	-	29,805	(1,957)	100.00%	(1,957)	25,3	-
Infortech (Shanghai) Co., Ltd.	Electronic components selling	62,951	(2)	62,591	-	-	62,591	23,423	100.00%	23,423	131,4	-

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.

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
229,797	241,719	4,961,144

13.3.3. Significant Transaction Information

Significant transaction information of direct and indirect investment in Investee Company in Mainland China in 2013 is described in Note “related significant transaction information”.

**14. Segment Information**

Please refer to 2013 Consolidated Financial Report.

**15. First-Time Adoption of IFRSs**

The Company’s financial statements as of December 31, 2012, were prepared in accordance with accounting principles generally accepted in the Republic of China. As described in Note 4, these financial statements have been prepared in accordance with Regulations Governing the Preparation of Financial reports by Securities Issuers

The accounting policies described in Note 4 have been adopted for the comparative unconsolidated financial statements for the year ended December 31, 2012, the balance sheet as of December 31, 2012, and the initial IFRSS balance sheet as of January 1, 2012 (the Company’s conversion date).

In preparing the financial statements for the year 2012, the Company adopted the financial statements prepared in accordance with accounting principles generally accepted in the Republic of China as the initial transfer point. Assessments were made of the material differences between Holy stone’s consolidated financial statements prepared using the prior accounting principles generally accepted in the Republic of China and those of IFRSs as follows:

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

15.1. Reconciliation of Balance Sheet

	2012.12.31			2012.1.1		
	Former ROC GAAP	Changes in accounting policy	IFRSs	Former ROC GAAP	Changes in accounting policy	IFRSs
Assets:						
Current assets:						
Cash and cash equivalent	\$ 1,940,139	-	1,940,139	1,703,114	-	1,703,114
Financial assets at fair value through profit and loss-current	386,496	-	386,496	244,101	-	244,101
Accounts and other receivables	2,253,940	-	2,253,940	2,372,162	-	2,372,162
Account receivables-related parties	777,407	-	777,407	1,166,041	-	1,166,041
Other receivables	152,536	-	152,536	151,635	-	151,635
Inventories	1,663,340	-	1,663,340	1,703,965	-	1,703,965
Prepayment and current assets	86,951	(27,732)	59,219	80,355	(19,203)	61,152
Available-for-sale non-current assets	-	-	-	30,000	-	30,000
Total current assets	7,260,809	(27,732)	7,233,077	7,451,373	(19,203)	7,432,170
Non-current assets:						
Available-for-sales financial assets- non-current	71,105	-	71,105	97,809	-	97,809
Financial assets carried at cost	300,000	-	300,000	300,000	-	300,000
Investments under Equity Method	2,256,658	(19,977)	2,236,681	2,312,826	(17,817)	2,295,009
Property, Plant and Equipment	2,700,909	(153,179)	2,547,730	2,703,902	(226,017)	2,477,885
Deferred Income Tax Assets	-	33,264	33,264	-	26,494	26,494
Prepaid Expense on Equipment	-	153,179	153,179	-	226,017	226,017
Other Noncurrent Assets - Others	2,038	-	2,038	1,952	2,873	4,825
Total Noncurrent Assets	5,330,710	13,287	5,343,997	5,416,489	11,550	5,428,039
Total Assets	<b>\$ 12,591,519</b>	<b>(14,445)</b>	<b>12,577,074</b>	<b>12,867,862</b>	<b>(7,653)</b>	<b>12,860,209</b>
Liabilities						
Current liabilities:						
Short-term loans	\$ 1,723,943	-	1,723,943	1,186,661	-	1,186,661
Financial Liabilities at Fair Value through Profit or Loss - Current	1,417	-	1,417	3,980	-	3,980
Notes and Accounts Payable	1,003,084	-	1,003,084	1,248,925	-	1,248,925
Accounts Payable - Related Parties	77,775	-	77,775	66,678	-	66,678
Other Receivables	353,599	(12,995)	340,604	415,717	(10,859)	404,858
Current Period Income Tax Liability*	16,996	-	16,996	10,000	-	10,000
Current Portion of Puttable Corporate Bonds	101,300	-	101,300	567,863	-	567,863
Current Portion of Long-term Debt	73,167	-	73,167	146,333	-	146,333
Total Current Liabilities	3,351,281	(12,995)	3,338,286	3,646,157	(10,859)	3,635,298
Noncurrent Liabilities:						
Long-term Loans	150,000	-	150,000	73,167	-	73,167
Deferred Income Tax Liabilities*	42,627	5,532	48,159	47,358	7,291	54,649
Accrued Pension Liabilities	42,062	20,014	62,076	7,810	(7,810)	-
Other Noncurrent Liabilities - Others	1,266	-	1,266	268	-	268
Total Noncurrent Liabilities	235,955	25,546	261,501	128,603	(519)	128,084
Total Liabilities	3,587,236	12,551	3,599,787	3,774,760	(11,378)	3,763,382
Equity						
Common Stock	3,202,175	-	3,202,175	3,202,175	-	3,202,175
Capital surplus	3,622,923	58,336	3,681,259	3,626,354	43,488	3,669,842
Legal Reserve	936,212	-	936,212	860,061	-	860,061
Unappropriated Earnings	1,141,021	(122,458)	1,018,563	1,200,758	(39,763)	1,160,995
Other Equity	(30,842)	-	(30,842)	(30,842)	-	(30,842)
Treasury Stock	132,794	37,126	169,920	234,596	-	234,596
Total Equity	9,004,283	(26,996)	8,977,287	9,093,102	3,725	9,096,827
Total Liabilities and Equity	<b>\$ 12,591,519</b>	<b>(14,445)</b>	<b>12,577,074</b>	<b>12,867,862</b>	<b>(7,653)</b>	<b>12,860,209</b>

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

15.2. Reconciliation of Income Statement

	2012		
	Former ROC GAAP	Changes in accounting policy	IFRSs
Net Sales	\$ 12,454,958	-	12,454,958
Cost of Goods Sold	11,057,199	-	11,057,199
Gross Profit	1,397,759	-	1,397,759
Unrealized Gains and Losses on Sales	2,160	-	2,160
Gross Profit	1,395,599	-	1,395,599
Operating Expense			
Selling and Administrative	604,118	15,503	619,621
Research and Development	124,217	-	124,217
Total Operating Expense	728,335	15,503	743,838
Operating Profit	667,264	(15,503)	651,761
Non-Operating Income and Expenses:			
Other Gains and Losses*	36,340	-	36,340
Financial Costs*	(18,745)	-	(18,745)
Gains of Losses from Subsidiary Using Equity Method	75,344	-	75,344
Interest Income	12,475	-	12,475
Total Non-Operating Income and Expenses*	105,414	-	105,414
Income before Income Tax*	772,678	(15,503)	757,175
Income Tax Expense	117,555	-	(117,555)
Net Income for Current Period*	655,123	(15,503)	639,620
Other Comprehensive Gains and Losses:			
Exchange Differences on Translation of Financial Statements \$ of	(71,239)	-	(71,239)
Foreign Operations			
Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	(5,547)	-	(5,547)
Less: Income Tax related to Other Comprehensive Gains and Losses	12,110	-	12,110
Actuarial Gains and Losses on the Defined-Benefit Plan	-	(67,192)	(67,192)
Other Comprehensive Gains and Losses (Net of Tax)	(64,676)	(67,192)	(131,868)
Total Comprehensive Profit or Loss for Current Period	<u>\$ 590,447</u>	<u>(82,695)</u>	<u>507,752</u>
Basic Earnings per Share (Dollar)			
Basic Earnings per Share (Unit: NT Dollar)	<u>\$ 2.05</u>	<u>(0.05)</u>	<u>2.00</u>
Diluted Earnings per Share (Unit: NT Dollar)	<u>\$ 1.98</u>	<u>(0.05)</u>	<u>1.93</u>

15.3. Reconciliation of Statement of Cash Flow

15.4. Adjustment Statement

15.4.1. The Company has prepared these financial statements in accordance with the IFRSs approved by FSC, and all the actuarial income were recognized into other comprehensive income. In the previous statements prepared in accordance with previous accounting policy, GAAP, the Company recognized actuarial income as income using remaining service life of employee. On reporting date, all of the unrecognized accumulated actuarial income was recognized as retain earnings, and reversed in the comprehensive income statement previous year.

The effects of changes in these items:

	2012
Comprehensive income statement	
selling and administrative expense	\$ 631
Adjustment before income tax	<u>\$ 631</u>
	<u>101.12.31</u> <u>101.1.1</u>
Balance sheet	
Other non-current assets - Other	\$ -      2,873

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Other Equity	(37,126)	-
Accrued pension liabilities	<u>(20,014)</u>	<u>7,810</u>
Adjusted retained earnings	<u><b>\$ (57,140)</b></u>	<u><b>10,683</b></u>

13.4.2. The Company rendered ESO to part of employees. These kinds of stock was measured under accounting method of share-based payment, the intrinsic value of which was reference to previous GAAP. Related liabilities were adjusted using outstanding cash-settled share-based payment at fair value, in accordance with the IFRSs approved by FSC.

The effect of changes is as follows:

	<u>2012</u>	
Comprehensive income statement		
selling and administrative expense	\$ <u>14,848</u>	
Adjustment before income tax	<u><b>\$ 14,848</b></u>	
	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Capital surplus	\$ <u>(78,667)</u>	<u>(63,819)</u>
Adjusted retained earnings	<u><b>\$ (78,667)</b></u>	<u><b>(63,819)</b></u>

13.4.3. The Company were under legal or constructive obligation to accumulated holiday pay(from past service), the Company recognized the payment cost of accumulated holiday pay as accrued liabilities.

The effect of changes is as follows:

	<u>2012</u>	
Comprehensive income statement		
selling and administrative expense	\$ <u>24</u>	
Adjustment before income tax	<u><b>\$ 24</b></u>	
	<u>101.12.31</u>	<u>101.1.1</u>
Balance sheet		
Capital surplus	\$ <u>(6,982)</u>	<u>(6,958)</u>
Adjusted retained earnings	<u><b>\$ (6,982)</b></u>	<u><b>(6,958)</b></u>

13.3.4. The Company recategorized construction in progress and prepayments for equipment as prepayments for equipments in accordance with FSC-approved IFRSs.

The effect of changes is as follows:

	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Property, plant and equipment	\$ (153,179)	(226,017)
Prepayments for equipments	<u>153,179</u>	<u>226,017</u>
Adjusted retained earnings	<u><b>\$ -</b></u>	<u><b>-</b></u>

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

13.3.5. The Company took factors like investment tax credit, temporary differences...etc into consideration when assessing the deferred income tax assets and liabilities. The Company categorized the assessment as non-current assets and non-current liabilities in accordance with FSC-approved IFRSs, and recategorized each deferred income as using legal right of set-off of taxation and expected realized year of assets and liabilities.

The effect of changes is as follows:

	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Prepayment and other current assets	\$ (27,732)	(19,203)
Deferred income tax assets	33,264	26,494
Deferred income tax liabilities	<u>(5,532)</u>	<u>(7,291)</u>
Adjusted retained earnings	<u>\$ -</u>	<u>-</u>

13.3.6. The Company recategorized Deferred Credits-Gains on Inter-Affiliate (under expense payables and other current liabilities) as investment under equity method, in accordance with FSC-approved IFRSs.

The effect of changes is as follows:

	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Investment under equity method	\$ (19,977)	(17,817)
Payment expenses and other current liabilities	<u>19,977</u>	<u>17,817</u>
Adjusted retained earnings	<u>\$ -</u>	<u>-</u>

13.3.7. The Company's consolidated financial report applied the selective exemption from *IFRS 1 First-time Adoption of international Financial Reporting Standards*. On the conversion date, the entire previous recognized capital surplus should be recognized as retained earnings.

The effect of changes is as follows:

	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Capital surplus	\$ 20,331	20,331
Adjusted retained earnings	<u>\$ 20,331</u>	<u>20,331</u>

8. To sum up, as of December 31, 2012 and January 1, 2012, the retained earnings decreased NT\$122,458 and 39,763 thousand.

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, 2013 to December 31, 2013

Unit: NT\$ thousand

<u>Items</u>	<u>Items</u>	<u>Amount</u>
Inventory cash and working capital		\$ 1,078
Current Deposits		144,199
Foreign Currency Deposits (Note)	USD: 12,418 thousand	370,119
	EUR: 347 thousand	14,276
	JPY: 166,842 thousand	47,367
	HKD: 7,295 thousand	28,033
Check deposits		3,428
Fixed deposits	Current Portion; interest interval 0.52% ~ 1.345%	438,969
		<u>\$ 1,047,469</u>

Note: Foreign currency rates are translated from December 31, 2012 spot rates.

USD : TWD = 1 : 29.805

EUR : TWD = 1 : 41.09

JPY : TWD = 1 : 0.2839

HKD : TWD = 1 : 3.843

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

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

**From January 1, 2013 to December 31, 2013**

Unit: NT\$ thousand/ Thousands of Units

Securities	Unit	Acquisition Cost	Market Price	
			Unit Price (NT\$)	Total
Foreign Stocks:				
CIMC ENRIC	50	\$ 2,437	\$ 48.03	\$ 2,402
CHINA MODERN DAIRY	300	5,185	16.14	4,842
Subtotal				<u>7,244</u>
Investment Bonds :				
Browave Corporation Corporate Bond A	500	51,005	102.01	51,005
Xxentria Technology Materials Corporate Bond D	500	50,501	101.00	50,501
TWNCAL Corporate Bond A	500	50,000	100.00	50,000
CviLux Corporate Bond C	400	40,000	100.00	40,000
Apex International Corporate Bond A	350	36,061	103.03	36,061
LEDLINK OPTICS Corporate Bond	300	30,603	102.00	30,603
KINGCAN Corporate Bond A	300	30,603	102.01	30,603
Asia Plastic Recycling Holding limited Corporate Bond A	250	26,530	106.12	26,530
RADIUM LIFE TECH. Corporate Bond C	200	20,604	103.02	20,604
Lanner Electronics Corporate Bond B	200	20,000	100.00	20,000
Cayman Tung Ling Corporate Bond A	100	10,100	101.00	10,100
Megaholdings Convertible Bond (288601)	260	26,202	99.95	25,987
INVESCO EUROPEAN SMALL FUND	1	5,831	6,117.77	6,239
CONVERTIBLE BONDS	20	9,199	494.36	9,430
FTSE A50	50	2,390	35.89	1,794
Subtotal:				<u>409,457</u>
Open-end Funds:				
Cathay China Hong Kong and Taiwan Fund	489	5,000	9.83	4,805
Cathay China Emerging Industries	667	10,000	15.38	10,253
JPMorgan (Taiwan) Greater Europe	615	10,000	16.72	10,289
HSBC China A-Share Focused	1,000	10,000	10.12	10,120
Subtotal				<u>35,467</u>
Currency Swap Contracts	-	-	-	276
Total				<u><b>\$ 452,444</b></u>

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

**List of Notes and Accounts Receivable**

**From January 1, 2013 to December 31, 2013**

**Unit: NT\$ thousand**

<u>Customer</u>	<u>Amount</u>
Note Receivables :	
Customer N	\$ 4,018
Others (lower than 5%)	<u>54,360</u>
Subtotal	58,378
Less: Allowance for doubtful accounts	<u>(4,532)</u>
	<u>53,846</u>
Account Receivables:	
Customer O	142,400
Others (lower than 5%)	<u>2,634,136</u>
Subtotal	2,776,536
Less: Allowance for doubtful accounts	<u>(59,171)</u>
	<u>2,717,365</u>
Total	<u><u>\$ 2,771,211</u></u>

**List of Other Account Receivables**

<u>Items</u>	<u>Amount</u>
Income tax refund receivables	\$ 60,080
Other	<u>24,803</u>
Total	<u><u>\$ 84,883</u></u>

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

**List of Inventory**

**From January 1, 2013 to December 31, 2013**

**Unit: NT\$ thousand**

<u>Items</u>	<u>Amount</u>		<u>Remarks</u>
	<u>Cost</u>	<u>Market Price</u>	
Supplies	\$ 99,716	-	Note
Raw material	4,315	-	"
Work in progress	148,112	-	"
Semi-finished goods	111,236	-	"
Finished goods	291,263	332,299	Net realizable value
Merchandise	<u>1,558,600</u>	<u>2,042,065</u>	"
Subtotal	2,213,242		
Less: Allowances for losses	<u>(105,438)</u>		
	<b><u>\$ 2,107,804</u></b>		

