



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

TWSE: 3026

# 2015 Annual Report (Translation)

Printed on May 10, 2016

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

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

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

### Company Spokesperson

Name: Steven Huang  
Title: Director  
Tel: 886-2-2627-0383  
E-mail: [stevenhuang@holystone.com.tw](mailto:stevenhuang@holystone.com.tw)

### Deputy Spokesperson

Name: Contrina Chang  
Title: Director of Finance & Accounting Division  
Tel: 886-2-2627-0383  
E-mail: [contrina@holystone.com.tw](mailto:contrina@holystone.com.tw)

## 2. Headquarters, Branch Offices, and Factories

Headquarters: 1F, No.62, Sec. 2, Huanshan Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.) Tel: 886-2-2627-0383

Yilan Office: No.15, Sec. 2, Ligong 1st Rd., Letzer Industrial Park, Wujie Township, Yilan County 268, Taiwan (R.O.C.) Tel: 886-3-990-6900

Factories: No. 56, 61, 61-1, Lane 90, Gong 5th Rd., Longtan Dist., Taoyuan City 32559, Taiwan (R.O.C.) Tel: 886-3-499-5288

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  
Address: 5F, No.83, Sec. 1, Chongqing S. Rd., Taipei City 100, Taiwan (R.O.C.)  
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 Heng-Sheng Lin  
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.holystone.com.tw/>

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# 1. Letter to Shareholders

Dear Shareholders,

In the wake of challenging environment in the global market and rapid change in information and communication industry, Holy Stone (“the Company”, “we”) has been proactively transforming ourselves to constantly bring forth new ideas. For 2015, the Company reported consolidated revenue of NT\$13,596 million, and earnings after tax of NT\$2.67 per share.

## Overall Performance

Resulting from constant changes in industries, the Company made a rather significant adjustment to product portfolio in 2015. The revenue from components sales of portable devices, high-end equipments and systems of network and communication, LED lighting and automotive accounted for over 70% of total revenue.

The Company’s house-brand product – Multilayer Ceramic Capacitor (MLCC) has gained in popularity in both of domestic and global market as we have devoted significantly to developing high-end product application. The effort has finally been paying off with better product application in industry and automobile markets, in which LED lighting, power supply, medical instruments and equipments have been successfully capitalized on. New products of system and module also found their way to gain market share in portable device market of IoT.

Revenue of sales from MLCC and system and module involved in industrial and automotive sectors have taken up 28% of total revenue of 2015. Following the trend, these two markets will also be the direction and momentum of future growth for the year to come.

The Company has published Corporate Social Responsibility Report since 2008, with the aim of facilitating effective communication with employees, shareholders, and all of stakeholders and increasing corporate information transparency at the same time. In 2005, the Company made it to Taiwan Stock Exchange top 20% in Corporate Governance Evaluation.

## Corporate Development

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

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

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

## 2. An Introduction to Holy Stone

**2.1. Date of Foundation:** June 1, 1981.

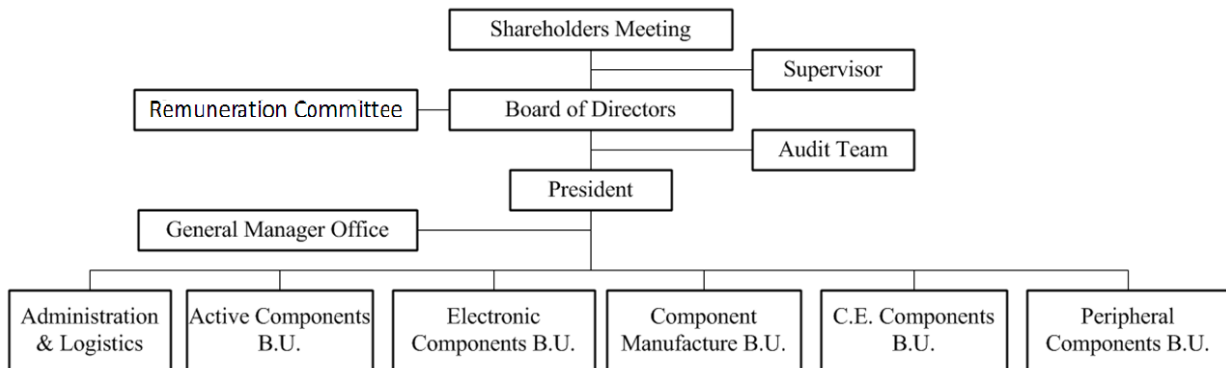
**2.2. Milestone:**

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

## 3. Corporate Governance

### 3.1. Organization System

#### 3.1.1. Organization Structure:



#### 3.1.2. Major Corporate Functions:

##### 3.1.2.1. Audit Team:

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

##### 3.1.2.2. President Secretariat Office:

- Corporate operation development, consultation, and management

##### 3.1.2.3. Active Components B.U.:

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

##### 3.1.2.4. Electronic Components B.U.:

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

##### 3.1.2.5. Component Manufacture B.U.:

- New products development, production, and manufacturing

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

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

##### 3.1.2.7. Peripheral Components B.U.:

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

##### 3.1.2.8. Administration & Logistics:

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

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

**3.2.1 Information on Directors and Supervisors**

Title	Nationality	Name	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & children of minor age Shareholding	
						Shares	%	Shares	%	Shares	%
Chairman & President	Taiwan R.O.C.	Jing-Rong Tang	2015.06.09	3 years	1997.09.09	8,114,784	3.62	8,114,784	3.62	525,573	0.23
Director	Taiwan R.O.C.	Lin Tan Investment Co., Ltd.	2015.06.09	3 years	2003.05.28	10,295,336	4.59	10,295,336	4.56	-	-
Director.	Taiwan R.O.C.	Chyang Lo (Note 2)	2015.06.09	3 years	2010.01.01	1,683	0.00	1,683	0.00	3,356	0.00
Director	Taiwan R.O.C.	Yu-Min Wu (Note 2)	2015.06.09	3 years	1999.04.23	815,704	0.36	815,704	0.36	12,557	0.01
Director & Executive Vice President	Taiwan R.O.C.	Shih-Yun Sheng	2015.06.09	3 years	1997.09.09	3,111,896	1.39	3,111,896	1.39	1,021,661	0.46
Director & Vice President	Taiwan R.O.C.	Shao-Kuo Huang	2015.06.09	3 years	2006.06.09	1,728,504	0.77	1,728,504	0.77	-	-
Independent Director	Taiwan R.O.C.	Ken-Yi Cheng	2015.06.09	3 years	2003.05.28	-	-	-	-	-	-
Independent Director	Taiwan R.O.C.	Nai-Hua Wu	2015.06.09	3 years	2004.05.28	-	-	-	-	-	-
Supervisor	Taiwan R.O.C.	Tang-Ming Wu	2015.06.09	3 years	1999.04.23	676,634	0.30	676,634	0.30	-	-
Supervisor	Taiwan R.O.C.	Chung-Yi Yang	2015.06.09	3 years	1999.04.23	523,630	0.23	523,630	0.23	-	-

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

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

Shareholders that are institutional shareholders

as of 2016.04.09

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

Unit: Shares as of 2016.04.09

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

Major shareholders of Shareholders that are institutional shareholders

as of 2016.04.09

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

### Information on Directors and Supervisors

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

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

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

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

as of 2016.04.09

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

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

Title	Nationality	Name	Date Elected	Current Shareholding		Spouse & children of minor age Shareholding		Shareholding by Nominee Arrangement	
				Shares	%	Shares	%	Shares	%
Chairman & President	Taiwan R.O.C.	Jing-Rong Tang	1984.08.01	8,114,784	3.62	525,573	0.23	-	-
Director & Vice Executive President	Taiwan R.O.C.	Shih-Yun Sheng	2002.04.01	3,111,896	1.39	1,021,661	0.46	-	-
Director & Vice President	Taiwan R.O.C.	Shao-Kuo Huang	2004.07.01	1,728,504	0.77	-	-	-	-
Vice President	Taiwan R.O.C.	Sheng-Yao Lu	2009.01.15	310,564	0.14	88,927	0.04	-	-
Vice President	Taiwan R.O.C.	I-Ta Lee	2009.01.15	152,094	0.07	-	-	-	-
Vice President	Taiwan R.O.C.	Hui-Bang Yeh	2009.01.15	236,967	0.11	-	-	-	-
Manager of Finance and Accounting Department	Taiwan R.O.C.	Shu-Ying Chang	2003.05.02	166,984	0.07	-	-	-	-