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 Available-Changes in available-for-sale financial assets -  
non-current**

**From January 1, 2013 to December 31, 2013**

**Unit: Thousand of shares / NT\$**

Name	Beginning of period		Increase in current period		Decrease in current period			Ending of period		Collaterals
	Shares	Fair value	Shares	Amount	Shares	Amount	Current valuation	Shares	Fair value	
GSI TECHNOLOGY INC. (GSIT)		\$ <u>71,105</u>	-	<u>-</u>	-	<u>-</u>	<u>6,180</u>	3	<u>77,285</u>	None

**Holy Stone Enterprise Co., Ltd.**  
**List of changes in investment under equity method**  
**From January 1, 2013 to December 31, 2013**

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	Collaterals
investment under equity method:															
Holy Stone Enterprise (Hong Kong) Co., Limited	11,500	\$ 188,612	-	-	-	-	32,325	2,644	11,500	100.00%	223,581	20.64	237,396	Equity method	None
Holy Stone Holdings Co., Ltd.	26,976	932,622	-	-	-	-	15,569	(5,068)	26,976	100.00%	943,123	35.36	953,877	Equity method	None
UHOLY Investment Co., Ltd.	22,500	399,753	-	-	-	-	22,983	165,033	22,500	57.69%	587,769	26.21	589,769	Equity method	None
Martek Co., Ltd.	8,500	124,416	-	-	-	(19,000)	12,261	-	8,500	100.00%	117,677	13.84	117,677	Equity method	None
Rong Jhan Investments Co., Ltd.	55,000	591,278	1,500	-	-	-	12,511	13,253	56,500	100.00%	617,042	10.92	617,042	Equity method	None
		<u>\$ 2,236,681</u>		<u>-</u>		<u>19,000</u>	<u>95,649</u>	<u>175,862</u>			<u>2,489,192</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, 2013 to December 31, 2013**

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	Land Bank, Xihu Branch	\$ 564,71	Within 1 year	0.92%~1.69%	800,000	None
"	Huanan, Hsin Wei Branch	471,83	"	0.9585%~2%	800,000	None
"	Mizuho Bank	304,93	"	0.9%~0.99%	327,855	None
"	Yuanta Commercial Bank, Neihu Branch	200,00	"	1.35%	300,000	None
"	Bank of Taiwan, Xinyi branch	<u>139,83</u>	"	1.58%	360,000	None
Total		<u>\$ 1,681,30</u>				

**List of Notes and Accounts Payables**

<u>Customer</u>	<u>Amount</u>
Customer (a)	\$ 333,089
Customer (c)	241,678
Customer (d)	211,575
Customer (h)	136,319
Others (lower than 5%)	<u>250,789</u>
Total	<u>\$ 1,173,450</u>

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

**List of Other Payables**

**From January 1, 2013 to December 31, 2013**

**Unit: NT\$ thousand**

<u>Items</u>	<u>Amount</u>
Salary and Wages Payable	\$ 40,475
Employee Bonus Payable	99,956
Bonuses payable	59,868
Compensation payable to directors and supervisors	18,742
Payables on equipment	16,173
Other payable	223,936
Total	<u>\$ 459,150</u>

**List of Long-term Loans**

<u>Creditor</u>	<u>Ending Balance</u>	<u>Loan Period</u>	<u>Interest rate range</u>	<u>Collateral</u>
Taipei Fubon Bank	\$ 300,000	2013.04~2015.05	1.3488%	None
Huanan, Hsin Wei Branch	100,000	2012.06~2017.06	1.468%	None
Yuanta Commercial Bank, Neihu Branch	100,000	2013.06~2016.06	1.5349%	None
Subtotal	500,000			
Less: 1-year expiration	(28,667)			
	<u>\$ 471,333</u>			

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

**List of Operating Expense**

**From January 1, 2013 to December 31, 2013**

**Unit: NT\$ thousand**

<u>Items</u>	<u>Amount</u>
Merchandise	
Beginning balance of inventory	\$ 1,184,699
Add: Net purchases for current period	10,688,672
Processing expenses	137,273
Less: Ending balance of inventory	(1,558,600)
Marketing and management expenses transferred	(3,059)
Research and development expenses transferred	(133)
Loss on scraps	(22,920)
Cost of goods sold - Merchandise	10,425,932
Supplies	
Beginning balance of supplies	110,914
Add: Net purchases for current period	525,037
Less: Ending balance of supplies	(99,716)
Supplies sold	(386)
Marketing and management expenses transferred	(13,190)
Research and development expenses transferred	(8,345)
Loss on scraps	(6)
Supplies consumed in current period	514,308
Raw Material	
Beginning Raw Material	4,532
Add: Net purchases for current period	70,394
Less: Ending balance of supplies	(4,315)
Marketing and management expenses transferred	(118)
Research and development expenses transferred	(1,359)
Loss on scraps	(101)
Indirect Materials	69,033
Direct Labor	212,404
Manufacturing Expenses	676,779
Manufacturing Costs	1,472,524
Add: Beginning balance of work in progress and semi-finished goods	204,527
Net Purchases for current period	503
Less: Ending balance of work in progress and semi-finished goods	(259,348)
Marketing and management expenses transferred	(2,731)
Research and development expenses transferred	(1,592)
Other gains and losses transferred	(3,025)
Inventory loss	(62)
Cost of Finished Goods	1,410,796
Add: Beginning balance of finished goods	285,483
Purchases for current period	405,240
Less: Ending balance of finished goods	(291,263)
Marketing and management expenses transferred	(1,293)
Research and development expenses transferred	(62)
Other gains and losses transferred	(50)
Loss on scraps	(3,202)
Cost of goods sold – Finished Goods	1,805,649
Add: Cost of goods sold – Supplies	386
Expenses and losses related to inventory	3,884

**Holy Stone Enterprise Co., Ltd.**  
**List of Marketing and Management Expenses**  
**From January 1, 2013 to December 31, 2013**

Unit: NT\$ thousand

<b>Items</b>	<b>Amounts</b>
Salary Expenses	\$ 303,534
Freight Expenses	71,219
Commission	53,140
Other Expenses (Lower than 5%)	206,853
<b>Total</b>	<b>\$ 634,746</b>

**List of Research and Development Expenses**

<b>Items</b>	<b>Amount</b>
Salary Expenses	\$ 62,480
Materials consumed	15,241
Other Expenses (Lower than 5%)	50,980
<b>Total</b>	<b>\$ 128,701</b>

For the list of changes in property, plant and equipment, please refer to note 6.9.

For the list of changes in accumulated depreciation of property, plant and equipment, please refer to note 6.9.

## **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, 2013, 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 27. 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 18, 2014

## **Independent Auditors' Report**

The Board of Directors and Shareholders  
Holy Stone Enterprise Company Limited

We have audited the accompanying consolidated balance sheets of Holy Stone Enterprise Company Limited and subsidiaries as of December 31, 2013 and 2012, and January 1, 2012 and the related consolidated statements of income, changes in consolidated shareholders equity and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. 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, 2013 and 2012, and January 31, 2012 the total assets totaled NT\$2,643,318 thousand, NT\$2,583,852 thousand, and 2,344,535 thousand; 18.55%, 18.60% and 16.19% of consolidated total assets, respectively; the net income for the year ended December 31, 2013 and 2012 were NT\$2,289,283 thousand and 1,891,557 thousand; 14.40% and 12.5% of total net income, respectively.

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

We have audited the accompanying consolidated balance sheets of Holy Stone Enterprise Company Limited as of December 31, 2013 and 2012, and January 1, 2012, and the related consolidated statements of income, changes in shareholders equity and cash flows for the years ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Part of Holy Stone Enterprise Company Limited's financial report 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. Some financial statements of the subsidiaries combined in these consolidated financial statements are based on other independent auditors' reports, in which the total assets were NT\$2,643,318 thousand, NT\$2,583,852 thousand, and NT\$2,344,535 as of December 31, 2013 and 2012, and January 1, 2012, respectively, a 18.55 percent, 18.60 percent, and 16.19 percent of total consolidated assets; consolidated revenues of 2013 and 2012 totaled NT\$2,289,283 thousand and NT\$1,891,557 thousand, respectively, a 14.40 percent and 12.95 percent of total consolidated revenues.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. These rules and standards

require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and other auditors provide a reasonable basis for opinion.

In our opinion, the consolidated financial statements referred above present fairly, in all material respects, the consolidated financial position of Holy Stone Enterprise Company Limited as of December 31, 2013 and 2012, and January 1, 2012, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards and accounting principles generally accepted in the Republic of China.

## KPMG

Accountants:

Ms. Pei-Chi Chen

Mr. Chia-Hsin Chang

Taipei, Taiwan  
Republic of China

March 18, 2014

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

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2013, 2012, and January 1, 2012**

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

Assets		2013.12.31		2012.12.31		2012.1.1				2013.12.31		2012.12.31		2012.1.1			
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%		
<b>Current Assets:</b>																	
1100	Cash and Cash Equivalents (Note6.1)	\$	2,553,073	18	3,025,810	22	2,941,203	21									
1110	Financial Assets at Fair Value through Profit or Loss - Current (Note6.2)		682,065	5	440,221	3	336,353	2	2100	Short-term Loans (Note6.10)	\$	2,249,960	16	2,116,071	15	1,696,007	12
1150	Notes and Accounts Receivable, net (Note6.5&6.7)		3,593,961	25	3,157,032	23	3,743,446	26	2120	Financial Liabilities at Fair Value through Profit or Loss - Current (Note6.2&6.12)		595	-	1,417	-	4,033	-
1200	Other Receivables (Note6.5)		114,069	1	162,278	1	167,744	1	2170	Notes and Accounts Payable		1,260,335	10	1,190,931	9	1,533,100	11
130X	Inventories (Note6.6)		2,430,354	17	2,055,921	15	2,251,483	16	2180	Accounts Payable - Related Parties (Note7)		13,400	-	6,200	-	23,026	-
1410	Prepaid Expenses and Other Current Assets (Note8)		148,011	1	124,404	1	112,399	-	2230	Current Period Income Tax Liability		67,146	-	23,016	-	24,159	-
1460	Held-for-sale Noncurrent Assets (Note6.7)		-	-	-	-	30,000	-	2200	Other Payables - Others		557,689	4	452,752	3	526,724	4
	<b>Total Current Assets</b>		<u>9,521,533</u>	<u>67</u>	<u>8,965,666</u>	<u>65</u>	<u>9,582,628</u>	<u>66</u>	2321	Current Portion of Puttable Corporate Bonds (Note6.12)		102,580	1	101,300	1	567,863	4
	<b>Noncurrent Assets:</b>								2322	Current Portion of Long-term Debt (Note6.11&6.8)		35,830	-	80,805	1	152,450	1
1523	Available-for-sale Financial Assets - Noncurrent (Note6.3)		599,328	4	495,284	3	509,456	4		<b>Total Current Liabilities</b>		<u>4,287,535</u>	<u>31</u>	<u>3,972,492</u>	<u>29</u>	<u>4,527,362</u>	<u>32</u>
1543	Financial Assets Carried at Cost - Noncurrent (Note6.4)		353,417	2	552,992	4	550,060	4	2540	<b>Noncurrent Liabilities:</b>							
1600	Property, Plant and Equipment (Note6.8&8)		3,084,655	22	3,035,586	22	2,954,309	20	2570	Long-term Loans (Note6.11&6.8)		552,767	4	238,596	2	217,050	2
1780	Intangible Assets (Note6.9)		563,222	4	575,084	4	598,577	4	2640	Deferred Income Tax Liabilities (Note6.14)		59,537	-	48,159	-	54,776	-
1840	Deferred Income Tax Assets (Note6.14)		30,568	-	38,143	-	32,366	-	2670	Accrued Pension Liabilities (Note6.13)		58,818	-	62,076	-	-	-
1915	Prepaid Expense on Equipment		76,771	1	209,993	2	233,178	2		Other Noncurrent Liabilities - Others		168	-	1,429	-	17,292	-
1990	Other Noncurrent Assets - Others (Note6.13)		17,983	-	18,513	-	21,844	-		<b>Total Noncurrent Liabilities</b>		<u>671,290</u>	<u>4</u>	<u>350,260</u>	<u>2</u>	<u>289,118</u>	<u>2</u>
	<b>Total Noncurrent Assets</b>		<u>4,725,944</u>	<u>33</u>	<u>4,925,595</u>	<u>35</u>	<u>4,899,790</u>	<u>34</u>		<b>Total Liabilities</b>		<u>4,958,825</u>	<u>35</u>	<u>4,322,752</u>	<u>31</u>	<u>4,816,480</u>	<u>34</u>
										<b>Equity Attributable to Parent Company (Note6.12&amp;6.15):</b>							
									3110	Common Stock		2,241,522	16	3,202,175	23	3,202,175	22
									3200	Capital Surplus		3,572,820	25	3,681,259	27	3,669,842	25
										Retained Earnings:							
									3310	Legal Reserve		1,001,724	7	936,212	7	860,061	6
									3350	Unappropriated Earnings		1,171,955	8	1,018,563	7	1,160,995	8
										Total Retained Earnings		<u>2,173,679</u>	<u>15</u>	<u>1,954,775</u>	<u>14</u>	<u>2,021,056</u>	<u>14</u>
										Other Equity:							
									3410	Exchange Differences on Translation of Financial Statements of Foreign Operations		(26,785)	-	(27,010)	-	32,119	-
									3425	Unrealized gains and losses on Available-for-sale Financial Assets		335,591	2	196,930	1	202,477	1
										Total Other Equity		<u>308,806</u>	<u>2</u>	<u>169,920</u>	<u>1</u>	<u>234,596</u>	<u>1</u>
									3500	Treasury Stock		(28,253)	-	(30,842)	-	(30,842)	-
										<b>Total Equity Attributable to Stockholders of Parent Company</b>		<u>8,268,574</u>	<u>58</u>	<u>8,977,287</u>	<u>65</u>	<u>9,096,827</u>	<u>62</u>
									36XX	<b>Non-Controlling Equity</b>		1,020,078	7	591,222	4	569,111	4
										<b>Total Equity</b>		<u>9,288,652</u>	<u>65</u>	<u>9,568,509</u>	<u>69</u>	<u>9,665,938</u>	<u>66</u>
										<b>Total Liabilities and Equity</b>		<u>\$ 14,247,477</u>	<u>100</u>	<u>13,891,261</u>	<u>100</u>	<u>14,482,418</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

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, 2013, 2012, and January 1, 2012**

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

		2013		2012	
		Amount	%	Amount	%
4000	Net Sales (Note6.17&7)	\$ 15,898,687	100	14,607,834	100
5000	Cost of Goods Sold (Note6.6&7)	13,924,661	88	12,739,110	87
	<b>Gross Profit</b>	1,974,026	12	1,868,724	13
	<b>Operating Expense</b>				
6100	Selling and Administrative	1,077,945	7	1,099,436	8
6300	Research and Development	231,618	1	136,013	1
	<b>Total Operating Expense</b>	1,309,563	8	1,235,449	9
	<b>Operating Income</b>	664,463	4	633,275	4
	<b>Non-Operating Income and Expenses (Note6.12):</b>				
7020	Other Gains and Losses	118,672	1	114,422	1
7050	Financial Costs	(24,935)	-	(24,604)	-
7100	Interest Income	44,085	-	36,789	-
	<b>Total Non-Operating Income and Expenses</b>	137,822	1	126,607	1
7900	<b>Income before Income Tax</b>	802,285	5	759,882	5
7950	<b>Less: Income Tax Expense (Note6.14)</b>	174,539	1	139,457	1
8200	<b>Net Income for Current Period</b>	627,746	4	620,425	4
8300	<b>Other Comprehensive Gains and Losses:</b>				
8310	Exchange Differences on Translation of Financial Statements of Foreign Operations	3,161	-	(80,989)	(1)
8325	Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	235,795	1	(245)	-
8360	Actuarial Gains and Losses on the Defined-Benefit Obligation (Note6.13)	2,271	-	(67,192)	-
8399	Less: Income Tax related to Other Comprehensive Gains and Losses (Note6.14)	46	-	(12,110)	-
8300	<b>Other Comprehensive Gains and Losses (Net of Tax)</b>	241,181	1	(136,316)	(1)
8500	<b>Total Comprehensive Profit or Loss for Current Period</b>	<b>\$ 868,927</b>	<b>5</b>	<b>484,109</b>	<b>3</b>
	<b>Net Income Attributable to:</b>				
8610	Stockholders of Parent Company	\$ 695,665	4	639,620	4
8620	Non-Controlling Equity	(67,919)	-	(19,195)	-
		<b>\$ 627,746</b>	<b>4</b>	<b>620,425</b>	<b>4</b>
	<b>Comprehensive Profit or Loss Attributable to:</b>				
8710	Stockholders of Parent Company*	\$ 836,822	5	507,752	3
8720	Non-Controlling Equity*	32,105	-	(23,643)	-
		<b>\$ 868,927</b>	<b>5</b>	<b>484,109</b>	<b>3</b>
	<b>Earnings per Share (Note6.17)</b>				
9750	<b>Basic Earnings per Share (Unit: NT Dollar)</b>	<b>\$ 2.44</b>		<b>2.00</b>	
9850	<b>Diluted Earnings per Share (Unit: NT Dollar)</b>	<b>\$ 2.39</b>		<b>1.93</b>	

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

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

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

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

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

**For the years ended December 31, 2013, 2012, and January 1, 2012**

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

	Equity Attributable to Stockholders of Parent Company				Other Equity			Total Equity Attributable to Stockholders of Parent Company*	Non-Controlling Equity	Total Equity
	Common Stock	Capital Surplus	Retained Earnings		Exchange Differences on Translation Of financial Statements of Foreign Operations	Unrealized Gain (Loss) On Available-for-sale Financial Products	Treasury Stock			
			Legal Reserve	Unappropriated Earnings*						
<b>Beginning Balance, January 1, 2012</b>	\$ 3,202,175	3,669,842	860,061	1,160,995	32,119	202,477	(30,842)	9,096,827	569,111	9,665,938
Appropriation and Distribution of Earnings:										
Provision for Legal Reserve	-	-	76,151	(76,151)	-	-	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(638,709)	-	-	-	(638,709)	-	(638,709)
Other changes in Capital Surplus:										
Equity component from issuance of Convertible Bonds	-	(5,180)	-	-	-	-	-	(5,180)	-	(5,180)
- Stock Options	-	-	-	-	-	-	-	-	-	-
Net Income for Current Period	-	-	-	639,620	-	-	-	639,620	(19,195)	620,425
Other Comprehensive Profit or Loss for Current Period	-	-	-	(67,192)	(59,129)	(5,547)	-	(131,868)	(4,448)	(136,316)
Total Comprehensive Profit or Loss for Current Period	-	-	-	572,428	(59,129)	(5,547)	-	507,752	(23,643)	484,109
Difference between Option Price and Book Value of the Acquisition or Disposal of Subsidiaries' Equity	-	1,749	-	-	-	-	-	1,749	-	1,749
Share-based Payment Transactions	-	14,848	-	-	-	-	-	14,848	-	14,848
Changes in Non-Controlling Equity	-	-	-	-	-	-	-	-	45,754	45,754
<b>Ending Balance, September 30, 2012</b>	3,202,175	3,681,259	936,212	1,018,563	(27,010)	196,930	(30,842)	8,977,287	591,222	9,568,509
Appropriation and Distribution of Earnings:										
Provision for Legal Reserve	-	-	65,512	(65,512)	-	-	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(479,032)	-	-	-	(479,032)	-	(479,032)
Cash Dividend from Capital Surplus	-	(159,677)	-	-	-	-	-	(159,677)	-	(159,677)
Net Income for Current Period	-	-	-	695,665	-	-	-	695,665	(67,919)	627,746
Other Comprehensive Profit or Loss for Current Period	-	-	-	2,271	225	138,661	-	141,157	100,024	241,181
Total Comprehensive Profit or Loss for Current Period	-	-	-	697,936	225	138,661	-	836,822	32,105	868,927
Capital Decrease	(960,653)	-	-	-	-	-	2,581	(958,064)	-	(958,064)
Difference between Option Price and Book Value of the Acquisition or Disposal of Subsidiaries' Equity	-	45,508	-	-	-	-	-	45,508	-	45,508
Share-based Payment Transactions	-	5,730	-	-	-	-	-	5,730	-	5,730
Changes in Non-Controlling Equity	-	-	-	-	-	-	-	-	396,751	396,751
<b>Ending Balance, December 30, 2013</b>	\$ 2,241,522	3,572,820	1,001,724	1,171,955	(26,785)	335,591	(28,253)	8,268,574	1,020,078	9,288,652

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, 2013, 2012, and January 1, 2012**

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

		2013		2012	
		Amount	%	Amount	%
4000	<b>Cash Flows generated from Operating activities:</b>	\$ 15,898,687	100	14,607,834	100
5000	<b>Income before Income Tax</b>	13,924,661	88	12,739,110	87
	<b>Adjusted Items:</b>	1,974,026	12	1,868,724	13
	Incomes or Expenses				
6100	Depreciation	1,077,945	7	1,099,436	8
6300	Amortization	231,618	1	136,013	1
	Bad Debt Reclassified as Income	1,309,563	8	1,235,449	9
	Interest Expense	664,463	4	633,275	4
	Interest Income				
7020	Costs of Share-based Compensation	118,672	1	114,422	1
7050	Gain on Disposal and Scrap of Property and Equipment	(24,935)	-	(24,604)	-
7100	Gain on Disposal of Investments	44,085	-	36,789	-
	Impairment Loss on Financial Assets	137,822	1	126,607	1
7900	Loss on Corporate Bonds Buyback	802,285	5	759,882	5
7950	Total Incomes or Expenses that do not affect Cash Flow	174,539	1	139,457	1
8200	<b>Change in Assets and Liabilities related to Operating Activities:</b>	627,746	4	620,425	4
8300	<b>Net Change in Assets related to Operating Activities:</b>				
8310	Financial Assets at Fair Value through Profit or Loss - Current	3,161	-	(80,989)	(1)
8325	Notes and Accounts Receivable	235,795	1	(245)	-
8360	Other Receivables	2,271	-	(67,192)	-
8399	Inventory	46	-	(12,110)	-
8300	Prepaid Expenses and Other Current Assets	241,181	1	(136,316)	(1)
8500	<b>Total of Net Change in Assets related to Operating Activities</b>	<b>\$ 868,927</b>	<b>5</b>	<b>484,109</b>	<b>3</b>
	<b>Net Change in Liabilities related to Operating Activities:</b>				
8610	Financial Liabilities at Fair Value through Profit or Loss - Current	\$ 695,665	4	639,620	4
8620	Notes and Accounts Payable	(67,919)	-	(19,195)	-
	Accounts Payable - Related Parties	<b>\$ 627,746</b>	<b>4</b>	<b>620,425</b>	<b>4</b>
	Other Payables				
8710	Accrued Pension Liabilities	\$ 836,822	5	507,752	3
8720	Total Net Change in Liabilities related to Operating Activities	32,105	-	(23,643)	-
	<b>Total Net Change in Assets and Liabilities related to Operating Activities</b>	<b>\$ 868,927</b>	<b>5</b>	<b>484,109</b>	<b>3</b>
	<b>Total of Adjusted Items</b>				
9750	Cash Flow generated from Operations	<b>\$ 2.44</b>	<b>2.00</b>		
9850	Interest Received	<b>\$ 2.39</b>	<b>1.93</b>		

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

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

# **HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and JANUARY 1, 2012** (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, 2013, 2012 and January 1, 2012. 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 18, 2014.

### **3. New Standards and Interpretations Not yet Adopted**

#### **3.1. New standards and interpretations endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect**

The International Accounting Standards Board ("IASB") issued International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"), which took effect on January 1, 2013. (The IASB extended the effective date to January 1, 2015, on December 2011, and announced the repeal of the mandatory effective date on January 1, 2015, to have more time to transition to the new standards for financial statement preparation. The new effective date has not been announced yet.) This standard has been endorsed by the FSC; however, at the end of the reporting periods (the reporting date), the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and the Consolidated Company shall follow the guidance in the 2009 version of International Accounting Standard 39 Financial Instruments ("IAS 39"). At the adoption of this new standard, it is expected there will be impacts on the classification and measurement of financial instruments in the consolidated financial statements.

#### **3.2. New standards and interpretations not yet endorsed by the FSC**

A summary of the new standards and amendments issued by the IASB that may have an impact on the consolidated financial statements that have not yet been endorsed by the FSC:

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<u>Issue Date</u>	<u>New Standards and Amendments</u>	<u>Description and Influence</u>	<u>Effective Date per IASB</u>
May 12, 2011	IFRSS 10 <i>Consolidated Financial Statements</i>	On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments. The new standards provide a single model in determining whether an entity has control over an investee (including special purpose entities) other than the consolidation process, for which the original guidance and method applies. In addition, joint arrangements are separated into joint operations (concepts from jointly controlled assets and jointly controlled operations), and joint ventures (concepts from jointly controlled entities), and the new standards remove the proportionate consolidation method.	January 1, 2013
June 28, 2012	IFRSS 11 <i>Joint Arrangements</i> IFRSS 12 <i>Disclosure of Interests in Other Entities</i> Amended IAS 27 <i>Separate Financial Statements</i> Amended IAS 28 <i>Investments in Associates and Joint Ventures</i>	On June 28, 2012, amendments were issued clarifying the guidance over the transition period.  At the adoption of the above standards, some of the determinations of the investees could be changed, which would increase the disclosure of the equity of the subsidiaries and associates.	
May 12, 2011	IFRSS 13 <i>Fair Value Measurement</i>	IFRSS 13 replaces fair value measurement Guidance in other standards and integrates them as one single guidance. At the adoption of this standard, the Company should analyze the impact on the measurement of assets and liabilities. The amendment could also increase the disclosure of their fair value.	January 1, 2013
June 16, 2011	Amended IAS 1 <i>Presentation of Financial Statements</i>	Items presented in other comprehensive income shall be expressed based on whether they are potentially reclassifiable to profit or loss subsequently. Upon adoption, this standard could change the disclosure of the other comprehensive income in the comprehensive income statement.	July 1, 2012
June 16, 2011	Amended IAS 19 <i>Employee Benefits</i>	The amendments eliminate the corridor method and require enterprises to recognize changes in the net defined benefit liability (asset) in profit or loss; in addition, require the immediate recognition of past service cost. Upon adoption, the standard could change the measurement and presentation of the pension liability and actuarial gains or losses.	January 1, 2013
December 16, 2011	• Amended IAS 32 <i>Financial Instruments Presentation</i> • Amended IFRSS 7 <i>Financial Instruments: Disclosures</i>	The amendments modified the offsetting a financial asset and a financial liability (provided more direction) Upon adoption, the standard could change the measurement and presentation of the financial report.	January.1.2014(Presentation Provisions) January.1.2013(Disclosure Provisions)
December 16, 2011	• Amended IFRSS 7 <i>Financial Instruments: Disclosures</i> • Amended IFRSS 9 <i>Financial Instruments</i>	The amendments modified the adoption date (effective date postponed from January.1.2013 to January.1.2015) and Transition. IASC has deleted the January.1.2015 as effective date on November.2013, in order to prepare the report writers for adoption)	Unconfirmed. Early adoption is permitted.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<u>Issue Date</u>	<u>New Standards and Amendments</u>	<u>Description and Influence</u>	<u>Effective Date per IASB</u>
October 31, 2012	<ul style="list-style-type: none"> <li>• Amended IFRSS 10 <i>Consolidated Financial Statements</i></li> <li>• Amended IAS 27 <i>Separate Financial Statements</i></li> <li>• Amended IAS 28 <i>Investments in Associates and Joint Ventures</i></li> </ul>	An investment entity should be required to measure all controlling financial interests in another investment entity at fair value, rather than consolidating those subsidiaries. The amendment could also change the measurement and presentation of investment under equity method.	January 1, 2014. Early adoption is permitted.
May 29, 2013	Amended IAS 36 <i>Impairment of Assets</i>	The previous version of IAS 36, effective January 1, 2013, required an entity to disclose the recoverable amount of each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) was significant. The narrow-scope amendments require an entity to disclose the recoverable amount of an individual asset (including goodwill) or a cash-generating unit for which the Company has recognized or reversed an impairment loss. In addition, the amendments to IAS 36 require an entity to disclose additional information about the fair value less costs of disposal for an individual asset including the level of the fair value hierarchy and key assumptions used in the measurement of fair value categorized within “Level 2” and “Level 3” of the fair value hierarchy.	January 1, 2014 Early adoption is permitted.
November 19, 2013	Amended IFRSS 9 <i>Financial Instruments</i>	Adoption of more Principle-Based Standard, allowing the hedge accounting to meet the risk management, including achievement, continuance and stop of amendment. A more variety of exposure can now be hedged. The amendment could increase the transaction under hedging accounting, and the measurement and presentation of hedged items to related hedging instruments.	Unconfirmed. Early adoption is permitted.
November 21, 2013	Amended IAS 19 <i>Employee Benefits</i>	The standard establishes the principle that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, The amendment could permit increases the transaction under hedging accounting, and the measurement and presentation of hedged items to related hedging instruments. It permits a practical expedient of the amount to be recognized as a reduction in the service cost in the period in which the related service is rendered. The amendment could change the measurement and presentation of accrued pension liabilities.	January 1, 2014 Early adoption is permitted.

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, 2012, which is prepared for the purpose of transition to the IFRSs endorsed by the FSC (R.O.C).

The consolidated 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 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (the Guidelines) and with the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (collectively, "Taiwan-IFRSs").

The consolidated financial statements are the first annual financial statements that apply the Guidelines and Taiwan-IFRSs. The consolidated financial statements also apply IFRS 1 First-time Adoption of International Financial Reporting Standards. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance, and cash flows of the Company is provided in Note 15.

**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 u 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 Holy Stone'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.

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Holy Stone Enterprise Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.3.2. The subsidiaries included in the consolidated financial statements

Investor	Subsidiaries	Style	Share holding %			Remark
			2013.12.31	2012.12.31	2012.1.1	
The Company	Holy Stone Enterprise (Hong Kong) Co., Ltd. (Holy Stone H.K)	Sales of MLCC, electronic components	100.00%	100.00%	100.00%	-
The Company	Holy Stone Holdings Co., Ltd. (HSH , Samoa)	General investment	100.00%	100.00%	100.00%	-
The Company	UHOLY Investment Co., Ltd. (UHOLY, Taiwan)	General investment	57.69%	57.69%	57.69%	-
The Company	Martek Co., Ltd. (Martek, Taiwan)	Electric appliance wholesaling, precision instrument wholesaling, computer and business equipments wholesaling	100.00%	100.00%	100.00%	-
The Company	Rong Jhan Investments Co., Ltd.(Rong Jhan Investments, Taiwan)	General investment	100.00%	100.00%	100.00%	-
HSH	Holy Stone Investments Co., Ltd. (HSIC , H.K.)	General investment	100.00%	100.00%	100.00%	-
HSH	Holypaq Corporation (HC , Cayman)	General investment	100.00%	100.00%	100.00%	-
HSH	Green Glory Holdings Ltd. (GGH , Samoa)	General investment	100.00%	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%	100.00%	-
HSH	Holy Stone Polytech Co., Ltd. (HPC , Japan)	Sale and produce of electronics, sale and material of mechatronics	100.00%	98.78%	98.5%	-
HSH	Everplus Material Co., Ltd. (EPM , Japan)	Produce and sale of electronics, sale and material of mechatronics	100.00%	100.00%	100.00%	-
HSIC	Holy Stone International Trading (Shanghai) Co., Ltd. (“Holy Stone Shanghai”, China)	Sale of capacitor	100.00%	100.00%	100.00%	-
HSIC	Infortech (China) Co., Ltd. (Infortech, China)	sales of electronic components	100.00%	100.00%	100.00%	-
HC	Holypag Electronics Corporation (Holypag, China)	Sale and produce of capacitor	100.00%	100.00%	100.00%	-
GGH	Infortech International Trading (Shanghai) Ltd. (Infortech International, China)	Development design and sale of electronics	100.00%	100.00%	100.00%	-
GGH	Milestone Global Technology Ltd. (MGT , US)	Development design and sale of electronics	100.00%	100.00%	100.00%	-
GGH	Holy Stone (Europe) Ltd. (HSE , UK)	Electronic Retailing	100.00%	100.00%	100.00%	-
UHOLY Investment Co., Ltd.	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	29.02%	36.45%	39.1%	Consolidated Company controlled its financial and operation policies; hence the Holy Stone Healthcare is viewed as subsidiaries
Holy Stone Healthcare	Global Search Holdings Ltd. (GSH , Samoa)	General investment	100.00%	100.00%	100.00%	-
Holy Stone Healthcare	MDT INTL SA (MDT Swiss)	Development and sale of Medical instruments, and biological techniques	62.50%	62.00%	50.00%	-
GSH	Holy Stone Biotech Co., Ltd.	Authorizing and sale	100.00%	- %	-	-

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**Holy Stone Enterprise Company Limited and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	(Biotech UK)	of medical instruments and medicines					
Rong Jhan Investments	OHGA Electronic Co., Ltd. (OHGA, Taiwan)	Electric appliance and audiovisual electric products manufacturing	70.00%	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%	- %	- %		Consolidated Company controlled its financial and operation policies; hence the Holy Stone Healthcare is viewed as subsidiaries (Note)
Rong Jhan Investments	Aveo Multimedia Corporation (Aveo OHGA Electronic Corporation (Aveo	electronic components	- %	34.18%	34.18%		(Note)
		Electronic Components production	- %	10.00%	10.00%		(Note)
OHGA Electronic	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	2.14%	- %	- %		Consolidated Company controlled its financial and operation policies; hence the Holy Stone Healthcare is viewed as subsidiaries (Note)
Aveo Multimedia Corporation	HAV Co., Ltd. (HAV · Samoa)	electronic components	- %	100.00%	100.00%		(Note)

(Note) Aveo Multimedia has been merged by eMPIA Technology Corp., and not under command of the Company since.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.
- 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

4.7.1.4. 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.