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

Unit: Shares as of 2016.04.09

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

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

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

Title	Name	Compensation								Total Remuneration (A+B+C+D) as a % of Net Income (Note 3)	
		Base Remuneration (A)		Retirement Allowance (B) (Note 1)		Profit Sharing (C) (Note 2)		Allowance (D)		From Holy Stone	From All Companies within the Financial Report
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report		
Chairman	Jing-Rong Tang (a)										
Director	Shih-Yun Sheng (b)										
Director	Representative of Lin Tan Investment Co., Ltd.: Chyang Lo (c)										
Director	Representative of Lin Tan Investment Co., Ltd.: Yu-Min Wu (d)	-	-	-	-	13,600	13,625	720	1,100	2.39	2.46
Director	Shao-Kuo Huang (e)										
Independent Director	Ken-Yi Cheng (f)										
Independent Director	Nai-Hua Wu (gi)										

Note 1: There was no retirement allowance paid during 2015.

Note 2: The proposed profit sharing of 2015 will take effect upon the approval of directors at the Board before the Annual Shareholder Meeting in 2016.

Note 3: Net Income means net income of the parent company in 2015.

Note 4: Member of the board of directors of a company who was also an employee of the company's employee bonus was calculated by the same percentage of actual distribution of 2014.

#### Remuneration Paid to Directors

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

Unit: Thousand shares/ NT\$ thousands as of 2015.12.31

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		Compensation Paid to Directors from Nonconsolidated Affiliates
Base Compensation, Bonuses, and Allowances (E) (Note 5)		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							
12,639	13,193	-	-	10,300	0	10,300	0	917	917	-	-	6.23	6.39	713

## Remuneration Paid to Supervisors

Unit: NT\$ thousands as of 2015.12.31

Title	Name	Remuneration Paid to Supervisors						Total Remuneration (A+B+C) as a % of Net Income (Note 2)		Remuneration Paid to Directors from Nonconsolidated Affiliates
		Base Remuneration (A)		Profit Sharing (B) (Note 1)		Allowance (C)		From Holy Stone	From All Companies within the Financial Report	
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report			
Supervisor	Tang-Ming Wu (a)	-	-	3,190	3,215	480	480	0.61	0.62	0
Supervisor	Chung-Yi Yang (b)	-	-							

Note 1: The proposed profit sharing of 2015 will take effect upon the approval of directors at the Board before the Shareholder Meeting in 2016

Note 2: Net Income: 2016 net income

## Remuneration Paid to Supervisors

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

## Remuneration Paid to President and Vice Presidents

Unit: Thousand shares/ NT\$ thousands as of 2015.12.31

Title	Name	Salary(A)		Retirement Allowance (B) (Note 1)		Bonuses and Allowances (C)		Employee Profit Sharing (D) (Note 2)				Total Remuneration (A+B+C+D) as % of Net Income (%) (Note 3)		Exercisable Employee Stock Options		Exercisable Employee Restricted Stock		Remuneration Received from Non-Consolidated Affiliates
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone		From All Companies within the Financial Report		From Holy Stone	From All Companies within the Financial Report	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)	18,117	20,947	-	-	-	-	15,300	0	15,300	0	5.59	6.06	1,505	1,505	-	-	713
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 2015.

Note 2: Employee bonus paid to president and vice presidents was calculated by the same percentage of actual distribution of 2014.

Note 3: Net Income means net income of the parent company in 2015.

## Remuneration Paid to President and Vice Presidents

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

## Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands as of 2015.12.31

	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	-	16,300	16,300	2.72
	Vice Executive President	Shih-Yun Sheng				
	Vice President	Yu-Min Wu				
	Vice President	Shao-Kuo Huang				
	Vice President	Sheng-Yao Lu				
	Vice President	I-Ta Lee				
	Vice President	Hui-Bang Yeh				
	Manager of Finance and Accounting Department	Shu-Ying Chang				

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

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

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

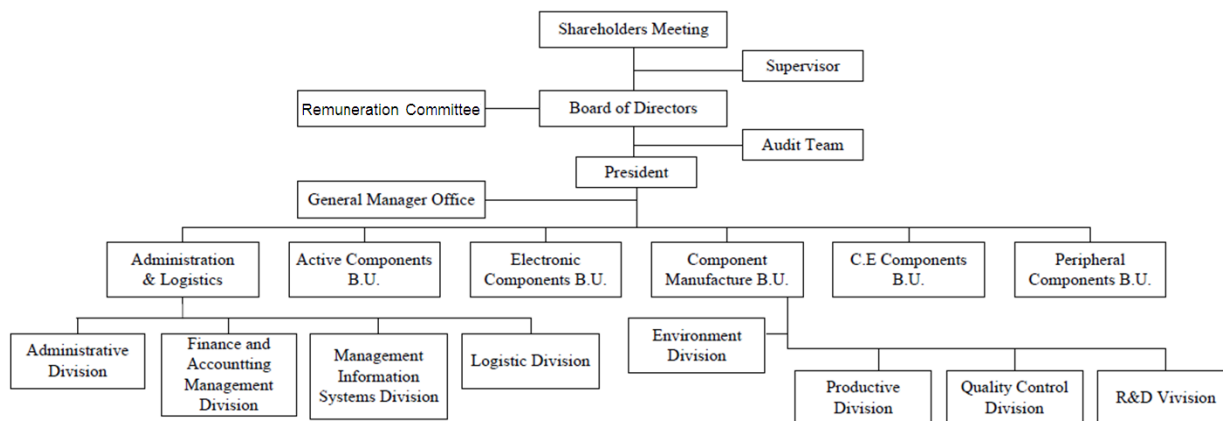
Item	Percentage of Total Compensation to Net Income (%)			
	2014		2015	
	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors	4.66	4.95	6.23	6.39
Supervisors	0.55	0.56	0.61	0.62
President & Vice Presidents	3.65	4.18	5.59	6.06

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

Holy Stone's compensation paid to directors and supervisors contains attendance fees and profit sharing. According to No.19 of Holy Stone's Articles of Incorporation which is scheduled to be amended during 2016 annual general meeting, directors' and supervisors' compensation should not exceed 3 percent of any surplus in final account. Compensation for president and vice presidents, with the position of executive management, contains salaries and employees bonus under the consideration of employee's position, responsibilities, and performances, referring to peers' standard.