4.7.1.5. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 these 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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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. Non-current assets held for sale**

Whenever the disposal group consists of non-current assets or some associated liabilities is held for sale or distribution to owner, not held to collect the carrying value, it shall be classified as held-for-sale or held-for-distribution to owners. Non-current assets or disposal group accord with the aforementioned type shall be available for immediate sale, the sale is highly probable, within 12 months of classification as held for sale. Components of assets or disposal group shall be reevaluated based if Company's accounting policy before classified as held for sale/distribution to owners. Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. After classification as held for sale. Any of the impairment loss of disposal group shall be first amortized to goodwill, and further proportionally amortized to other assets and liabilities. Yet, the loss shall not be allocated to assets not defined in IAS 36 (Impairment of Assets), and shall be measured with the Consolidated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company's accounting policy. Recognized impairment loss that is originally classified as held for sale or held for distribution to owners and the gains and losses from reevaluation shall be recognized as income. However, the rebounding interest shall not exceed the recognized accumulated impairment loss.

Intangible asset and real property, plant and equipment shall not be depreciated or amortized when classified as held for sale or held for distribution to owners. Besides, when investment is recognized as held for sale or held for distribution to owners under equity method, it shall stop adopting equity method.

**4.10. Property, plant and equipment**

4.10.1. 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.

4.10.2. Subsequent cost

If the future economic benefit generated from subsequent cost of property, plant and equipment is 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.

4.10.3. Depreciation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

#### 4.11. Intangible Asset

##### 4.11.1. Goodwill

###### 4.11.1.1. Initial recognition

Goodwill acquired in a business combination is included in intangible assets. Measurement of initial recognition is detailed in note6.9.

###### 4.11.1.2. 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.

##### 4.11.2. 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) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (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.

4.11.3. 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.

4.11.4. 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.

4.11.5. 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.

**4.12. 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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

#### 4.13. Treasury Stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Shares that are owned by TWM's subsidiaries are seen as identical to treasury shares. Gains on disposal of treasury shares should be recognized under "capital reserve – treasury share transactions"; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there is insufficient capital reserve to offset the losses, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted-average method and grouped by the type of repurchase.

When the Consolidated Company's treasury stock is retired, the treasury stock account should be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

credited, and the capital surplus – premium on stock account and capital stock account should be debited proportionately according to the share ratio. The difference should be credited to capital surplus or debited to capital surplus and/or retained earnings. If any insufficient, it shall offset from retained earnings; if the carrying amount is lower than combination of carrying amount and premium on stock, and debited to capital surplus – from treasury stock transactions account which from the same class of the treasury stock.

**4.14. 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.

**4.15. Employee's bonus**

4.14.1. 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.

4.14.2. 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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

#### 4.14.3. 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.

#### 4.16. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

**4.17. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

**4.18. 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.

**4.19. 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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Cash on hand	\$ 2,319	2,836	2,961
Current deposit	1,081,501	2,096,531	2,206,492
Deposit account	<u>1,469,253</u>	<u>926,443</u>	<u>731,750</u>
	<b><u>\$ 2,553,073</u></b>	<b><u>3,025,810</u></b>	<b><u>2,941,203</u></b>

Please refer to Note 6.19 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

6.2.1. Details:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Financial assets at fair value through profit or loss - Current:			
Non-hedge derivatives :			
Forward exchange	\$ -	33	-
Exchange rate swap contract	276	195	-
Non-derivative financial assets:			
Domestic/foreign investment	70,903	43,931	70,408
Bonds	494,919	341,347	255,316
Open-ended funds	<u>115,967</u>	<u>54,715</u>	<u>10,629</u>
Total	<b><u>\$ 682,065</u></b>	<b><u>440,221</u></b>	<b><u>336,353</u></b>
Financial liabilities at fair value through profit or loss - Current:			
Cooperate bond	\$ 595	1,417	3,873
Non-hedge derivatives:			
Forward exchange contract	-	-	53
Exchange rate SWAP contract	<u>-</u>	<u>-</u>	<u>107</u>
Total	<b><u>\$ 595</u></b>	<b><u>1,417</u></b>	<b><u>4,033</u></b>

6.2.2 Non-hedge Derivatives

Engagement of financial instruments is to avoid exchange rate and interest rate risk caused by operating, financing and investing activities. Derivatives not qualified for hedge accounting as of December 31, 2013 and 2012 and January 1, 2012 of the Consolidated Company were as follows:

Exchange Rate SWAP Contract:

i. Forward exchange contract

	<u>2012.12.31</u>		
	<u>Nominal Amount</u>	<u>Currency</u>	<u>Expiration</u>
Selling forward exchange	USD <u>1,800</u>	USD/TWD	2013.01.08~2013.02.20
	<u>2012.1.1</u>		
	<u>Nominal Amount</u>	<u>Currency</u>	<u>Expiration</u>
Selling forward exchange	USD <u>3,400</u>	USD/TWD	2012.01.09~2012.03.09

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ii. Exchange Rate SWAP Contract:

<b>2013.12.31</b>		
<u>Principal (USD thousand)</u>	<u>Term</u>	
\$ 2,200	2013.12.31~2014.01.14	
5,340	2013.12.31~2014.01.14	
<u>9,400</u>	2013.12.31~2014.01.14	
<b><u>\$ 16,940</u></b>		

<b>2012.12.31</b>		
<u>Principal (USD thousand)</u>	<u>Term</u>	
\$ 2,200	2012.12.24~2013.01.22	
5,340	2012.12.24~2013.01.22	
<u>9,400</u>	2012.12.24~2013.01.22	
<b><u>\$ 16,940</u></b>		

<b>2011.1.1</b>		
<u>Principal (USD thousand)</u>	<u>Term</u>	
\$ 2,900	2011.12.29~2012.01.17	
9,400	2011.12.29~2012.01.17	
3,200	2011.12.29~2012.01.17	
<u>5,340</u>	2011.12.29~2012.01.17	
<b><u>\$ 20,840</u></b>		

**6.3. Available-for-Sale Financial Assets**

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Investment of Stock:			
Domestic Stock (OTC & TSEC listed)	\$ 522,043	424,179	427,031
Foreign Stock (listed companies)	<u>77,285</u>	<u>71,105</u>	<u>82,425</u>
Total	<b><u>\$ 599,328</u></b>	<b><u>495,284</u></b>	<b><u>509,456</u></b>

6.3.2. Sensitivity analysis – Risk of equity price:

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>Bond price on reporting date</u>	<u>2013</u>		<u>2012</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>
Increased by 1%	<b><u>\$ 5,993</u></b>	<u>-</u>	<b><u>4,953</u></b>	<u>-</u>
Decreased by 1%	<b><u>\$ (5,993)</u></b>	<u>-</u>	<b><u>(4,953)</u></b>	<u>-</u>

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Material foreign currency equity investment on reporting is as follows:

Unit: Thousands of NT\$

	2013.12.31			2012.12.31			2012.1.1		
	Foreign currency	Rate	NT\$	Foreign currency	Rate	NT\$	Foreign currency	Rate	NT\$
USD	2,593	29.805	77,285	2,449	29.04	71,105	2,723	30.275	82,425

As of December 31, 2013 and 2012 and January 1, 2012, the Consolidated Company's available-for-sale financial assets had never been pledged as collaterals.

**6.4. Financial Assets Carried at Cost**

	2013.12.31	2012.12.31	2012.1.1
Domestic preferred stock (TSEC & OTC listed)	\$ -	300,000	300,000
Domestic/foreign common stock (TSEC & OTC listed)	353,417	252,992	250,060
Total	<u>\$ 353,417</u>	<u>552,992</u>	<u>550,060</u>

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.

As of December 31, 2013 and 2012 and January 1, 2012, the Consolidated Company's financial assets carried at cost had never been pledged as collaterals.

**6.5 Notes, Account and Other Receivable, Net**

	2013.12.31	2012.12.31	2012.1.1
Notes receivable	\$ 117,324	116,931	96,648
Account receivable	3,553,323	3,102,891	3,716,207
Other receivable	114,069	162,278	167,744
Less: Allowance for Uncollectible Accounts	(76,686)	(62,790)	(69,409)
	<u>\$ 3,708,030</u>	<u>3,319,310</u>	<u>3,911,190</u>

As of December 31, 2013 and 2012 and January 1, 2012, the notes, account and other receivable aging were as follows:

	2013.12.31		2012.12.31		2012.1.1	
	Amount	Impairment	Amount	Amount	Impairment	Amount
Unexpired	\$ 3,675,296	25,418	3,315,905	26,564	3,925,818	40,497
1~30 days overdue	67,491	18,164	40,026	12,550	27,696	7,874
30~60 days overdue	28,192	21,853	3,634	1,297	7,623	6,092
Over 90 days overdue	13,737	11,251	22,535	22,379	19,462	14,946
	<u>\$ 3,784,716</u>	<u>76,686</u>	<u>3,382,100</u>	<u>62,790</u>	<u>3,980,599</u>	<u>69,409</u>

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The Consolidated Company's evaluation on impairment of notes, account and other receivables included individual and group evaluations. As of December 31, 2013 and 2012 and January 1, 2012, the statement of change in allowance for uncollectible accounts of notes, account and other receivable were as follows:

	<u>2013</u>	<u>2012</u>
Beginning balance, January 1	\$ 62,790	69,409
Impairment loss recognition (Reversal Amount of Impairment Loss)	13,295	(5,662)
Offset (current period)	-	(529)
Reversal of Impairment Loss	-	-
Gains or Losses on translation of foreign currency	601	(428)
Ending balance, December 31	<u>\$ 76,686</u>	<u>62,790</u>

The average loan period to sale of goods of the Consolidated Company is 80 days. The Consolidated 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.

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 Consolidated Company held no collateral in regard to those remains.

22 % of the notes and account receivables including remains from the most significant client, come from the clients with favorable payment history.

As of December 31, 2013 and 2012 and January 1, 2012, the account receivable of Company had never been pledged as collateral,

**6.6 Inventories**

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Raw Material	\$ 149,640	232,128	261,819
Supplies	4,178	4,371	4,948
Work in process	180,804	168,159	146,707
Semi-finished goods	94,262	64,694	98,880
Finished goods	379,409	349,581	349,024
Merchandise	1,622,061	1,236,988	1,390,105
	<u>\$ 2,430,354</u>	<u>2,055,921</u>	<u>2,251,483</u>

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The inventory cost from cost of goods sold and expense recognized at the end of 2013 and 2012 was NT\$13,861,456 thousand and NT\$12,731,953 thousand. 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\$4,745 thousand and NT\$8,117 thousand, respectfully.

As of December 31, 2013 and 2012 and January 1, 2012, the inventories of Consolidated Company had never been pledged as collateral,

**6.7. Held-for Sale Noncurrent Assets**

On December, 2001, the Consolidated Company decided to sell part of machinery and equipment and expected to finish selling within a year. These equipments are recognized as held-for sale according to this decision. The assets value of this group of held-for-sale was NT\$30,000 thousand as of January 1, 2012.

Details:

	<b>2012.1.1</b>
Machinery and equipment機	\$ 66,656
Less: accumulated depreciation	(27,728)
Accumulated loss	<u>(8,928)</u>
Total	<u><b>\$ 30,000</b></u>

**6.8. Property, Plant and Equipment**

Details on cost, accumulated depreciation, and impairment loss of the Company for the year ended December 31, 2013 and 2012 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, 2013	\$ 788,487	1,475,258	1,958,707	318,955	4,541,407
Purchasing & adjustment	-	97,825	223,502	88,809	410,136
Disposal	-	(5,496)	(46,430)	(17,086)	(69,012)
Other	-	-	-	(55)	(55)
Effect of change in exchange rate	(896)	(1,923)	(16,954)	761	(19,060)
Ending balance December, 31 2013	<u><b>\$ 787,591</b></u>	<u><b>1,565,664</b></u>	<u><b>2,118,825</b></u>	<u><b>391,384</b></u>	<u><b>4,863,464</b></u>
Beginning balance, January 1, 2012	\$ 789,382	1,435,865	1,716,759	290,044	4,232,050
Purchasing & adjustment	-	50,427	338,011	43,723	432,161
Disposal	-	-	(61,879)	(6,372)	(68,251)
Effect of change in exchange rate	(895)	(11,034)	(34,184)	(8,440)	(54,553)
Ending balance December, 31 2012	<u><b>\$ 788,487</b></u>	<u><b>1,475,258</b></u>	<u><b>1,958,707</b></u>	<u><b>318,955</b></u>	<u><b>4,541,407</b></u>
Accumulated depreciation & impairment loss					
Beginning balance, January, 1 2013	\$ -	288,822	1,004,558	212,441	1,505,821
Depreciation	-	61,891	223,760	47,145	332,796

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Disposal	-	(5,145)	(36,536)	(9,606)	(51,287)
Other	-	-	-	(34)	(34)
Effect of change in exchange rate	-	89	(8,546)	(30)	(8,487)
Ending balance, December 31, 2013	<b>\$ -</b>	<b>345,657</b>	<b>1,183,236</b>	<b>249,916</b>	<b>1,778,809</b>
Beginning balance, January 1, 2012	\$ -	232,734	865,327	179,680	1,277,741
Depreciation	-	58,225	200,044	44,039	302,308
Impairment loss	-	-	(28,843)	(3,736)	(32,579)
Effect of change in exchange rate	-	(2,137)	(31,970)	(7,542)	(41,649)
Ending balance, December 31, 2012	<b>\$ -</b>	<b>288,822</b>	<b>1,004,558</b>	<b>212,441</b>	<b>1,505,821</b>
Book value:					
Ending balance, December 31, 2013	<b>\$ 787,591</b>	<b>1,220,007</b>	<b>935,589</b>	<b>141,468</b>	<b>3,084,655</b>
Ending balance, December 31, 2013	<b>\$ 788,487</b>	<b>1,186,436</b>	<b>954,149</b>	<b>106,514</b>	<b>3,035,586</b>
Beginning balance, January 1, 2012	<b>\$ 789,382</b>	<b>1,203,131</b>	<b>851,432</b>	<b>110,364</b>	<b>2,954,309</b>

As of December 31, 2013 and 2012 and January 1, 2012, the pledged long-term loans and financing quota was detailed in note 8.

**6.9. 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, 2013	\$ 521,575	77,181	598,756
Separate acquisition	-	825	825
Other	-	(28,142)	(28,142)
Effect of change in exchange rate	9,301	248	9,549
Ending balance December, 31 2013	<b>\$ 530,876</b>	<b>50,112</b>	<b>580,988</b>
Beginning balance, January 1, 2012	\$ 535,214	76,673	611,887
Separate acquisition	-	508	508
Net exchange differences from translation of financial statements of foreign operations	(13,639)	-	(13,639)
Ending balance December, 31 2012	<b>\$ 521,575</b>	<b>77,181</b>	<b>598,756</b>
Amortization and impairment loss:			
Beginning balance, January, 1 2013	\$ -	23,672	23,672
Amortization	-	10,531	10,531
Other	-	(16,437)	(16,437)
Ending balance, December 31, 2013	<b>\$ -</b>	<b>17,766</b>	<b>17,766</b>
Beginning balance, January 1, 2012	\$ -	13,310	13,310
Amortization	-	11,169	11,169
Effect of change in exchange rate	-	(807)	(807)
Ending balance, December 31, 2012	<b>\$ -</b>	<b>23,672</b>	<b>23,672</b>
Book value:			
Ending balance, December 31, 2013	<b>\$ 530,876</b>	<b>32,346</b>	<b>563,222</b>

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Ending balance, December 31, 2013	\$	<u>521,575</u>	<u>53,509</u>	<u>575,084</u>
Beginning balance, January 1, 2012	\$	<u>535,214</u>	<u>63,363</u>	<u>598,577</u>

As of December 31, 2013 and 2012 and January 1, 2012, the Consolidated Company was exempt from recognizing impairment loss because have conducted an impairment test.

**6.10. Short-term Loans**

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

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Secured bank loans	\$ 102,455	-	-
Unsecured bank loans	2,147,505	2,116,071	1,696,007
Total	<u>\$ 2,249,960</u>	<u>2,116,071</u>	<u>1,696,007</u>
Undrawn quotas	<u>\$ 3,127,456</u>	<u>2,857,780</u>	<u>3,208,322</u>
Range of interest rate	<u>0.65%~2.2%</u>	<u>0.66%~1.80%</u>	<u>0.82%~1.40%</u>

The assets pledged as collateral for loans was detailed in note 8.

**6.11. Long-term Loans**

Detail, condition, and provision to the long-term loan of the Company were as follows:

<u>2013.12.31</u>				
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	1.3488%~1.5349%	106	\$ 500,000
Secured bank loans	TWD	1.515%	114	88,597
Less: current portion				<u>(35,830)</u>
Total				<u>\$ 552,767</u>
Undrawn quotas				<u>\$ 100,000</u>
<u>2012.12.31</u>				
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	1.333%~1.457%	106	\$ 223,167
Secured bank loans	TWD	1.515%	114	96,234
Less: current portion				<u>(80,805)</u>
Total				<u>\$ 238,596</u>
Undrawn quotas				<u>\$ 600,000</u>
<u>2012.1.1</u>				
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Unsecured bank loans	TWD	1.3002%~1.3118%	102	\$ 219,500
Secured bank loans	TWD	1.39%~1.64%	114	150,000
Less: current portion				<u>(152,450)</u>
Total				<u>\$ 217,050</u>
Undrawn quotas				<u>\$ -</u>

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6.12. Bond payable

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

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Total amount of convertible bonds issued	\$ 700,000	700,000	700,000
Unamortized discount on bond payable	(1,920)	(3,200)	(25,337)
Accumulated redemption	<u>(595,500)</u>	<u>(595,500)</u>	<u>(106,800)</u>
Ending balance of bond payable	<u>\$ 102,580</u>	<u>101,300</u>	<u>567,863</u>
Embedded derivatives – call and put options (reported in financial assets at fair value through profit or loss)	<u>\$ (595)</u>	<u>(1,417)</u>	<u>(3,873)</u>
Equity component – conversion right (reported in capital surplus)	<u>\$ 16,909</u>	<u>16,909</u>	<u>95,986</u>
	<u>2013</u>	<u>2012</u>	
Embedded derivatives – gain or loss of call and put options reevaluated at fair value	<u>\$ 822</u>	<u>1,788</u>	
Interest expense	<u>\$ 1,280</u>	<u>4,183</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 at on August 22, 2013.

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.

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**6.13. Employee Benefits**

6.13.1. Defined Benefit Plan

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

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Total present value of obligation	\$ 140,940	145,137	82,021
Fair value of plan assets	(82,122)	(83,061)	(84,894)
Defined benefit obligation liabilities recognized (assets)	<u>\$ 58,818</u>	<u>62,076</u>	<u>(2,873)</u>

The employee benefit liabilities were detailed as follows:

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 number based on years of work experience and the average wages 6 months before retirement.

6.13.1.1. Composition of Assets

The pension funds appropriated by the Company in accordance with Labor Standard Law are managed by Labor Pension Fund Supervisory Committee (abbreviated to LPSC 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, 2013 in labor retirement reserve account was NT\$82,122 thousand.

6.13.1.2. Changes of Current Value of Defined Benefit Obligation

Changes of Current Value of Defined Benefit Obligation for the year ended December 31, 2012 and 2013 were as follows:

	<u>2013</u>	<u>2012</u>
Defined benefit obligation on January 1	\$ 145,137	82,021
Benefit plan payment	(5,688)	(6,310)
Current service cost and interest	3,955	2,691
Actuarial Gains or losses	(2,464)	66,735
Defined benefit obligation on December 31	<u>\$ 140,940</u>	<u>145,137</u>

6.13.1.3. Changes of Fair Value of the Plan Assets

The changes of current value for benefit plan for the year ended December 31, 2013 and 2012 were as follows:

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	<u>2013</u>	<u>2012</u>
Fair value of the plan assets on January 1	\$ 83,061	84,894
Appropriation for the plan	3,696	3,660
Benefit plan payment	(5,688)	(6,309)
Expected return on plan assets	1,246	1,273
Actuarial Gains or losses	(193)	(457)
Plan assets at fair value on December 31	<u>\$ 82,122</u>	<u>83,061</u>

6.13.1.4 Expense recognized as gain or loss

The details of the Consolidated Company's expense for the year ended December 2013 and 2012 are reported as follows:

	<u>2013</u>	<u>2012</u>
Current service cost	\$ 1,778	1,461
Interest cost	2,177	1,230
Expected return on plan assets	(1,246)	(1,273)
	<u>\$ 2,709</u>	<u>1,418</u>
Operating cost	\$ 1,304	787
Operating expense	1,405	631
	<u>\$ 2,709</u>	<u>1,418</u>

6.13.1.5. 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, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Beginning accumulated balance on January 1	\$ (67,192)	-
Recognition in current period	2,271	(67,192)
Ending accumulated balance on December 31	<u>\$ (64,921)</u>	<u>(67,192)</u>

6.13.1.6 Actuarial Assumption

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

	<u>2013.12.31</u>	<u>2012.12.31</u>
Discount rate	1.75%	1.50%
Expected return on plan assets	1.75%	1.50%
Gains on future wages	1.00%	1.50%

Expected return on long-term assets is based on portfolio, not the return of sum of individual assets. This return rate is only based on historical return rate without adjustment.

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6.13.1.7. Historical Information of Experience Adjustment

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Present value of the defined benefit obligation \$	140,940	145,137	82,021
Plan asset at fair value	<u>(82,122)</u>	<u>(83,061)</u>	<u>(84,894)</u>
Net defined benefit obligation liabilities(Assets)	<u>\$ 58,818</u>	<u>62,076</u>	<u>(2,873)</u>
Experience adjustment of present value of defined benefit plan	<u>\$ 2,464</u>	<u>(66,735)</u>	<u>-</u>
Experience adjustment of plan asset at fair value	<u>\$ (193)</u>	<u>(457)</u>	<u>-</u>

The Consolidated Company expects to pay NT\$2,435 thousands for defined benefit plan in a year after 2013 reporting date.

6.13.2. 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, 2013 and 2012, the Company had appreciated NT\$52,307 and NT\$49,125 thousand for pension expense to Bureau of Labor Insurance.

**6.14. Income Tax**

6.14.1. Income Tax Expense

i. As of December 31, 2013 and 2012, the income tax expense in details is as follows:

	<u>2013</u>	<u>2012</u>
Present value of income tax expense		
Expense generated from current period	\$ 162,652	140,208
Deferred income tax expense (profit)		
Temporary differences incurred or reversed	<u>11,887</u>	<u>(751)</u>
	<u>\$ 174,539</u>	<u>139,457</u>

ii. As of December 31, 2013 and 2012, income tax profit (expense) that recognized under other comprehensive income is as follows:

	<u>2013</u>	<u>2012</u>
Exchange differences from translation of financial report of foreign operation	<u>\$ (46)</u>	<u>12,110</u>

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iii. As of December 31, 2013 and 2012, the adjustment of income tax expense and net income before tax were as follows:

	<u>2013</u>	<u>2012</u>
Net income before tax	<u>\$ 802,285</u>	<u>759,882</u>
Income tax calculated by using local tax rate of the Company	\$ 136,389	129,180
Tax-exempt income and rental tax credit	(29,666)	(12,891)
10 % more on undistributed earnings	11,058	4,694
Impact of tax differentiation from foreign countries and other	56,758	18,474
Total	<u>\$ 174,539</u>	<u>139,457</u>

**6.14.2. Deferred Income Tax Assets and Liabilities**

As of December 31, 2013 and 2012, changes of deferred income tax assets and liabilities were as follows:

	<u>Loss due to market decline on inventory</u>	<u>Other</u>			
			<u>Total</u>		
<b>Deferred income tax asset:</b>					
Beginning balance, January 1, 2013	\$ 22,332	15,811	38,143		
(Debit) Credit income statement	(4,282)	(3,247)	(7,529)		
Credit to other comprehensive income	-	(46)	(46)		
<b>Ending balance, December 31, 2013</b>	<u>\$ 18,050</u>	<u>12,518</u>	<u>30,568</u>		
Beginning balance, January 1, 2012	\$ 22,528	9,838	32,366		
(Debit) Credit income statement	(196)	1,434	1,238		
Credit to other comprehensive income	-	4,539	4,539		
<b>Ending balance, December 31, 2012</b>	<u>\$ 22,332</u>	<u>15,811</u>	<u>38,143</u>		
	<u>Gains of Subsidiary Using Equity Method\</u>	<u>Losses from Exchange differences from translation of financial report of foreign operation</u>	<u>Other</u>	<u>Total</u>	
<b>Deferred income tax liabilities:</b>					
Beginning balance, January 1, 2013	\$ 48,159	-	-	48,159	
Debit income statement	8,142	-	3,236	11,378	
<b>Ending balance, December, 31 2013</b>	<u>\$ 56,301</u>	<u>-</u>	<u>3,236</u>	<u>59,537</u>	
Beginning balance, January 1, 2012	\$ 40,780	6,578	7,418	54,776	
Debit (Credit) income statement	7,379	-	(7,418)	(39)	
Credit to other comprehensive income	-	(6,578)	-	(6,578)	
<b>Ending balance, December 31, 2012</b>	<u>\$ 48,159</u>	<u>-</u>	<u>-</u>	<u>48,159</u>	

**6.14.3. Income Tax Assessment**

The income tax has been examined and cleared by the tax authorities to the year 2011.

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6.14.4. Related Information of Integrated Income Tax

Integrated income tax is as follows:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Undistributed earnings after 1998	<u>\$ 1,171,955</u>	<u>1,018,563</u>	<u>1,160,995</u>
Balance in the shareholder deductible tax	<u>\$ 144,193</u>	<u>131,923</u>	<u>105,248</u>
		<u>2013 (expected)</u>	<u>2012 (actual)</u>
Tax deduction ratio of earning distribution to residents in ROC		<u>15.66%</u>	<u>17.44%</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.

6.15. Capital and Other Equities

As of December 31, 2013, 2012 and January 1, 2012, Holy Stone 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, 2013, 2012 and January 1, 2012, 224,153 thousand shares, 320,218 thousand shares, and 320,218 thousand shares, respectively. All of the payment of issued shares was collected.

The reconciliation of shares outstanding as of December 31, 2013 and 2012 is as follows:

	<u>Common Stock (Thousand)</u>	
	<u>2013</u>	<u>2012</u>
Beginning balance, January 1	320,218	320,218
Capital reduction	(96,065)	-
Ending balance, December 31	<u>224,153</u>	<u>320,218</u>

6.15.1. Capital stock

To increase return on equity and manage the capital properly, the capital reduction resolution passed during 2013 Annual General Shareholders' Meeting on June 14, The Company returned cash to shareholders, a total of NT\$960,653 thousand, and canceled 96,065 thousand shares. The recording date of the capital reduction was August 22, 2013. The Statutory procedures had all been rendered and settled.

6.15.1 Capital surplus

The components of capital surplus were as follows:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2013.12.31</u>
From Floating share premium	\$ 1,528,212	1,687,890	1,687,890
From convertible bonds	1,463,082	1,463,082	1,463,082
From bond options	16,909	16,909	95,986
From treasury stock	21,358	21,358	11,133
From Merger	144,225	144,225	144,225

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From employees stock option	272,695	266,964	252,116
From employees' bonus	15,410	15,410	15,410
From Differences between book value and equity price of acquisition or disposal of subsidiaries	47,257	1,749	-
From expired option	63,672	63,672	-
	<u>\$ 3,572,820</u>	<u>3,681,259</u>	<u>3,669,842</u>

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.

6.15.3. 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. 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 i. to iv. 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 i. to v. 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%

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of total dividends, while cash dividends take 50% to 100% of total dividends.

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

Holy Stone's estimated bonuses to employees amounted to NT\$99,956 thousand and NT\$91,881 thousand for the years ended December 31, 2013 and 2012, respectively. The estimated remuneration to directors amounted to NT\$18,742 thousand and NT\$17,228 thousand for the years ended December 31, 2013 and 2012, respectively.

The above distribution was estimated using earning distribution method and priority, employee bonuses, and proportion of remuneration to directors that listed in the article of association. The distribution was reported in as operating cost or expenses for the year ended December 31, 2013 and 2012. The actual distribution of bonuses to employees and remuneration to directors for the year ended December 31, 2012 were same as estimated. The distribution of bonuses to employees, remuneration to directors and the owners' dividends shall be proposed by board of directors and resolved on shareholders' meeting. The related information shall be available on Market Observation Post System after the related meeting. If there are differences between estimates and actual distribution, the amount shall be considered and reported as income for the year ended December 31, 2013.

On June 14, 2013, and June 5, 2012, the distribution of owners' dividends resolved in the 2012 and 2011 earnings appropriations and 2012 distributions of available Cash from capital surplus in shareholders' meeting are as follows:

	2012		2013	
	dividend allotment (dollars)	Amount	dividend allotment (dollars)	Amount
Common stock dividends:				
Cash dividends from earnings	\$ 1.50	479,032	2.00	638,709
Cash dividends from capital surplus	0.50	<u>159,677</u>	-	<u>-</u>
Total		<u>\$ 638,709</u>		<u>638,709</u>

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6.15.4 Treasury stock

- i. The Company bought back common stock of 863 thousand shares (Adjusted to 604 thousand shares due to capital reduction on August 22, 2013) to transfer to employees. As of December 31, 2012, 2013 and January 1, 2012, number of shares not transferred totaled 604, 863 and 863 thousand shares, respectively.
- ii. According to the Securities Exchange Act, the proportion of the Company's shares buyback cannot exceed 10% of the total issued shares; the total amount to buy back shares cannot exceed the sum of retained earnings plus premium on shares and realized capital reserve. The highest amount of shares the Company held from buyback for the period is NT\$30,842 thousand, which is in compliance to the Securities Exchange Act. December 31, 2010 as the record date, the Company's upper limit of shares to buy back is 32,022 thousand shares, and the corresponding amount totaled NT\$4,798,637 thousand. Up till December 31, 2013, 2012, and January 1, 2012, the Company's buyback in treasury stock was 863 thousand shares, and the amount totaled NT\$30,842 thousand.
- iii. According to Holy Stone's Articles of Incorporation, the Company's treasury stock, also end of period book value of treasury stock in retained earnings, is not allowed for the distribution of dividends.
- iv. According to the Securities Exchange Act, the Company's treasury stock is not to be pledged, and before transfer/sale, shall not be entitled to shareholders' rights.