### 3.3 Risk Management Policy

#### 3.3.1 Structure of Risk Management



#### 3.3.2 Policy of Risk Management

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

#### 3.3.3 Organization and Responsibilities of Risk Management

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

##### 3.3.3.1 General Manager Office

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

##### 3.3.3.2 Administrative Management Division

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

##### 3.3.3.3 Finance & Accounting Division

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

##### 3.3.3.4 IT Center

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

##### 3.3.3.5 Logistic Management Division

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

3.3.3.6 Production Department

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

3.3.3.7 E.H.S. Office

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

3.3.3.8 R&D Center

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

3.3.3.9 Quality Assurance and Control Department

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

3.3.3.10 Audit Team

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

**3.4 Corporate Governance Status**

3.4.1 The Operations Status of the Board of Directors

**The State of Operations of the Board of Directors**

The chairman convened 7 (A) board of directors meetings in 2015. 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	7	0	100.00	-
Director	Representative of Lin Tan Investment Co., Ltd.: Chyang Lo	7	0	100.00	-
Director	Representative of Lin Tan Investment Co., Ltd.: Yu-Min Wu	6	1	85.71	-
Director	Shih-Yun Sheng	5	2	71.43	-
Director	Shao-Kuo Huang	6	1	85.71	-
Independent Director	Ken-Yi Cheng	6	0	85.71	-
Independent Director	Nai-Hua Wu	6	0	85.71	-
Supervisor	Tang-Ming Wu	7	0	100.00	-
Supervisor	Chung-Yi Yang	7	0	100.00	-

Annotations:

- 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.
- Recusals of directors due to conflicts of interests should state directors' name, proposal contents, reasons to avoid interests, and participation in votes:
  - Article 14: Approval of independent director nomination and his/her qualification: Since the nominators are the same as current ones, Ken-Yi Cheng and Nai-Hua Wu did not participate in voting to avoid conflict of interests.
  - Article 2: Delegation of directors of investment company: Since the delegated director of Infotech (CHINA) Co., Ltd which is 100% controlled by the Company, current director- Shao-Kuo Huang did not participate in voting to avoid conflict of interests.
- Evaluation of measures taken to strengthen the profession competence of the Board and its implementation:

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

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

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

### **The State of Participation in Board Meetings by the Supervisors**

The chairman convened   7   (A) board of directors meetings in 2015. 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	7	-	100.00	
Supervisor	Chung-Yi Yang	7	-	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:

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

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

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

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>7. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</p> <p>(1) Employee rights and employee wellness</p> <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. In compliance with the Labor Safety and Health Law, Holy Stone has technician manager of labor health and safety who is responsible for conducting work environment safety examinations and raising awareness of employees’ safety. Industrial safety is always a priority in Holy Stone internal audit for employee management; therefore, every employee and management team set self-expectations for “Zero Accidents.”</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: IR@holystone.com.tw</p> <p>(3) Supplier relations: Besides executing Green Management, the Company also manages supplier relations actively with good strategic cooperation. Please refer to the Company’s CSR Report for more detail. Website: <a href="http://holystone.com.tw">http://holystone.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 and 82-84 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>				

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>8. Has the company implemented a self-evaluation report<sup>2</sup> on corporate governance or has it authorized any other professional organization to conduct such evaluation? If so, please describe the opinion from the Board, the result of self or authorized evaluation, the major deficiencies, suggestions, or improvements.</p> <p>8.1 The Company self-evaluates governance situation.</p> <p>8.2 In 2015, the Company joined Corporate Governance Evaluation and came in top 21%~35%.</p> <p>8.3 The Company has not yet designated other professional institution to conduct corporate governance evaluation.</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 Remuneration Committee Members

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

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

#### 3.4.4.2. Operational Status

#### Operating Information on Remuneration Committee Members

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

3.4.4.2.2 The term for committee members: 2015.07.09 to 2018.06.08

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

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

**Annotations:**

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

3.4.5. Corporate Social Responsibility Management

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

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		The salary remuneration policy has been established and based on the employee performance appraisal system which includes our corporate social responsibility policy as one of the most important criteria for evaluation.	None
2. Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		Implement waste management, reuse waste solvents, reduce amount of purchase, and ultimately ease the impact of environmental harm.	None
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	V		The Company has established environmental safety management operation and is Qualified for ISO 14001 Environmental Management System certificate in the purpose of reaching environmental safety, reducing CO2, and forming a green enterprise.	None
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		The Company reviews environmental-wise regulations on a periodic basis in hopes of making sure of the impact that could have on the Company. Activities that saves energy and electricity have been carried out and a wide variety of pollution-free equipments are purchased. 1. Managerial Strategies: Carbon dioxide is the main source of green house gas emission emitted by the Company. Therefore, the plan to reduce carbon footprint mainly focuses on saving energy. As for 2015, each and every staff participated in activities that increased manufacturing efficiency, reduced consumption of raw materials, and	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
			<p>plant inspection for saving power by designated personnel.</p> <p>2. Goals: Solvents recycled were increased by 16.37% to 80,750 liters during 2015, which indirectly lowered use of energy and emission of green house gas.</p> <p>3. Budgets and Plans: Carrying on the plan to reduce ratio of cleansing recycled solvents and to lower consumption of solvents and raw materials.</p> <p>4. Results of downsizing carbon footprint: The main product the Company manufactured is MLCC, and we have successfully developed a wide variety of new product lines, which can be applied to industry of lighting, power supply and industrial electronic components. It is proven that our products have efficiently increased product reliability and reduced GHG. In addition, the new product line of ceramic substrate is also the perfect material for lighting industry.</p>	
3. Preserving Public Welfare (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		<p>1. The Company has established Service Regulation in accordance with Labor Standards Law, Gender Equality in Employment Act, etc. to protect employees’ rights. The salary is adjusted in accordance with the Labor Act.</p> <p>2. The Company has set up grievance committee and other procedures to prevent sexual harassment in accordance with Gender Equality in Employment Act to protect employees’ rights.</p>	None
(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		The Company has set up meeting between employees and employers, Employee Welfare Committee, etc. Apart from that, the Company offers an Employee Relations Mailbox that provides a channel for employees to express their opinions regarding their work and the overall work environment.	None
(3) Does the company provide a healthy and safe working environment and	V		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	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
organize training on health and safety for its employees on a regular basis?			<p>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 &amp; handling of gases.</p> <p>ii. Form suitable emergency response teams according to each geographic area and strengthen security protection in workplaces.</p> <p>iii. Conduct trainings for related professional staff according to Occupational Safety and Health Act.</p>	
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		The Company set up dedicated grievance mailbox for employees on the website. Communication with employees is carried out through regular departmental meetings, the Company’s Quarterly Journal, and telecommunications (through email or internal communication system). We also encourage employees to communicate with management team and directors directly in reflection of opinions on business operations, financial status and employee wellness, etc.	None
(5) Does the company provide its employees with career development and training sessions?	V		The Company not only assesses and provides feedback on employees’ skills and interests, but also offers training and development activities that match their career development objectives and job needs.	None
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		<p>1.As s the professional agent of electronic components and parts, the Company has a good communication with both suppliers and customers.</p> <p>2.The Company has established operating methods in R&amp;D, procurement, production and customer service to insure product quality.</p> <p>3.The Company offers transparent process of grievance service for material procurement, product and service.</p>	None
(7) Does the company advertise and label its goods and services according to relevant	V		The Company labels and advertises its products worldwide in accordance with corresponding law and international regulations.	None

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

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

3.4.6. Ethical Corporate Management

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

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

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

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

1. Holy Stone's regulations:

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

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

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

The Company has published CSR Report since 2008, and can be found at [www.holystone.com.tw](http://www.holystone.com.tw)

iii. Internal Control System Execution Status Items

1. Statement of Internal Control System

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

Date: March 15, 2016

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, 2015 to December 31, 2015:

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 2015, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be an integral part of Holy Stone's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 15, 2016, 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:

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

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

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

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

Date	Decided by	Major Resolutions	Implementation Status
2015.06.09	Shareholders' Meeting	<ol style="list-style-type: none"> <li>1. The approval for 2014 business report and financial statements.</li> <li>2. The approval for the distribution of 2014 profits.</li> <li>3. The approval for the "Article of Corporation"</li> <li>4. The approval for revision of "Rules and procedures of Shareholders meeting"</li> <li>5. The approval for revision of "Election of Directors and Supervisors"</li> <li>6. The approval for revision of "Duties of Supervisors"</li> <li>7. Resolution to eliminate prohibition of participation in competitors for directors.</li> </ol>	All resolutions have been passed and fully implemented accordingly.
2015.03.18	BOD Meeting	<ol style="list-style-type: none"> <li>1. The approval for 2014 business report and financial statements (consolidated report included)</li> <li>2. The approval for the distribution of 2014 profits.</li> <li>3. The approval of change in accountants auditing financial statements.</li> <li>4. The approval of business plan of 2015.</li> <li>5. The approval for the "Article of Corporation"</li> <li>6. The approval for revision of "Rules and procedures of Shareholders meeting"</li> <li>7. The approval for revision of "Election of Directors and Supervisors"</li> <li>8. The approval for revision of "Corporate Social Responsibility Best Practices"</li> <li>9. The approval for the amendment of "Internal Control System."</li> <li>10. The approval for the amendment of "Ethical Code of Conducts for Directors, Supervisors and Managers"</li> <li>11. The approval for the amendment of "Best Practices of Corporate Governance"</li> <li>12. The approval for revision of "Duties of Supervisors"</li> <li>13. The approval for revision of "Ethical Corporate Management Best Practice Principles"</li> <li>14. The approval of "Nomination of independent directors and his/her qualifications"</li> <li>15. Resolution to eliminate prohibition of participation in competitors for directors.</li> <li>16. The approval of assembly of annual general meeting of 2015.</li> <li>17. The approval of validity of "Internal Control System Statement"</li> <li>18. The approval of remuneration of directors, supervisors and managers.</li> </ol>	<ol style="list-style-type: none"> <li>1. All resolutions have been passed and fully implemented accordingly.</li> <li>2. No. 1-2, 5-7, 11, and 15 have been passed and fully implemented accordingly.</li> <li>3. No. 13 has been accomplished at Annual General Meeting.</li> <li>4. No. 17 has been published in 2014 annual report.</li> </ol>
2015.04.20	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval of nomination of shareholders and independent directors.</li> <li>2. The approval of designation of directors transferred to investment corporation</li> <li>3. The approval of application of change in capital, resulting from conversion of unsecured corporate bond to common stock in first quarter of 2015.</li> </ol>	All resolutions have been passed and fully implemented accordingly.
2015.06.09	Board Meeting	<ol style="list-style-type: none"> <li>1. Resolution on nomination of board of chairman</li> </ol>	All resolutions have been passed and fully implemented accordingly.

2015.07.09	Board Meeting	<ol style="list-style-type: none"> <li>1.The approval of authorization of financial institution business affairs.</li> <li>2. The approval of board members of numeration.</li> <li>3. The approval of ex-dividend of cash dividend.</li> <li>4. The approval of “Procedures of loans to other parties”.</li> <li>5. The approval of application of change in capital, resulting from conversion of unsecured corporate bond to common stock in second quarter of 2015.</li> </ol>	All resolutions have been passed and fully implemented accordingly.
2015.08.07	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval of periodic evaluation on remuneration for directors and managers.</li> </ol>	All resolutions have been passed and fully implemented accordingly.
2015.11.06	Board Meeting	<ol style="list-style-type: none"> <li>1.The approval of “Article of Corporation” and temporarily defined distribution of remuneration to employees, directors, and supervisors.</li> <li>2.The approval of “Procedures of application to pause and resume of trading.</li> <li>3.The approval of internal audit of 2016.</li> <li>4.The approval of guarantee of financing of 200 million in extension of JPY.</li> <li>5.The approval of independency and qualification of auditors for 2015 financial statements.</li> </ol>	<ol style="list-style-type: none"> <li>1. All resolutions have been passed and fully implemented accordingly.</li> <li>2. No.1 will be discussed at 2016 annual general meeting.</li> </ol>
2016.03.15	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval of amendment of “Article of Corporation”</li> <li>2. The approval of remuneration distribution to employees, directors, and supervisors.</li> <li>3. The approval of financial statements and earnings report of 2015.</li> <li>4. The approval of earning distribution of 2015.</li> <li>5. Resolution to eliminate prohibition of participation in competitors for directors.</li> <li>6. Approval of assembly of 2016 annual general meeting.</li> <li>7. Approval of validation of 2015 internal control system statement.</li> <li>8. Approval of 2016 business plan.</li> <li>9. Approval of change in accountants auditing financial statements.</li> <li>10. Approval of evaluation of compiling financial statements.</li> <li>11. Approval of “Procedure and guideline of business ethical code of conducts”</li> <li>12. Approval of remuneration to directors, supervisors and managers.</li> </ol>	<ol style="list-style-type: none"> <li>1.All resolutions have been passed and fully implemented accordingly.</li> <li>2.No.1-5 will be discussed at 2016 annual general meeting.</li> <li>3.No. 7 will be published in 2015 annual report.</li> </ol>

vi.Directors or Supervisors who have different opinions to major resolutions passed by the Board and with records or written declarations during the most recent fiscal year and as of the printed date of this Annual Report.

None.

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

None.

### 3.5. Information on Independent Auditors

#### Audit Fee

Accounting Firm	Names of CPA		Auditing Term	Remarks
KPMG	Pei-Chi Chen	Heng-Sheng Lin	2015	-

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				

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

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

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

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

### 3.6. Change of Auditors

#### 3.6.1.Information about former auditor

Date	March, 15, 2016		
Reason for the change of reporting accountant	KPMG’s internal job rotation		
Did the company terminates or decide not to renew appointment on its own accord; or did the former accountant terminates or refuse to accept renewal of appointment?	People Involved	Accountant	Appointer
	Condition		
	The Company initiates the termination of the appointment	None	None
The reason that auditors issue unqualified-modified opinion	The accountant refuse to accept renewal of appointment	None	None
	None.		
		Accounting standard or practice	
		Disclosure of financial statement	

Did the published issue different opinion?	Y		Auditing range or procedure
			Other
	N	None.	
Reason			
Other disclosure	None.		

## 3.6.2. Information about new accountant

Reporting accountant	KPMG
Signing Accountant	Ching-Song Wang, Pei-Chi Chen
Date of appointment	March, 15, 2016
Prior to the new appointment, did the company discuss and ask for comments of new accountant, regarding the adjustments, suggestions and possible sign-off of financial reports by the former accountant? (If yes, please state subject matter enquired and results)	None.
Did the former and new account have different opinion toward financial statement?	None.

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

None.

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

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

Unit: Shares

Title	Name	2015		2016.01.01~2016.04.09	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & President	Jing-Rong Tang	0	0	0	0
Director	Lin Tan Investment Co., Ltd. Representative: Chyang Lo	0	0	0	0
	Lin Tan Investment Co., Ltd. Representative: Yu-Min Wu				
Director & Executive Vice President	Shih-Yun Sheng	0	0	0	0
Director & Vice President	Shao-Kuo Huang	0	0	0	0
Independent Director	Nai-Hua Wu	0	0	0	0
Independent Director	Ken-Yi Cheng	0	0	0	0
Supervisor	Chung-Yi Yang	0	0	0	0
Supervisor	Tang-Ming Wu	0	0	0	0
Vice President	Sheng-Yao Lu	0	0	0	0
Vice President	I-Ta Lee	0	0	0	0
Vice President	Hui-Bang Yeh	0	0	0	0
Vice President	Shu-Ying Chang	0	0	0	0

3.8.2.Information on Share Transfer: None.

3.8.3.Information on Pledged Shares: None.