6.15.5. Other Equity

	<b>Exchange differences from translation of financial report of foreign operation</b>	<b>Available-for-sale investment</b>
Beginning balance, January 1, 2013	\$ (27,010)	196,930
Exchange differences (Net value after tax):		
The Company	225	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	6,180
Subsidiaries	-	132,481
Ending balance, December 31, 2013	<b><u>\$ (26,785)</u></b>	<b><u>335,591</u></b>
Beginning balance, January 1, 2012	\$ 32,119	202,477
Exchange differences (Net value after tax):		
The Company	(59,129)	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	(12,776)
Subsidiaries	-	7,229
Ending balance, December 31, 2012	<b><u>\$ (27,010)</u></b>	<b><u>196,930</u></b>

**6.16. Share-based Payment**

As of December 31, 2013, details of share-based payment are as follows:

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

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6.16.1. 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 3.31.2013 (2013)	32.80
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

The aforestated ESO warrant and treasury stock transfer methods are as follows:

(Unit: Thousands of NT\$)	<u>2013</u>		<u>2012</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	\$ 33.81	13,500	35.77	15,000
Numbers granted for current period	-	-	-	-
Numbers abandoned for current period	-	-	-	-
Numbers exercised for current period	-	-	-	-
Numbers expired for current period	-	(3,500)	-	(1,500)
Adjustment of Cash reduction	-	(219)	-	(1,500)
Outstanding numbers on December 31	43.70	<u>9,781</u>	33.81	<u>12,000</u>
Exercisable numbers on December 31	43.70	<u>9,781</u>	33.98	<u>11,500</u>

<u>Issue Date</u>	<u>Exercise price(dollars)</u>		
	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
2006.08.21	-	31.40	31.40
2007.06.15	-	36.70	38.70
2007.12.03	43.70	32.80	35.40

<u>Issue Date</u>	<u>Weighted average remain duration</u>		
	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
2006.08.21	-year	- year	0.64 year
2007.06.15	- year	0.45 year	1.45 year
2007.12.03	3.93 year	4.93 year	5.93 year

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6.16.3. Employment expenses and liabilities

As of December 31, 2012 and 2013, the expenses and liabilities generated by share-based payment

	<u>2013</u>	<u>2012</u>
Expenses from ESO	<u>\$ 5,731</u>	<u>14,848</u>

**6.17. Earnings per Share**

6.17.1. Basic EPS

As of December 31, 2013 and 2012, the basic EPS is calculated using the following items, NT\$695,665 and NT\$639,620 thousand of net income available to common shareholders, and NT\$284,969 and NT\$319,354 thousand shares of weighted average of outstanding common stock. The calculation is as follows:

i. Net income available to common shareholders (Diluted)

	<u>2013</u>	<u>2012</u>
Net income available to common shareholders	<u>\$ 695,665</u>	<u>639,620</u>

ii. Weighted average of outstanding common stock

Unit: thousand shares	<u>2013</u>	<u>2012</u>
Outstanding common stock on January 1	319,354	319,354
Effect of cash refund of capital reduction	(34,385)	-
Weighted average of outstanding common stock on December 31	<u>284,969</u>	<u>319,354</u>

6.17.2. Diluted EPS

As of December 31, 2013 and 2012, the diluted EPS is calculated using the following items, NT\$696,945 and NT\$643,803 thousand of net income available to common shareholders, and NT\$291,384 and NT\$333,334 thousand shares of weighted average of outstanding common stock. The calculation is as follows:

i. Net income available to common shareholders

	<u>2013</u>	<u>2012</u>
Net income available to common shareholders (Basic)	\$ 695,665	639,620
Interest expense after tax of convertible bond	1,280	4,183
Net income available to common shareholders (Diluted)	<u>\$ 696,945</u>	<u>643,803</u>

ii. Weighted average of outstanding shares (Diluted)

Unit: thousand shares	<u>2013</u>	<u>2012</u>
Weighted average of outstanding common shares(Basic)	284,969	319,354
Effect of conversion of convertible bonds	2,277	8,511

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Effect of employee bonus share	4,138	5,469
Ending balance of weighted average of outstanding common shares (Diluted) December 31	<u>291,384</u>	<u>333,334</u>

6.18. Revenues

The operating revenues of the Company are detailed as follows:

	<u>2013</u>	<u>2012</u>
Merchandise sales	\$ 14,862,240	14,213,200
Other	1,036,447	394,634
	<u>\$ 15,898,687</u>	<u>14,607,834</u>

6.19. Financial Instruments

6.19.1. Categories of financial instruments

i. Financial Assets

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Financial assets at fair value through profit or loss – current	\$ 682,065	440,221	336,353
Available-for-sale financial assets - -non-current	599,328	495,284	509,456
Loans and receivables:			
Cash and cash equivalent	2,553,073	3,025,810	2,941,203
Notes and accounts receivable	3,593,961	3,157,032	3,743,446
Other receivables	114,069	162,278	167,744
Subtotal	<u>6,261,103</u>	<u>6,345,120</u>	<u>6,852,393</u>
Total	<u>\$ 7,542,496</u>	<u>7,280,625</u>	<u>7,698,202</u>

ii. Financial Liabilities

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Financial liabilities at fair value through profit or loss – current	\$ 595	1,417	4,033
Available-for-sale financial liabilities :			
Short-term loans	2,249,960	2,116,071	1,696,007
Notes and account payables	1,260,335	1,190,931	1,533,100
Account payable – related parties	13,400	6,200	23,026
Bond payables	102,580	101,300	567,863
Long-term loans	588,597	319,401	369,500
Subtotal	<u>4,214,872</u>	<u>3,733,903</u>	<u>4,189,496</u>
Total	<u>\$ 4,215,467</u>	<u>3,735,320</u>	<u>4,193,529</u>

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6.19.2. Credit Risk

i. Credit Risk Exposure

The maximum credit risk exposure of the Company's financial instruments is equal to the carrying amount. As of December 31, 2013, 2012 and January 1, January, the maximum credit risk exposure totaled NT\$ 7,542,496 thousand, NT\$7,280,625 thousand and NT\$7,698,202 thousand.

ii. Concentration of Credit Risk

The Consolidated 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.

6.19.3. 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>
December 31, 2013					
Non-derivative financial liabilities					
Short-term loan	\$ 2,249,960	2,253,521	2,253,521	-	-
Unsecured Corporate Bond	102,580	102,580	102,580	-	-
Long-term debt	588,597	604,540	36,360	516,630	51,550
	<b><u>\$ 2,941,137</u></b>	<b><u>2,960,641</u></b>	<b><u>2,392,461</u></b>	<b><u>516,630</u></b>	<b><u>51,550</u></b>
December 31, 2012					
Non-derivative financial liabilities					
Short-term loan	\$ 2,116,071	2,180,798	2,180,798	-	-
Unsecured Corporate Bond	101,300	101,300	101,300	-	-
Long-term debt	319,401	340,610	81,349	197,865	61,396
	<b><u>\$ 2,536,772</u></b>	<b><u>2,622,708</u></b>	<b><u>2,363,447</u></b>	<b><u>197,865</u></b>	<b><u>61,396</u></b>
January 1, 2012					
Non-derivative financial liabilities					
Short-term loan	\$ 1,696,007	1,696,907	1,696,907	-	-
Unsecured Corporate Bond	567,863	567,863	567,863	-	-
Long-term debt	369,500	395,377	154,473	134,076	106,828
	<b><u>\$ 2,633,370</u></b>	<b><u>2,660,147</u></b>	<b><u>2,419,243</u></b>	<b><u>134,076</u></b>	<b><u>106,828</u></b>

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

6.19.4. Currency Risk

i. Exposure to Currency Risk

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

Unit: NT\$ Thousand

<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Foreign currency	Exchange rate	New Taiwan dollar	Foreign currency	Exchange rate	New Taiwan dollar	Foreign currency	Exchange rate	New Taiwan dollar	
<u>Financial Assets</u>										
<u>Monetary Items</u>										
USD	\$	146,074	29.8050	4,353,744	120,371	29.0400	3,495,561	167,131	30.275	5,427,763
EUR		1,390	41.0900	57,125	2,170	38.4900	83,526	31	39.1800	1,222
HKD		18,143	3.8430	69,722	16,638	3.7470	62,341	17,124	3.897	66,731
GBP		21	49.2800	1,024	-	-	-	-	-	-
JPY		406,678	0.2839	115,456	526,052	0.3364	176,964	322,402	0.3906	125,930
CNY		26,752	4.9190	131,594	15,410	4.6600	71,812	177	4.8070	851
TWD		1,495	1.0000	1,495	1,557	1.0000	1,557	1,569	1.0000	1,569
<u>Financial Liabilities</u>										
<u>Monetary Items</u>										
USD		125,104	29.8050	3,728,734	115,500	29.0400	3,354,131	108,067	30.2750	3,271,732
EUR		16	41.0900	657	226	38.4900	8,686	-	-	-
HKD		147	3.8430	566	26	3.7470	99	258	3.8970	1,005
GBP		249	49.2800	14,266	394	46.8300	18,461	28	46.7300	1,313
JPY		506,714	0.2839	143,856	664,336	0.3364	223,483	1,084,303	0.3906	423,529
CNY		39	28.0100	1,092	39	29.2100	1,128	-	-	-
TWD		702	1.0000	702	2,715	1.0000	2,715	2,905	1.0000	2,905

ii. Sensibility Analysis

The main currency risk of the Consolidated 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, 2013 and 2012, 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\$42,014 thousand and NT\$14,153 thousand. The analysis of these two periods is based on the same basis.

6.19.5. Interest Rate Analysis

The interest exposure to the Consolidated 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, 2013 and 2012 would increase or decrease NT\$28,386 dollar or NT\$ 24,355 dollar. The chief reason of this is because the Company adopts floating rates loans.

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6.19.6. Fair Value

i. Fair Value and Carrying Amount

The Consolidated Company considers that the carrying amounts of financial assets and financial liabilities recognized in the parent company only financial statements approximate their fair values.

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) Other financial assets and liabilities except for the aforementioned are determined by general pricing model calculated using discounted cash flow.

iii. Level of Fair Value

The following table is the analysis of financial instruments carried at fair value based on the valuation method. The definitions of each level are:

- (i) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2013.12.31</b>				
Financial assets measured at fair value				
Funds	\$ 115,967	-	-	115,967
Bonds investment	494,919	-	-	494,919
Domestic/Foreign Stock	70,903	-	-	70,903
Available-for-sale financial assets				
Foreign stock	599,328	-	-	599,328
Derivative financial assets				
Interest rate SWAP	-	276	-	276
	<u>\$ 1,281,117</u>	<u>276</u>	<u>-</u>	<u>1,281,393</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2012.12.31</b>				
Financial assets measured at fair value				
Funds	\$ 54,715	-	-	54,715
Bonds investment	341,347	-	-	341,347
Domestic/Foreign Stock	43,931	-	-	43,931
Available-for-sale financial assets				
Foreign stock	495,284	-	-	495,284
Derivative financial assets				
Interest rate SWAP	-	195	-	195
Forward exchange contract	-	33	-	33
	<u>\$ 935,277</u>	<u>228</u>	<u>-</u>	<u>935,505</u>
<b>2012.1.1</b>				
Financial assets measured at fair value				
Funds	\$ 10,629	-	-	10,629
Bonds investment	255,316	-	-	255,316
Domestic/Foreign Stock	70,408	-	-	70,408
Available-for-sale financial assets				
Foreign stock	509,456	-	-	509,456
Derivative financial assets				
Interest rate SWAP	-	(107)	-	(107)
Forward exchange contract	-	(53)	-	(53)
	<u>\$ 845,809</u>	<u>(160)</u>	<u>-</u>	<u>845,649</u>

**6.20. Financial Risk Management**

6.20.1. 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.

6.20.2. Risk Management Structure

The Consolidated 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 Consolidated Company. Through training, management standards and operating procedures, to form an orderly and constructive control environment,

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and to make all the employees to understand their roles and obligations

The Consolidated 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 Consolidated Company faced. The Consolidated 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.

6.20.3. Credit risk

Credit risk is the risk of financial loss to the Consolidated Company if a customer or counterparty of a financial instrument fails to meet its contractual obligations, which arises principally from the Consolidated Company's receivables from customers and bond investments.

i. Account and other receivables

The Consolidated Company has established its credit policy. According to the policy, before offering the standard delivery and payment term, the Consolidated 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 Consolidated Company continuously and periodically evaluate customers' financial situation, and will ask them to provide collaterals when necessary.

The Consolidated 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 Consolidated Company. There is no significant compliance concerns due to the counterparties and performing parties of the Consolidated Company are the companies with good creditability; hence there is no significant credit risk.

iii. Guarantee

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On December 31, 2013, 2012 and January 1, 2012, the Consolidated Company provided no endorsement or guarantee.

iv. Liquidity Risk

The Consolidated Company supports the operation and decrease cash flow fluctuations by management and maintains the sufficient cash and cash equivalent. The management of the Consolidated 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, 2013, 2012 and January 1, 2012, the unexpended short-term loan commitments are NT\$3,127,456, NT\$2,857,780, and NT\$3,208,322 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Company simultaneously borrowing at fixed and floating rate. The Consolidated Company manages

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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 Consolidated Company. The equity investment is not for trade but strategic investment. The Consolidated Company does not trade in such investment actively; the management manages the risk through holding risk at different portfolio risk

**6.21. 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, 2013, 2012, and January 1, 2012, the liabilities to debt ratio are as follows:

	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Total liabilities	\$ 4,598,926	4,322,752	4,816,480
Less: Cash and cash equivalent	<u>(2,553,073)</u>	<u>(3,025,810)</u>	<u>(2,941,203)</u>
Net liabilities	<u><b>\$ 2,045,853</b></u>	<u><b>1,296,942</b></u>	<u><b>1,875,277</b></u>
Total equity	\$ 9,288,652	9,568,509	9,665,938
Less: Adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted capital	<u><b>\$ 9,288,652</b></u>	<u><b>9,568,509</b></u>	<u><b>9,665,938</b></u>
Liabilities to debt ratio	<u><b>22.02%</b></u>	<u><b>13.55%</b></u>	<u><b>19.40%</b></u>

**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. Other Related-Party Transactions

	Sales		Account receivables- related parties (Reported in net value of notes and account receivables)		
	<u>2013</u>	<u>2012</u>	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Related parties	<u>\$ 3,276</u>	<u>2,183</u>	<u>537</u>	<u>607</u>	<u>114</u>

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

	Purchases		Account payables-related parties		
	<u>2013</u>	<u>2012</u>	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Related parties	<u>\$ 44,813</u>	<u>52,581</u>	<u>13,400</u>	<u>6,200</u>	<u>23,026</u>

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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. The payment terms with general suppliers and related parties were month-end 30 to 150 days and month-end 30 days, respectively.

7.3.3. Compensation of key management personnel

The compensation to other key management personnel is as follows:

	<u>2013</u>	<u>2012</u>
Short-term employee benefits	\$ 43,867	45,720
Post-employment benefit	87	85
	<u>\$ 43,954</u>	<u>45,805</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>2013.12.31</u>	<u>2012.12.31</u>	<u>101.1.1</u>
Land	Loans	\$ 161,243	156,522	156,522
Buildings	Loans	76,234	65,884	69,314
Time deposit	Import and commodity tax secured	115,611	25,006	49,230
		<u>\$ 353,088</u>	<u>247,412</u>	<u>275,066</u>

9. Contingent Liabilities and Unrecognized Commitment

As of December 31, 2013, 2012 and January 1 2011, the Company's outstanding letters of credit amounted to NT\$81,359 thousand, NT\$89,746 thousand, and NT\$ 355,382, respectively.

8. Significant Disaster Loss: None.

9. Significant Subsequent Events: None.

10. Significant Disaster Loss: None.

11. Significant Subsequent Events: None.

12. Other

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

Characters	Functions	2013			2012		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Welfare Expenses							
Payroll		341,962	628,849	970,811	368,146	623,642	991,788
Labor and health insurance		40,305	50,237	90,542	44,065	48,651	92,716
Pension expense		21,131	33,885	55,016	21,718	28,825	50,543
Others		8,171	13,423	21,594	13,422	11,295	24,717
Depreciation		284,551	48,245	332,796	261,618	40,690	302,308
Amortization		-	13,054	13,054	2	14,089	14,091

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13. Additional Disclosure

13.1. Significant Transaction Information

In 2013, the additional disclosures required by the Regulations Governing the Preparation of Financial Report are as follows:

13.1.1. Financing to related parties:

No.	Lender	Borrower	Subject	Related parties Or not	Maximum of current period	Ending Balance	Actual amount used	Interest Rate	Nature of financing (Note2)	Amount of business interaction	Reason for short-term Loan	Allowance for doubtful Account	Collateral		Credit line for single party	Total Credit Line (Note 1)
													Name	Value		
1	Holy Stone Enterprise (HK) Co., Ltd.	Holy Stone Holdings Co., Ltd.	Other Receivables	Yes	45,000	44,708	44,708	1.8%	2	-	Reversal for operation	-		-	118,698	237,396
2	Holy Stone Holdings Co., Ltd.	Holy Stone International trading (Shanghai) Co., Ltd.	Other Receivables	Yes	75,000	62,591	62,591	2.20%	2	-	Reversal for operation	-		-	476,938	953,877

Note 1: The quota for others was 100% of the Lender's net value, and for a Single Enterprise was 50% of Lender's net value.