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

Name	Shareholding		Spouse & Minor Shareholding		Shares Held through Other Parties		Names and Relationship of Any of the Top Ten Shareholders being A elated Party as Defined in Statement of Financial Accounting Standards No. 6 or spouse or relatives within 2nd degree of relationship (Note 3)		Remarks
	Shares	Shareholdings	Shares	Shareholdings	Shares	Shareholdings	Name	Relationship	
Nan Shan Life Insurance Co., Ltd. Representative: YIN-ZHONG DU	13,009,733	5.8%	N/A	N/A	N/A	N/A	None	None	-
Fubon Life Insurance Co., Ltd. Representative: JHENG,BEN-YUAN	12,535,000	5.59%	N/A	N/A	N/A	N/A	None	None	-
Lung Ko Investment Co., Ltd. Representative: YANG,SIN-YI	10,774,717	4.81%	N/A	N/A	N/A	N/A	Lin Tan Investment Co., Ltd. Representative: YANG,SIN-YI	Same Chairman of Board of Directors	-
Lin Tan Investment Co., Ltd. Representative: YANG,SIN-YI	10,295,336	4.59%	N/A	N/A	N/A	N/A	Lung Ko Investment Co., Ltd. Representative: YANG,SIN-YI	Same Chairman of Board of Directors	-
Jing-Rong Tang	8,114,784	3.62%	N/A	N/A	N/A	N/A	None	None	-
Shin Kong Life Insurance Co., Ltd. Representative: WU,DONG-JIN	7,139,489	3.18%	N/A	N/A	N/A	N/A	None	None	-
Fang Hao Investment Co., Ltd. Representative: LUO,JING-LIN	5,605,209	2.50%	N/A	N/A	N/A	N/A	None	None	-
Fund Investment Account on Dimensional Emerging Markets Evaluation managed by Citibank	3,208,650	1.43%	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	-
Lung Hsin Investment Co., Ltd. Representative: LIAO,CIN-SIOU	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 2015.12.31

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

## 4. The Status of Fund Raising

### 4.1. Capital and Shares

#### 4.1.1. Capitalization

##### 4.1.1.1 The process of capitalization

Unit: Shares / NT\$

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 4.1.1.2 Types of Stocks

Unit: Shares as of 04.09.2016

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

4.1.2. Shareholder Structure

Unit: Shares as of 2016.04.09

Structure Amount	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	2	7	81	27,392	132	27,614
Number of Shareholding	44	34,206,520	40,361,878	125,564,694	24,082,262	224,215,398
Ownership	0.00%	15.26%	18.00%	56.00%	10.74%	100.00%

4.1.3. Diffusion of Ownership

As of 2016.04.09

Shareholder Ownership	Number of Shareholders	Ownership	Ownership (%)
1-999	13,451	3,523,673	1.57%
1,000-5,000	10,297	23,311,789	10.41%
5,001-10,000	2,034	15,074,281	6.72%
10,001-15,000	650	8,081,001	3.60%
15,001-20,000	327	5,791,895	2.58%
20,001-30,000	286	7,092,205	3.16%
30,001-50,000	246	9,609,281	4.28%
50,001-100,000	172	12,218,198	5.45%
100,001-200,000	66	9,097,526	4.06%
200,001-400,000	31	8,575,802	3.82%
400,001-600,000	11	5,230,801	2.33%
600,001-800,000	7	4,856,975	2.17%
800,001-1000,000	9	7,819,609	3.49%
Over 1,000,001	27	103,932,362	46.36%
Total	27,614	224,215,398	100.00%

4.1.4. List of Principal Shareholders

As of 2016.04.09

Shareholders	Shares	Total Shares Owned	Ownership
Nan Shan Life Insurance Co., Ltd.		13,009,733	5.80%
Fubon Life Assurance Co., Ltd.		12,535,000	5.59%
Lung Ko Investment Co., Ltd.		10,774,717	4.81%
Lin Tan Investment Co., Ltd.		10,295,336	4.59%
Jing-Rong Tang		8,114,784	3.62%
Shin Kong Life Insurance Co., Ltd.		7,139,489	3.18%
Fang Hao Investment Co., Ltd.		5,605,209	2.50%
Fund Investment Account on Dimensional Emerging Markets Evaluation managed by Citibank		3,208,650	1.43%
Shih-Yun Sheng		3,111,896	1.39%

Lung Hsin Investment Co., Ltd.	2,581,614	1.15%
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#### 4.1.5. Share Price, Net Worth, Earnings, Dividends per Common Share, and Relevant Information

Unit: Thousand of shares / NT\$

Item		Fiscal Year	2014	2015	01/01/2016 ~04/30/2016
Market price per share	Highest market price		49.70	46.50	35.70
	Lowest market price		37.00	27.45	32.20
	Average market price		42.41	38.47	34.05
Net worth per share	Before distribution		38.06	37.31	37.98(Note5)
	After distribution		34.76(Note 1)	34.81(Note 1)	-
Earnings per share	Weighted average shares		223,548	224,215	224,215(Note5)
	Earnings per share		4.05	2.67	0.69(Note5)
Dividends per share	Cash dividends		3.3 (Note 1)	2.5 (Note 1)	-
	Stock dividends	-	-	-	-
		-	-	-	-
	Accumulated undistributed dividends		-	-	-
Returns on investment	Price / Earnings Ratio (Note 2)		10.47	14.48	-
	Price / Dividend Ratio (Note 3)		12.85	15.46	-
	Cash Dividend Yield (Note 4)		7.78%	6.47%	-

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 first quarter of 2016

#### 4.1.6. Company's Dividend Policy and Implementation

##### 4.1.6.1. Dividend Policy

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

##### 4.1.6.2 Dividends Distribution Proposal

1. On March 15, 2016, Holy Stone's Board of Directors approved a proposal for distribution of 2015 profits with a cash dividend of NT\$2.50 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.19 of the Company's Articles of Incorporation, retained earnings shall be distributed based on following rules:

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

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

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

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

1. According to the operating forecast of 2015 made by the Board and past distribution, deducting 10% of legal reserve and the special reserve from net income, employees' bonus and directors'/supervisors' compensation were 10.5 percent and 2 percent respectively.
2. The issued stock shares will be calculated using the closing price on the day before Annual Shareholders' Meeting taking the effect of ex-dividend into consideration.
3. The discrepancy between actual distribution amount and the proposed distribution amount shall be recognized as change in accounting estimates and recorded on the Statement of Income.

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

1. Distribution of cash bonuses or stock bonuses to employees, and compensation for directors/supervisors. If there is any discrepancy between such an amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed. On March 15, 2016, the Board approved for the distribution of NT\$88,148 thousand of employee bonus and NT\$16,790 thousand of directors' and supervisors' compensation, which will be paid in cash, which is consistent with the expensed amount in 2014. Subsequently, if there is discrepancy after the Annual Shareholders' Meeting, the difference shall be recognized as expenses in 2015.
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 2015

The Company distributed NT\$125,617 thousand of employee bonuses, and NT\$23,553 thousand of

directors' and supervisors' compensation in 2015, both amount is consistent with the proposed amount by the Board.

**4.1.9. Buyback of Common Stock**

None.

**Issuance of Corporate Bonds**

4.2.1. Issuance of Corporate Bonds : None.

4.2.2. Information on Convertible Bonds: Not applicable.

4.2.1. Information on Exchangeable Bonds: Not applicable.

4.2.2. Summary of Issuance of Corporate Bonds: Not applicable

4.2.3. Information on Warrants: Not Applicable

**4.2. Issuance of Preferred Shares**

None.

**4.3. Issuance of Global Depositary Shares**

None.

#### 4.4. 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 2016.04.30

<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	3.10%
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\$37.60
Percentage of Shares Unexercised to Outstanding Common Shares (%)	3.10%
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 2016.04.30

Title	Name	Number of Options Granted	% of Shares Exercisable to Outstanding Common Shares	Exercised				Unexercised			
				Shares Exercised	Exercise Price Per Share	Value of Shares Exercised (NT\$)	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share (Note 4)	Value of Shares Unexercised	% of Shares Unexercised to Outstanding Common Shares
President	Jing-Rong Tang	1,442	0.64	0	0	0	0	1,442	37.6	54,236	0.64
Vice Executive President	Shih-Yun Sheng										
Vice President	Yu-Min Wu										
Vice President	Shao-Kuo Huang										
Vice President	Sheng-Yao Lu										
Vice President	I-Ta Lee										
Vice President	Hui-Bang Yeh										
Manager of Finance and Accounting Department	Shu-Ying Chang										
Top 10 Employees	Jing-Rong Tang	2,107	0.94	0	0	0	0	2,107	37.6	79,248	0.94
	Shih-Yun Sheng										
	Yu-Min Wu										
	Shao-Kuo Huang										
	Sheng-Yao Lu										
	I-Ta Lee										
	Hui-Bang Yeh										
	Shu-Ying Chang										
	Fang-Ming Lo										
Jyun-Ping Ma											

## 4.6. Employee Restricted Stock

None.

## 4.7. Mergers and Acquisitions

None.

## 4.8. Status of New Share Issuance in Connection with Acquisitions

None.

## 4.9. Financing Plans and Implementation

None.

## 5. Operational Highlights

### 5.1 Business Activities

#### 5.1.1 Business Scope

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

##### 5.1.1.1 Relative weight of each core product (2015)

Item	Shares of Sales Revenue
Passive Components	25.14%
Active Components	37.79%
System & Module	20.35%
Others	16.72%
Total	100.00%

##### 5.1.1.2 Products and service items

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

##### 5.1.1.3 New products to develop

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

### 5.1.2 Industry Overview

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

Looking back on year of 2015, the growth rate of the majority of market had showed remarkable downturn due to drastic change of international macro economy, depressing price of raw materials causing from consistently decreasing gasoline price, over-estimated purchasing power in developing countries, products and market of traditional ICT growing enough to the point of maturity, and slower-than-expected growth of new market trend. Current market of sales for Holy Stone is segmented as follows:

Unit: million of pieces	2014	2015	Growth Rate of 2015	Growth Rate of 2016 ( forecast )
PC	314	289	(8%)	(1%)
Laptop	175	164	(6%)	(3%)
Smartphone	1,172	1,293	10%	5%
LED Lighting (million of USD)	14,768	14,325	(3%)	1%

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

Gartner lowered forecast of IT expenditure of international market in 2016 based on changes of currency of a number of countries and uncertainties of macro economy. Details as follows:

Unit: billion of USD	2015	Growth Rate of 2015	2016	Growth Rate of 2016 ( forecast )
Device	650	(6.4%)	626	(3.7%)
Information center system	171	2.9%	175	2.1%
Software	308	(1.9%)	321	4.2%
IT service	910	(4.7%)	929	2.1%
Communication service	1,470	(8.4%)	1,441	(2.0%)
Overall IT expenditure	3,509	(6.0%)	3,492	(0.5%)

Source : Gartner ( 2016.04 )

The majority of our customers is in Greater Chin, mostly selling such devices as PC, laptop, ultra mobile, cell phone, tablet, and printers among the market. The market of Smartphone has been growing to the point of maturity and slackening off the growth rate; the market of PC and laptop might keep decreasing. Growth rate for LED in 2015 was negative mainly because of less use of light bulbs resulting from advanced technique, substitute of OLED and over-supply. Although overall demand for LED lighting keep growing, there is still competition of pricing as a result of unbalanced demand supply relationship.

As growth rate for each market has reached maturity or on the verge of maturity, it seems like IoT has become the next opportunity. Applications of IoT include smart city, smart home, smart health and wearable devices. Although we are still on early stage of exploiting IoT application, we have seen growing trend of it, and one of the characteristics of IoT market possessing is less quantity and more varieties, which is one of Holy Stone's competitive advantage. We have also seen a growth rate of cloud-driven server in 2015, and this trend should continue to grow throughout 2016. As cloud device and Smartphone have popularized, the market of mobile payment is forecasted to reach USD 450 billion and demand for HCE and POS would be driven up as a result. In addition, wearables are relatively affordable

among IoT devices, and growth rate is forecasted to be 74% in 2016, among it smartwatch/smartband accounts for 80% and smartglasses accounts for 5%. Holy Stone has deployed for IoT demand since 2014, and noticeable contribution is expected for this year.

Holy Stone has devoted itself to advancing core competence in hopes of staying competitive to provide value-added service. Application in electronic components driven by smart vehicle should increase to 40%, and international output of automotives is 220 billion in 2014, 238.8 billion in 2015, and 301.1 billion is forecasted in 2019. Incoming trend for automotive components ranges from environmental preservation, collision-proof, pedestrian-proof, biometrics, sensing and detecting, display, energy saving, receiving and controlling of terminal device. Aside from providing car-certified products, Holy Stone will also acquire certification of TS16949 and have closer relationship with customers.

Unit: million of pieces	2014	2015	Growth Rate of 2015	Growth Rate of 2016 ( forecast )
server	10	11	10%	5%
Mobile Payment ( Billion of USD )	334	450	34%	38%
Wearable Devices	24	76	223%	74%
Automotive components ( Billion of USD )	220	239	8%	7%

Source : DIGITIMES 、IEK 、MIC 、TPCA 、TrendForce ；Compiled by Holy Stone

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

**Passive Components:** Holy Stone mainly markets house-brand products, including MLCC and ceramic substrate, and we are raw material supplier in supply chain. Ceramic substrate can be mostly used in LED lighting, and MLCC application is available across a wide variety of electronic products ranging from cell phone, communication equipments, computer, home appliances, game console, digital camera, to industrial and automotive electronics. Sluggish growth rate for MLCC in 2015 is attributable to pricing competition against the others. In the year to come, output should be able to ramp up from new product introduction and new customer development. Affected by downtrend of ICT, output of MLCC in 2015 declined from prior year, but new product lines that can be used in lighting, power supply, industrial and automotive electronics in hopes of bringing momentum for sales and marketing.

**Active components:** With growing business of Smartphone in communication industry, revenue of distributing and selling relevant semiconductors increased by 2.68% in 2015. Growth of Smartphone business is forecasted to be slow throughout 2016; however, with increasing demand for portable devices embedded with 4G, active components would still take up considerable share of total revenue.

**System and module:** In system and module, we mainly focus on providing total solutions coming with value-added micro-controller. With shift of downstream customers, revenue coming from system and module increased by 3.42% in 2015. With development of next opportunity of IoT, the Company will

continue to provide total solutions and key components and applications can be found across consumer electronics, industry, medical, automotive markets. Growth of revenue is expected in years to come.

Others: The Company and Subsidiaries distribute various components such as motored fan, electric filters, batteries, switches, motor fan, mechanical components, DVD players, and mechanical components. With adjustment of corporate strategy, revenue from others dropped by 27% approximately from 2014, and share of revenue also dropped to 17% from 22%. Revenue share of 2016 for others' products should be the same as that of 2015.

### 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 2016

Unit: Thousands of NT\$

Item	2015	Up to March 31, 2016
R&D expenditures	240,128	76,483
Net sales	13,595,819	2,958,720
Percentage	1.77%	2.59%

#### 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\$370,000 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.
- C. Lower WIP inventory, and shorten the time of production.

(2) Long-term

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

## 5.2. Market and Sales Overview

### 5.2.1. Market Analysis

#### 5.2.1.1 Sales by geographical area

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

#### Sales Ratio by Geographic Area in 2014 and 2015

Unit: Thousands of NT\$

Area	Year	2014		2015	
		Gross Sales	Percentage	Gross Sales	Percentage
Taiwan		4,478,283	27.95%	3,318,818	24.41%
China		10,068,830	62.83%	9,148,056	67.29%
U.S.A.		371,823	2.32%	337,992	2.48%
Others		1,105,957	6.90%	790,953	5.82%
Total		16,024,893	100.00%	13,595,819	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\$135,958,20 thousand in 2015. 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 2015 forecasted growth in shipments made by international research institutions.