Note 2: To fill out the form of the nature of financing:

1. 1 for the ones with business interaction.
2. 2 for companies in need of short-term financing.

13.1.2. Endorsement/guarantee provided:

No.	Endorser/guarantor Company	Endorsee/Guaranteee		Quotas of Endorsement/ Guarantee for Single Enterprise	Endorsement/ Guarantee Balance, Highest	Endorsement/ Guarantee Balance, Ended	Actual Amount Used	Endorsement/ Guarantee Warranted by Property	Accumulated Endorsement/ Guarantee to Financial Statement's Net Value Rate	Highest Quotas of Endorsement/ Guarantee	Endorsement/ Guarantee for Subsidiaries by the parent company	Endorsement/ Guarantee for parent Company by subsidiaries	Endorsement/ Guarantee for China region
		Company	Nature of Relationships										
0	The Company	Holy Stone Polytex Co., Ltd.	3	1,653,714	300,000	298,050	141,950	-	3.60%	4,134,287	Y	N	N
0	The Company	Holy Stone Holdings Co., Ltd.	2	1,653,714	150,000	149,025	-	-	1.80%	4,134,287	Y	N	N
0	The Company	Rong Jhan Investment	2	1,653,714	150,000	150,000	-	-	1.81%	4,134,287	Y	N	N
0	The Company	Everplus Material Co., Ltd.	3	1,653,714	61,320	56,780	-	-	0.69%	4,134,287	Y	N	N

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, 2013				Highest ownership and capital contribution within period	Not
				Shares	Carrying amount	Ratio of ownership	Fair value		
The Company	Cathay Mandarin	-	Financial assets at fair value through profit or loss - current - open-ended fund	489	4,805	-	4,805	489	-
The Company	Cathay China Emerging Industries	-	"	667	10,253	-	10,253	667	-
The Company	JPMorgan (Taiwan) Greater Europe	-	"	615	10,289	-	10,289	615	-
The Company	HSBC China A-Share Focused	-	"	1,000	10,120	-	10,120	1,000	-

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The Company	Cvilux 3rd unsecured conv.	-	Financial assets at fair value through profit or loss - current – domestic stock	200	20,604	-	20,604	200	-
The Company	Cvilux 3rd unsecured conv.	-	"	400	40,000	-	40,000	400	-
The Company	Asia Plastic Recycling Corporate Bond A	-	"	250	26,530	-	26,530	250	-
The Company	Taiwan Calsonic Corporate Bond A	-	"	500	50,000	-	50,000	500	-
The Company	Cayman Tung Ling Corporate Bond A	-	"	100	10,100	-	10,100	100	-
The Company	Xxentria Technology Materials Corporate Bond D	-	"	500	50,501	-	50,501	500	-
The Company	Browave Corporate Bond A	-	"	500	51,005	-	51,005	500	-
The Company	Ledlink Corporate Bond	-	"	300	30,603	-	30,603	300	-
The Company	KINGCAN Corporate Bond A	-	"	300	30,603	-	30,603	300	-
The Company	Apex Corporate Bond A	-	"	350	36,061	-	36,061	350	-
The Company	Lanner Corporate Bond A	-	"	200	20,000	-	20,000	200	-
The Company	MegaHoldings Convertible Bond (288601) (288601)	-	"	260	25,987	-	25,987	260	-
The Company	INVESCO EUROPEAN SMALL FUND	-	"	1	6,239	-	6,239	1	-
The Company	CONVERTIBLE BONDS	-	"	20	9,430	-	9,430	20	-
The Company	FTSE A50	-	"	50	1,794	-	1,794	50	-
The Company	CIMC ENRIC	-	Financial assets at fair value through profit or loss - current – foreign stock	50	2,402	-	2,402	50	-
The Company	CHINA MODERN DAIRY	-	"	300	4,842	-	4,842	300	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial instruments - noncurrent	391	77,285	1.82 %	77,285	391	-
Holy Stone Enterprise (H.K.)	JPMorgan Japan	-	Financial assets at fair value through profit or loss - current – foreign fund	1	7,540	-	7,540	-	-
Holy Stone Enterprise (H.K.)	Invesco European Small	-	Financial assets at fair value through profit or loss - current – bund investment	-	7,692	-	7,692	-	-
Holy Stone Enterprise (H.K.)	iShares FTSE A50 China Index	-	Financial assets at fair value through profit or loss - current – bund investment	50	1,796	-	1,796	50	-
Holy Stone Enterprise (H.K.)	Newocean Energy Hldgs Ltd	-		230	5,588	-	5,588	230	-
Holy Stone Enterprise (H.K.)	China Lesso Group Holdings Ltd	-		100	2,075	-	2,075	100	-
Holy Stone Enterprise (H.K.)	China Singyes Solar Tech	-		50	1,498	-	1,498	50	-
Holy Stone Enterprise (H.K.)	FIH Mobile Ltd	-		200	3,205	-	3,205	200	-
UHOLY Investments Co., Ltd. Stock	ING Global Luxury Brands	-	Financial assets at fair value through profit or loss - current – open-ended fund	443	10,036	-	10,036	443	-
UHOLY Investments Co.	Cathay China Domestic Demand	-		886	11,364	-	11,364	886	-

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UHOLY Investments Co.	Growth eGalax_eMPIA Technology Inc.	-	Available-for-sale financial instruments - noncurrent	5,674	522,043	10.84	%	522,043	5,674	-
UHOLY Investments Co.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost – non current	8,900	89,000	19.78	%	90,927	8,900	-
UHOLY Investments Co.	C2 MICROSYSTEMS INC. Preferred stocks	-		1,200	-	3.20	%	-	1,200	-
UHOLY Investments Co.	Zelltek Technology Corp. Stocks	-		859	19,757	3.50	%	7,422	839	-
UHOLY Investments Co.	Metanoia Communication Inc. Stocks	-		599	2,995	1.44	%	1,634	599	-
UHOLY Investments Co.	Innostone Venture Capital Corp. Stocks	-		5,900	59,000	19.67	%	60,017	5,900	-
Holy Stone Healthcare Co., Ltd.	radium life tech 4th unsecured conv.	-	Financial assets at fair value through profit or loss - current – bund investment	200	20,604	-		20,604	200	-
Holy Stone Healthcare Co.	WNC Corporate Bond A	-		200	20,000	-		20,000	200	-
Holy Stone Healthcare Co.	GUIC Corporate Bond B	-		100	10,450	-		10,450	100	-
Martek Co., Ltd. Stock	Yuanta Wan Tai Money Market	-	Financial assets at fair value through profit or loss - current – open-ended fund	2,097	31,060	-		31,060	2,097	-
Rong Jhan Investments Co., Ltd. Stock	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost – non current	150	4,500	0.36	%	408	150	-
Rong Jhan Investments Co.	Grand Fortune Securities Co., Ltd. Stocks	-		5,000	45,000	2.50	%	46,694	5,000	-
Rong Jhan Investments Co.	Jya-Nay Co., Ltd. Stocks	-		2,976	32,741	12.40	%	28,371	2,976	-
Rong Jhan Investments Co.	CNO Co., Ltd Stocks	-		494	34,355	7.26	%	41,829	494	-
Rong Jhan Investments Co.	BioMaty Co., Ltd.	-		400	4,000	3.33	%	3,681	400	-
Rong Jhan Investments Co.	Global Display Taiwan Co., Ltd.	-		600	30,000	3.09	%	9,518	600	-
Rong Jhan Investments Co.	eMPIA Technology Corp. Stocks	-		1,846	24,874	11.99	%	24,226	1,846	-
Rong Jhan Investments Co.	Cathay China Emerging Industries	-	Financial assets at fair value through profit or loss - current – open-ended fund	346	5,322	-		5,322	346	-
Rong Jhan Investments Co.	JPMorgan (Taiwan) Greater Europe	-		597	9,988	-		9,988	597	-
Rong Jhan Investments Co.	Cathay Mandarin	-		528	5,190	-		5,190	528	-
Rong Jhan Investments Co.	Calin Technology. Stocks	-	Financial assets at fair value through profit or loss - current – domestic stock	11	315	-		315	11	-
Rong Jhan Investments Co.	Kwong Fong Industries Group of Companies. Stocks	-		80	1,564	-		1,564	80	-
Rong Jhan Investments Co.	Single well Industry Corp. Stock	-	Financial assets at fair value through profit or loss - current – domestic stock	95	2,470	-		2,470	95	-
Rong Jhan Investments Co.	Zhen Ding Technology Holding Limited. Stocks.	-		28	1,992	-		1,992	28	-
Rong Jhan Investments Co.	KD Holding Corporation. Stocks	-		12	2,334	-		2,334	12	-
Rong Jhan Investments Co.	Career Tech. Stocks	-		75	2,123	-		2,123	75	-
Rong Jhan Investments Co.	WALSIN LIHWA CORPORATION. stocks	-		400	3,824	-		3,824	400	-
Rong Jhan Investments Co.	Tung Ho Steel Enterprise Corp.	-		100	2,620	-		2,620	100	-

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Rong Jhan Investments Co.	Stocks. SUN MFG LTD. Stocks	-		100	2,055	-	2,055	100	-
Rong Jhan Investments Co.	INNOLUX CORPORATION. Stocks	-		300	3,405	-	3,405	300	-
Rong Jhan Investments Co.	MediaTek Inc. Stock	-		20	8,870	-	8,870	20	-
Rong Jhan Investments Co.	JENTECH PRECISION INDUSTRIAL CO., LTD. Stock	-		69	5,568	-	5,568	69	-
Rong Jhan Investments Co.	BOARDTEK ELECTRONICS COR. Stock	-		70	2,412	-	2,412	70	-
Rong Jhan Investments Co.	MStar Semiconductor, Inc. Stock	-		15	5,205	-	5,205	15	-
Rong Jhan Investments Co.	Unizyx Holding Corporation. Stock	-		203	3,796	-	3,796	203	-
Rong Jhan Investments Co.	Everlight Electronics Co., Ltd. Stock	-		40	2,740	-	2,740	40	-
OHGA Electronics Co.	eMPIA Technology Corp. Stock	-		540	7,195	3.51 %	7,092	540	-
OHGA Electronics Co.	ASW Cvilux C	-		50	5,000	-	5,000	50	-
OHGA Electronics Co.	ASW Wah Hong A	-		90	9,552	-	9,552	90	-
OHGA Electronics Co.	ASW Ledlink A	-		50	5,101	-	5,101	50	-
OHGA Electronics Co.	ASW FEEDBACKC	-		50	5,267	-	5,267	50	-

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	Share	Amount	Carrying Value	Gain (Loss) on Disposal	Share	Amount
The Company	Mega Diamond Currency Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	59,960	730,000	59,960	731,156	730,000	1,156	-	-
The Company	Taishin 1699 Money Market	"	-	-	-	-	38,018	500,000	38,018	500,505	500,000	505	-	-
The Company	Yunta Cosmos Currency Market	"	-	-	-	-	79,309	1,170,000	79,309	1,171,154	1,170,000	1,154	-	-
The Company	Capital Secure Currency Market	"	-	-	-	-	66,247	1,040,000	66,247	1,041,286	1,040,000	1,286	-	-
The Company	Franklin Templeton Sinoam Money Market	"	-	-	-	-	41,828	420,000	41,828	423,530	420,000	530	-	-
The Company	CTBC HOLDING Preferred stocks	Financial assets carried at cost - non current	-	-	7,500	300,000	-	-	7,500	300,000	300,000	-	-	-

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

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capital:

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	768,165	5.61 %	Next month-end 150 days	-	-	397,962	11.41%	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	979,592	7.16 %	Next month-end 120 days	-	-	211,132	6.05%	-
The Company	Infotech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	441,818	3.23 %	Month-end 120 days	-	-	99,423	2.85%	-
The Company	Holy Stone Polytech Co., Ltd.	Second-tier Subsidiary	Purchases	102,301	0.88 %	Month-end 45 days	-	-	(9,856)	0.81%	-

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	Allowance for Bad Debts
					Amount	Action Taken		
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	397,962	1.82	-	-	116,715	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	211,132	4.61	-	-	48,685	-

Note: The transaction has been offset in the preparation of this consolidated report.

13.1.9. Derivatives transaction: please refer to Note 6.2

13.1.10. Significant business and transaction between the parent-subsidiary relationships:

No.	Company Name	Object	Relationship	Condition			
				Subject	Amount	Trade rule	Amount to total operating revenue ratio
0	The Company	Holy Stone Enterprise (H.K)	1	Sales	979,592	Next month-end 120 days	6.16%
0	The Company	Holy Stone Enterprise (H.K)	1	Account receivables	211,132	Next month-end 120 days	1.48%
0	The Company	Holy Stone international trading (Shanghai) Co.	1	Sales	768,165	Next month-end 120 days	4.83%
0	The Company	Holy Stone international trading (Shanghai) Co.	1	Account receivables	397,962	Next month-end 120 days	2.79%
0	The Company	Infotech (China) Co., Ltd.	1	Sales	441,818	Next month-end 120 days	2.78%
0	The Company	Infotech (China) Co., Ltd.	1	Account receivables	99,423	Next month-end 120 days	0.69%
1	HPC	The Company	2	Sales	102,301	Month-end 45 days	0.64%
1	HPC	The Company	2	Account receivables	9,856	Month-end 45 days	0.07%
2	EPM	The Company	2	Sales	79,697	Next month cash	0.50%
2	EPM	The Company	2	Account receivables	4,428	Next month cash	0.03%

Note 1. For the number:

- 1.0: The Parent Company
- 2: The numbers of subsidiaries starting with the numeral 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.

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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 2013 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, 2013			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note	Investor Company
				Dec. 31, 2012	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%	223,581	11,500	32,325	32,325	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	943,123	26,976	16,553	15,569	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	587,769	22,500	40,099	22,983	Subsidiary of the Company
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	20,000	8,500	100.00%	117,677	8,500	12,261	12,261	Subsidiary of the Company
The Company	Rong Jhan Investments Co.	Taipei City	Investment activities	340,000	340,000	56,500	100.00%	617,042	56,500	12,511	12,511	Subsidiary of the Company
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	205,655	205,655	6,900	100.00%	317,616	6,900	33,263	33,263	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Holypaq Corporation	Cayman	Investment activities	35,796	35,796	1,200	100.00%	797	1,200	(276)	(276)	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd.	Samoa	Investment activities	63,801	63,801	2,210	100.00%	44,702	2,210	(3,251)	(3,251)	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	416,555	416,555	2,500	100.00%	476,081	2,500	7,924	7,924	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd.	Japan	Electric appliances, precision instrument, computers and machinery and equipment selling	137,351	137,351	49	100.00%	67,455	49	(28,968)	(28,968)	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	99,365	99,365	4	100.00%	94,204	4	90	90	Subsidiary of Holy Stone Holdings Co.
Green Glory Holdings Ltd.	Milestone Global Technology Ltd.	Shanghai, China	Electronic components developing and selling	14,903	14,903	500	100.00%	14,201	500	1,194	1,194	Subsidiary of Green Glory Holdings
Green Glory Holdings Ltd.	Holy Stone (Europe) Ltd.	Shanghai, China	Electronic retailing and trading	20,472	20,472	350	100.00%	4,667	350	(2,464)	(2,464)	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co. Ltd.	Dongguan, Guangdong province, China	Western medicine wholesaling and medical instruments wholesaling	276,370	135,107	17,588	29.02%	207,468	17,588	(137,115)	(42,337)	UHOLY's long-term investee recognized under equity method
Holy Stone Healthcare Co.	MDT INTL SA	Shanghai, China	Medical instruments trading	46,581	46,101	1,594	62.50%	51,242	1,594	31,690	19,536	Subsidiary of Holy Stone Healthcare Co.
Holy Stone Healthcare Co.	Global Search Holdings Ltd.	U.S.A	Investment activities	21,019	4,750	700	100.00%	(1,222)	700	(20,603)	(20,603)	Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	Holy Stone Biotech Co., Ltd.	England	Selling and authorization if medicine and medical	-	-	-	100.00%	(20,802)	-	(20,546)	(20,546)	Subsidiary of Holy Stone Healthcare Co.