Product	2015	2016
Personal Computer	(7%)	(2%)
Tablet	(5%)	6%
Feature Phone (Feature & Smart)	3%	2%
LED Lighting	(3%)	1%
Automobile Industry	8%	7%

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

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

**Passive Components:** Holy Stone's main product in passive components is capacitors. In terms of the proportion, the 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 2015 totaled 313,820 thousand units, a decline of 1% compared to 2014. PCs are expected to continue to decline with the total expected shipment of 306,330 thousand units. Shipment of tablet was expected to reach 236,780 thousand units or so, a 4% increase from the same period last year. 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 2015, Shipment of mobile phone had reached 1,424 million units. Shipment is forecast to be 1,560 million in 2016.

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

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

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

##### (1) Core competences and Advantages

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

##### (2) Disadvantages and responsive strategies

- A. Main materials rely on imports

Responsive strategies:

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

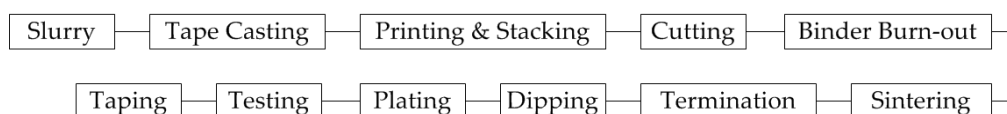
## 5.2.2. Application of Major Products and its Production Process

### 5.2.2.1 Major products and its application

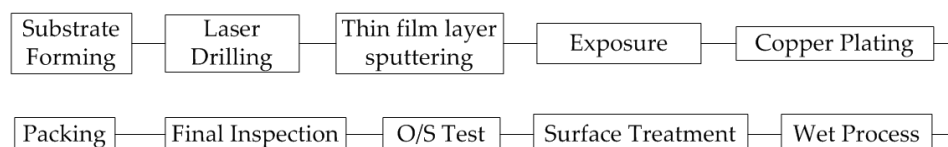
Capacitors are basic components in 3C electronics. In information industry, capacitors are applied to motherboards, VCG cards, sound cards, CD/DVD ROMs and so on. In communications industry, they are applied to mobile phones, fax machines, digital internet services, and modems and so on. Furthermore,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

### 5.2.2.2 Production process

#### Surface-Mounted MLCC



#### Thin Film Ceramic Thermal Substrate



### 5.2.3. Suppliers of Major Materials

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

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

## 5.2.4. Major Suppliers and Customers List

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

Unit: Thousands of NT\$/ %

Item	2014				2015				First quarter of 2016			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	A	2,159,950	18.11	None	F	1,648,527	17.05	None	D	454,750	16.10	None
2	F	1,941,698	16.28	None	D	1,596,820	16.51	None	B	376,829	13.34	None
3	B	1,821,485	15.27	None	B	1,576,596	16.30	None	F	336,335	11.91	None
4	D	1,457,171	12.22	None	A	1,437,464	14.86	None	-	-	-	-
	Others	4,547,251	38.12	-	Others	3,411,010	35.28	-	Others	1,656,198	58.65	-
	Total	11,927,555	100.00	-	Total	9,670,417	100.00	-	Total	2,824,112	100.00	-

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

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

None

## 5.2.5. Production Quantity & Value

Unit: KPCS/ Thousands of NTS

	2014			2015		
	Capacity	Production Quantity	Production Value	Capacity	Production Quantity	Production Value
Capacitor	10,000,000	7,473,771	1,602,286	10,000,000	6,769,776	1,366,428

\*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 NTS

Items & Amount	2014		2015		2014		2015	
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components	2,444,243	904,696	6,638,341	2,877,915	1,490,249	675,264	5,884,005	2,490,040
Active Components	308,464	861,294	470,858	4,837,927	242,484	1,073,198	439,291	4,036,685
System & Modules	28,865	664,506	114,429	1,612,595	29,620	597,182	111,946	1,871,881
Others	141,517	1,450,827	374,736	1,355,588	116,087	330,755	361,261	1,079,319
Total	2,923,089	3,881,323	7,598,363	10,684,025	1,878,440	2,676,399	6,796,503	9,477,925

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

### 5.3. Employee Data

Year		2014	2015	As of April 30, 2016
Number of Employees	Direct Employees	404	374	365
	Indirect Employees	436	422	423
	Total	840	796	788
Average Age		35.27	37.59	37.89
Average Years of Employment		6.26	8.48	8.61
Level of Education (%)	Ph.D.	0.24	0.13	0.13
	Master's Degree	6.55	6.78	6.85
	Bachelor's & Associate Degree	50.24	51.01	50.76
	Senior High School	40.24	39.45	39.72
	Others	2.74	2.64	2.54

\*The figures above are from the parent company.

### 5.4. Disbursements for Environmental Protection

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

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

NT\$16,000.

#### 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\$2.4 million in pollution prevention equipment to meet higher control standards.

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

Please refer to the Company's online CSR Report for more details at [www.holystone.com.tw](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	\$ 24,000
2	Testing fees for exhaust gas	1,200
3	Testing fees for polluted water emission	500
4	Disposal fees for polluted water	13,500
5	Disposal fees for waste	15,000
6	Environmental testing fees	2,000
7	Replacement fees for consumptive materials from exhaust gas	15,220
8	Others	6,000
		\$ 77,420

**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 and channels for diversified learning experiences.

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

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

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

**5.6. Major Contracts**

As of 2016.04.30

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	Hitachi	2014.04.01-2017.03.31	Capacitor	None
Distributorship and Agent Agreement	Skyworks	2012.10.01-2016.09.30	IC	None
Distributorship and Agent Agreement	Microchip	2014.04.01-2017.03.31	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 2011 to 2015					As of March 31, 2016 (Note)
		2011	2012	2013	2014	2015	
Current assets		-	8,965,666	9,521,533	9,024,952	8,368,392	8,492,378
Property, plant and equipment		-	3,035,586	3,084,655	2,833,549	2,629,430	2,575,859
Intangible assets		-	575,084	563,222	480,814	314,614	308,406
Other assets		-	1,314,925	1,078,067	956,932	862,802	893,103
Total assets		-	13,891,261	14,247,477	13,296,247	12,175,238	12,269,746
Current liabilities	Before distribution	-	3,972,492	4,287,535	3,841,732	3,049,178	3,034,062
	After distribution	-	4,611,201	4,913,469	4,579,441	Not distributed yet	Not distributed yet
Noncurrent liabilities		-	350,260	671,290	139,294	124,067	124,281
Total liabilities	-	-	4,322,752	4,958,825	3,981,026	3,173,245	3,158,343
	-	-	4,961,461	5,584,759	4,718,735	Not distributed yet	Not distributed yet
Equity attributable to parent company		-	8,977,287	8,268,574	8,508,552	8,364,727	8,515,628
Common stock		-	3,202,175	2,241,522	2,235,481	2,242,154	2,242,154
Capital surplus		-	3,681,259	3,572,820	3,588,009	3,608,244	3,608,601
Retained earnings	Before distribution	-	1,954,775	2,173,679	2,453,917	2,312,475	2,466,971
	After distribution	-	1,475,743	1,547,745	1,716,208	Not distributed yet	Not distributed yet
Other equity		-	169,920	308,806	231,145	201,854	197,902
Treasury stock		-	(30,842)	(28,253)	-	-	-
Non-controlling equity		-	591,222	1,020,078	806,669	637,266	595,775
Total stockholders' equity	Before distribution	-	9,568,509	9,288,652	9,315,221	9,001,993	9,111,403
	After distribution	-	8,929,800	8,662,718	8,577,512	Not distributed yet	Not distributed yet