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Rong Jhan Investments Co.	OHGA Electronics Co., Ltd.	Taipei City	instruments Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70.00%	399,317	15,120	(2,676)	(1,873)	Subsidiary of Rong Jhan Investments Co.
Rong Jhan Investments Co.	Holy Stone Healthcare Co.	Switzerland	Western medicine wholesaling and medical instruments wholesaling	31,135	-	1,600	2.64%	26,086	1,600	(137,115)	(3,288)	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	23,796	-	1,298	2.14%	21,609	1,298	(137,115)	(3,639)	UHOLY's long-term investee recognized under equity method

Note: The transaction has been offset in the preparation of this consolidated report

### 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, 2013	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2012	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)	Ending Balance of Investment	The Investment Gain (Loss) Remitted as of Dec. 31, 2012
					Remitted	Collected							
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	119,598	(2)	107,596	-	-	107,596	10,004	100.00%	within period	10,004	185,292	-
Holypaq (Dongguan) Corporation	Capacitors manufacturing and selling	29,805	(2)	29,805	-	-	29,805	(276)	100.00%	100.00%	(276)	246	-
Infotech International Trading (Shanghai) Ltd.	Electronic components R&D and selling	29,805	(2)	29,805	-	-	29,805	(1,957)	100.00%	100.00%	(1,957)	25,317	-
Infotech (Shanghai) Co., Ltd.	Electronic components selling	62,951	(2)	62,591	-	-	62,591	23,423	100.00%	100.00%	23,423	131,472	-

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: The transaction has been offset in the preparation of this consolidated report

#### 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
229,797	241,719	4,961,144

#### 13.3.3. Significant Transaction Information

Significant transaction information of direct and indirect investment in Investee Company in Mainland China in 2013 (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

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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, 2013 and 2012.

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:

	<b>2013</b>			
	<b>Electronics sector</b>	<b>Investment sector</b>	<b>Adjustments and Elimination</b>	<b>Total</b>
Income:				
Income from external customers	\$ 14,839,204	1,059,483	-	15,898,687
Interest income	41,337	2,748	-	44,085
Total income	<u>\$ 14,880,541</u>	<u>1,062,231</u>	-	<u>15,942,772</u>
Interest expense	<u>\$ 23,428</u>	<u>1,507</u>	-	<u>24,935</u>
Sector profit and loss	<u>\$ 807,713</u>	<u>(5,428)</u>	-	<u>802,285</u>
Sector Assets	<u>\$ 12,351,130</u>	<u>1,896,347</u>	-	<u>14,247,477</u>
Sector Liabilities	<u>\$ 4,808,763</u>	<u>150,062</u>	-	<u>4,958,825</u>
	<b>2012</b>			
	<b>Electronics sector</b>	<b>Investment sector</b>	<b>Adjustments and Elimination</b>	<b>Total</b>
Income:				
Income from external customers	\$ 14,112,392	495,442	-	14,607,834
Interest income	36,593	196	-	36,789
Total income	<u>\$ 14,148,985</u>	<u>495,638</u>	-	<u>14,644,623</u>
Interest expense	<u>\$ 24,516</u>	<u>88</u>	-	<u>24,604</u>
Sector profit and loss	<u>\$ 794,237</u>	<u>(34,355)</u>	-	<u>759,882</u>
Sector Assets	<u>\$ 12,819,992</u>	<u>1,071,269</u>	-	<u>13,891,261</u>
Sector Liabilities	<u>\$ 4,269,502</u>	<u>53,250</u>	-	<u>4,322,752</u>

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14.3. Product information

Information on income from external customers was as follows:

Product type	2013	2012
Passive Components	\$ 4,379,201	4,927,312
Active Components	4,164,930	3,757,501
System and Modules	2,442,003	2,251,206
Others	4,912,553	3,671,815
Total	<b><u>\$ 15,898,687</u></b>	<b><u>14,607,834</u></b>

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:

Area	2013	2012
Passive Components		
Active Components	\$ 9,798,437	10,075,555
System and Modules	4,776,155	2,998,312
Others	352,072	508,421
Total	972,023	1,025,546
	<b><u>\$ 15,898,687</u></b>	<b><u>14,607,834</u></b>

Noncurrent assets:

Taiwan	\$ 3,149,847	3,187,427
China	475,307	478,197
Others	117,477	173,552
Total	<b><u>\$ 3,742,631</u></b>	<b><u>3,839,176</u></b>

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

	2013	2012
The customer from the Electronics sector	<b><u>\$ 1,257,337</u></b>	<b><u>1,807,466</u></b>

**15. First-Time Adoption of IFRSs**

The Company's financial statements as of December 31, 2012, were prepared in accordance with accounting principles generally accepted in the Republic of China. As described in Note 4, these consolidated financial statements have been prepared in accordance with Regulations Governing the

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Preparation of Financial reports by Securities Issuers and IFRSs 1” First-Time Adoption of IFRSs” which approved by FSC

The accounting policies described in Note 4 have been adopted for the comparative unconsolidated financial statements for the year ended December 31, 2012, the balance sheet as of December 31, 2012, and the initial IFRSS balance sheet as of January 1, 2012 (the Company’s conversion date).

In preparing the financial statements for the year 2012, the Company adopted the financial statements prepared in accordance with accounting principles generally accepted in the Republic of China as the initial transfer point. Assessments were made of the material differences between Holy stone’s consolidated financial statements prepared using the prior accounting principles generally accepted in the Republic of China and those of IFRSs as follows:

	2012.12.31			2012.1.1		
	Former ROC GAAP	Changes in accounting policy	IFRSs	Former ROC GAAP	Changes in accounting policy	IFRSs
<b>Assets:</b>						
Current assets:						
Cash and cash equivalent	\$ 3,025,810	-	3,025,810	2,941,203	-	2,941,203
Financial assets at fair value through profit and loss-current	440,221	-	440,221	336,353	-	336,353
Accounts and other receivables	3,157,032	-	3,157,032	3,743,446	-	3,743,446
Other receivables	162,278	-	162,278	167,744	-	167,744
Inventories	2,055,921	-	2,055,921	2,251,483	-	2,251,483
Prepayment and current assets	153,427	(29,023)	124,404	133,904	(21,505)	112,399
Available-for-sale non-current assets	-	-	-	30,000	-	30,000
Total current assets	8,994,689	(29,023)	8,965,666	9,604,133	(21,505)	9,582,628
Non-current assets:						
Available-for-sales financial assets- non-current	495,284	-	495,284	509,456	-	509,456
Financial assets carried at cost	552,992	-	552,992	550,060	-	550,060
Property, Plant and Equipment	3,245,579	(209,993)	3,035,586	3,187,487	(233,178)	2,954,309
Deferred Income Tax Assets	575,084	-	575,084	598,577	-	598,577
Prepaid Expense on Equipment	-	38,143	38,143	-	32,366	32,366
Other Noncurrent Assets - Others	-	209,993	209,993	-	233,178	233,178
Total Noncurrent Assets	18,513	-	18,513	18,971	2,873	21,844
Total Noncurrent Assets	4,887,452	38,143	4,925,595	4,864,551	35,239	4,899,790
Total Assets	<b>\$ 13,882,141</b>	<b>9,120</b>	<b>13,891,261</b>	<b>14,468,684</b>	<b>13,734</b>	<b>14,482,418</b>
<b>Liabilities</b>						
Current liabilities:						
Short-term loans	\$ 2,116,071	-	2,116,071	1,696,007	-	1,696,007
Financial Liabilities at Fair Value through Profit or Loss - Current	1,417	-	1,417	4,033	-	4,033
Notes and Accounts Payable	1,190,931	-	1,190,931	1,533,100	-	1,533,100
Accounts Payable - Related Parties	6,200	-	6,200	23,026	-	23,026
Other Receivables	445,770	6,982	452,752	519,766	6,958	526,724
Current Period Income Tax Liability*	23,016	-	23,016	24,159	-	24,159
Current Portion of Puttable Corporate Bonds	101,300	-	101,300	567,863	-	567,863
Current Portion of Long-term Debt	80,805	-	80,805	152,450	-	152,450
Total Current Liabilities	3,965,510	6,982	3,972,492	4,520,404	6,958	4,527,362
Noncurrent Liabilities:						
Long-term Loans	238,596	-	238,596	217,050	-	217,050
Deferred Income Tax Liabilities*	39,039	9,120	48,159	43,915	10,861	54,776
Accrued Pension Liabilities	42,062	20,014	62,076	7,810	(7,810)	-
Other Noncurrent Liabilities - Others	1,429	-	1,429	17,292	-	17,292
Total Noncurrent Liabilities	321,126	29,134	350,260	286,067	3,051	289,118
Total Liabilities	4,286,636	36,116	4,322,752	4,806,471	10,009	4,816,480
Equity attributable to stockholders of the parent						
Common Stock	3,202,175	-	3,202,175	3,202,175	-	3,202,175
Capital surplus	3,622,923	58,336	3,681,259	3,626,354	43,488	3,669,842

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Legal Reserve	936,212	-	936,212	860,061	-	860,061
Unappropriated Earnings	1,141,021	(122,458)	1,018,563	1,200,758	(39,763)	1,160,995
Other Equity	132,794	37,126	169,920	234,596	-	234,596
Treasury Stock	(30,842)	-	(30,842)	(30,842)	-	(30,842)
Total equity attributable to stockholders of the parent	9,004,283	(26,996)	8,977,287	9,093,102	3,725	9,096,827
Uncontrollable equity	591,222	-	591,222	569,111	-	569,111
Total equity	9,595,505	(26,996)	9,568,509	9,662,213	3,725	9,665,938
Total liabilities and equity	\$ 13,882,141	9,120	13,891,261	14,468,684	13,734	14,482,418

## 15.2. Reconciliation of Income Statement

	2012		
	Former ROC GAAP	Changes in accounting policy	IFRSs
Net Sales	\$ 14,607,834	-	14,607,834
Cost of Goods Sold	12,739,110	-	12,739,110
Gross Profit	1,868,724	-	1,868,724
Operating Expense			
Selling and Administrative	1,083,933	15,503	1,099,436
Research and Development	136,013	-	136,013
Total Operating Expense	1,219,946	15,503	1,235,449
Operating Profit	648,778	(15,503)	633,275
Non-Operating Income and Expenses:			
Other Gains and Losses	114,422	-	114,422
Financial Costs	(24,604)	-	(24,604)
Interest Income	36,789	-	36,789
Total Non-Operating Income and Expenses	126,607	-	126,607
Income before Income Tax	775,385	(15,503)	759,882
Income Tax Expense	139,457	-	(139,457)
Net Income for Current Period	635,928	(15,503)	620,425
Other Comprehensive Gains and Losses:			
Exchange Differences on Translation of Financial Statements of Foreign Operations	(80,989)	-	(80,989)
Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	(245)	-	(245)
Actuarial Gains and Losses on the Defined-Benefit Plan	-	(67,192)	(67,192)
Less: Income Tax related to Other Comprehensive Gains and Losses	12,110	-	12,110
Other Comprehensive Gains and Losses (Net of Tax)	(69,124)	(67,192)	(136,316)
Total Comprehensive Profit or Loss for Current Period	<u>\$ 566,804</u>	<u>(82,695)</u>	<u>484,109</u>

## 15.3. Reconciliation of Statement of Cash Flow

## 15.4. Adjustment Statement

15.4.1. The Consolidated Company has prepared these financial statements in accordance with the IFRSs approved by FSC, and all the actuarial income were recognized into other comprehensive income. In the previous statements prepared in accordance with previous accounting policy, GAAP, the Consolidated Company recognized actuarial income as income using remaining service life of employee. On reporting date, all of the unrecognized accumulated actuarial income was recognized as retain earnings, and

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reversed in the comprehensive income statement previous year.

The effects of changes in these items:

	<b>2012</b>	
Comprehensive income statement		
selling and administrative expense	\$	631
Adjustment before income tax	<b>\$</b>	<b>631</b>
	<b>101.12.31</b>	<b>101.1.1</b>
Balance sheet		
Other non-current assets - Other	\$ -	2,873
Other Equity	(37,126)	-
Accrued pension liabilities	(20,014)	7,810
Adjusted retained earnings	<b>\$ (57,140)</b>	<b>10,683</b>

15.4.2. The Consolidated Company rendered ESO to part of employees. These kinds of stock were measured under accounting method of share-based payment, the intrinsic value of which was reference to previous GAAP. Related liabilities were adjusted using outstanding cash-settled share-based payment at fair value, in accordance with the IFRSs approved by FSC.

The effect of changes is as follows:

	<b>2012</b>	
Comprehensive income statement		
selling and administrative expense	\$	14,848
Adjustment before income tax	<b>\$</b>	<b>14,848</b>
	<b>2012.12.31</b>	<b>2012.1.1</b>
Balance sheet		
Capital surplus	\$ (78,667)	(63,819)
Adjusted retained earnings	<b>\$ (78,667)</b>	<b>(63,819)</b>

15.4.3. The Consolidated Company were under legal or constructive obligation to accumulated holiday pay (from past service), the Consolidated Company recognized the payment cost of accumulated holiday pay as accrued liabilities.

The effect of changes is as follows:

	<b>2012</b>	
Comprehensive income statement		
selling and administrative expense	\$	24
Adjustment before income tax	<b>\$</b>	<b>24</b>
	<b>101.12.31</b>	<b>101.1.1</b>
Balance sheet		

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Capital surplus	\$ (6,982)	(6,958)
Adjusted retained earnings	<u>\$ (6,982)</u>	<u>(6,958)</u>

15.3.4. The Consolidated Company recategorized construction in progress and prepayments for equipment as prepayments for equipments in accordance with FSC-approved IFRSs.

	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Property, plant and equipment	\$ (209,993)	(233,178)
Prepayments for equipments	<u>209,993</u>	<u>233,178</u>
Adjusted retained earnings	<u>\$ -</u>	<u>-</u>

15.3.5. The Company took factors like investment tax credit, temporary differences...etc into consideration when assessing the deferred income tax assets and liabilities. The Company categorized the assessment as non-current assets and non-current liabilities in accordance with FSC-approved IFRSs, and recategorized each deferred income as using legal right of set-off of taxation and expected realized year of assets and liabilities.

The effect of changes is as follows:

	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Prepayment and other current assets	\$ (29,023)	(21,505)
Deferred income tax assets	38,143	32,366
Deferred income tax liabilities	<u>9,120</u>	<u>10,861</u>
Adjusted retained earnings	<u>\$ -</u>	<u>-</u>

15.3.6. The Company's consolidated financial report applied the selective exemption from *IFRS 1 First-time Adoption of international Financial Reporting Standards*. On the conversion date, the entire previous recognized capital surplus should be recognized as retained earnings.

The effect of changes is as follows:

	<u>2012.12.31</u>	<u>2012.1.1</u>
Balance sheet		
Capital surplus	\$ 20,331	20,331
Adjusted retained earnings	<u>\$ 20,331</u>	<u>20,331</u>

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15.3.7. To sum up, as of December 31, 2012 and January 1, 2012, the retained earnings decreased NT\$122,458 and 39,763 thousand.

Net income attributable to:				
Parent Company's shareholders	\$	655,123	(15,503)	639,620
Uncontrollable equity		<u>(19,195)</u>	<u>-</u>	<u>(19,195)</u>
	<b>\$</b>	<b><u>635,928</u></b>	<b><u>(15,503)</u></b>	<b><u>620,425</u></b>
Total comprehensive income attributable to:				
Parent Company's shareholders	\$	590,447	(82,695)	507,752
Uncontrollable equity		<u>(26,643)</u>	<u>-</u>	<u>(26,643)</u>
Total comprehensive income for the period	<b>\$</b>	<b><u>563,804</u></b>	<b><u>(82,695)</u></b>	<b><u>481,109</u></b>
EPS				
Basic EPS (dollars)	<b>\$</b>	<b><u>2.05</u></b>	<b><u>(0.05)</u></b>	<b><u>2.00</u></b>
Diluted EPS (dollars)	<b>\$</b>	<b><u>1.98</u></b>	<b><u>(0.05)</u></b>	<b><u>1.93</u></b>

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

**Chairman: Jing-Rong Tang**