Note : The financial information of Q1 2016 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 2011 to 2015					As of March 31, 2016 (Note 1)
		2011	2012	2013	2014	2015	
Net sales	-	14,607,834	15,898,687	16,024,893	13,595,819	2,958,720	
Gross profit	-	1,868,724	1,974,026	2,044,319	1,965,882	461,122	
Operating income (loss)	-	633,275	664,463	702,685	634,494	132,573	
Non-operating income and expenses	-	126,607	137,822	250,325	(19,856)	2,117	
Income before income tax	-	759,882	802,285	953,010	614,638	134,690	
Net income from continuing operations	-	620,425	627,746	795,204	471,786	102,795	
Loss from discontinued operations	-	-	-	-	-	-	
Net income (loss)	-	620,425	627,746	795,204	471,786	102,795	
Other comprehensive gains and losses (net amount after tax)	-	(136,316)	241,181	(144,412)	(60,474)	4,728	
Total comprehensive profit or loss	-	484,109	868,927	650,792	411,312	107,523	
Net income attributable to stockholders of parent company	-	639,620	695,665	904,408	598,178	154,496	
Net income attributable to non-controlling equity	-	(19,195)	(67,919)	(109,204)	(126,392)	(51,701)	
Comprehensive gains and losses attributable to stockholders of parent company	-	507,752	836,822	828,511	566,976	150,544	
Comprehensive gains and losses attributable to non-controlling equity	-	(26,463)	32,105	(177,719)	(155,664)	(43,021)	
Earnings per share (NT\$) (Note 2)	-	2.00	2.44	4.05	2.67	0.69	

Note 1: The financial information of Q1 2016 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 2011 to 2015					As of March 31, 2016
		2011	2012	2013	2014	2015	
Current assets		-	7,233,077	7,191,263	7,094,516	6,608,318	-
Property, plant and equipment		-	2,547,730	2,523,726	2,332,883	2,131,464	-
Intangible assets		-	-	-	-	-	-
Other assets		-	2,796,267	2,673,897	2,690,832	2,459,485	-
Total assets		-	12,577,074	12,388,886	12,118,231	11,199,267	-
Current liabilities	Before distribution	-	3,338,286	3,530,624	3,494,535	2,732,039	-
	After distribution	-	3,976,995	4,156,558	4,232,244	Not distributed yet	-
Noncurrent liabilities		-	261,501	589,688	115,144	102,501	-
Total liabilities	Before distribution	-	3,599,787	4,120,312	3,609,679	2,834,540	-
	After distribution	-	4,238,496	4,746,246	4,347,388	Not distributed yet	-
Equity attributable to parent company		-	8,977,287	8,268,574	8,508,552	8,364,727	-
Common stock		-	3,202,175	2,241,522	2,235,481	2,242,154	-
Capital surplus		-	3,681,259	3,572,820	3,588,009	3,608,244	-
Retained earnings	Before distribution	-	1,954,775	2,173,679	2,453,917	2,312,475	-
	After distribution	-	1,475,743	1,547,745	1,716,208	Not distributed yet	-
Other equity		-	169,920	308,806	231,145	201,854	-
Treasury stock		-	(30,842)	(28,253)	-	-	-
Non-controlling equity		-	-	-	-	-	-
Total stockholders' equity	Before distribution	-	8,977,287	8,268,574	8,508,552	8,364,727	-
	After distribution	-	8,338,578	7,642,640	7,770,843	Not distributed yet	-

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

## - Unconsolidated

Unit: Thousands of NT\$

Item	Year	Financial Information from 2011 to 2015					As of March 31, 2016
		2011	2012	2013	2014	2015	
Net sales	-	12,454,958	13,681,808	14,565,348	12,154,324	-	
Gross profit	-	1,395,599	1,443,559	1,600,032	1,607,953	-	
Operating income (loss)	-	651,761	680,112	841,941	886,503	-	
Non-operating income and expenses	-	105,414	150,690	203,011	(151,936)	-	
Income before income tax	-	757,175	830,802	1,044,952	734,567	-	
Net income from continuing operations	-	639,620	695,665	904,408	598,178	-	
Loss from discontinued operations	-	-	-	-	-	-	
Net income (loss)	-	639,620	695,665	904,408	598,178	-	
Other comprehensive gains and losses (net amount after tax)	-	(131,868)	141,157	(75,897)	(31,202)	-	
Total comprehensive profit or loss	-	507,752	836,822	828,511	566,976	-	
Net income attributable to stockholders of parent company	-	639,620	695,665	904,408	598,178	-	
Net income attributable to non-controlling equity	-	-	-	-	-	-	
Comprehensive gains and losses attributable to stockholders of parent company	-	507,752	836,822	828,511	566,976	-	
Comprehensive gains and losses attributable to non-controlling equity	-	-	-	-	-	-	
Earnings per share (NT\$) (Note 1)	-	2.00	2.44	4.05	2.67	-	

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 2011 to 2015					As of March 31, 2016
		2011	2012	2013	2014	2015	
Current assets		9,604,133	8,994,689	-	-	-	-
Fund and long-term investment		1,059,516	1,048,276	-	-	-	-
Fixed assets		3,187,487	3,245,579	-	-	-	-
Intangible assets		598,577	575,084	-	-	-	-
Other assets		18,971	18,513	-	-	-	-
Total assets		14,468,684	13,882,141	-	-	-	-
Current liabilities	Before distribution	4,520,404	3,965,510	-	-	-	-
	After distribution	5,159,113	4,604,219	-	-	-	-
Long-term liabilities		217,050	238,596	-	-	-	-
Other liabilities		69,017	82,530	-	-	-	-
Total liabilities	Before distribution	4,806,471	4,286,636	-	-	-	-
	After distribution	5,445,180	4,925,345	-	-	-	-
Parent Company's shareholder's equity		9,093,102	9,004,283	-	-	-	-
Common stock		3,202,175	3,202,175	-	-	-	-
Capital surplus		3,626,354	3,622,923	-	-	-	-
Retained earnings	Before distribution	2,060,819	2,077,233	-	-	-	-
	After distribution	1,422,110	1,598,202	-	-	-	-
Unrealized gain or loss on financial instruments		202,477	196,930	-	-	-	-
Cumulative translation adjustments		32,119	(27,010)	-	-	-	-
Net loss not recognized as Pension Cost		-	(37,126)	-	-	-	-
Treasury stock		(30,482)	(30,842)	-	-	-	-
Minority interest		569,111	591,222	-	-	-	-
Total stockholders' equity	Before distribution	9,662,213	9,595,505	-	-	-	-
	After distribution	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 2011 to 2015 (Note 1)					As of March 31, 2016
		2011	2012	2013	2014	2015	
Net sales		15,637,080	14,607,834	-	-	-	-
Gross profit		1,939,854	1,868,724	-	-	-	-
Operating income		726,258	648,778	-	-	-	-
Non-operating income and gains		259,827	247,154	-	-	-	-
Non-operating expenses and losses		143,220	120,547	-	-	-	-
Income before income tax from continuing operations		842,865	775,385	-	-	-	-
Net income from continuing operations		767,735	635,928	-	-	-	-
Income from discontinued operations		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		767,735	635,928	-	-	-	-
Net profit attributable to shareholders of the parent company		761,510	655,123	-	-	-	-
Minority interest income		6,225	(19,195)	-	-	-	-
Earnings per share (NT\$) (Note 1)		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 2011 to 2015					As of March 31, 2016
		2011	2012	2013	2014	2015	
Current assets		7,451,373	7,260,809	-	-	-	-
Fund and long-term investment		2,710,635	2,627,763	-	-	-	-
Fixed assets		2,703,902	2,700,909	-	-	-	-
Intangible assets		-	-	-	-	-	-
Other assets		1,952	2,038	-	-	-	-
Total assets		12,867,862	12,591,519	-	-	-	-
Current liabilities	Before distribution	3,646,157	3,351,281	-	-	-	-
	After distribution	4,284,866	3,989,990	-	-	-	-
Long-term liabilities		73,167	150,000	-	-	-	-
Other liabilities		55,436	85,955	-	-	-	-
Total liabilities	Before distribution	3,774,760	3,587,236	-	-	-	-
	After distribution	4,413,469	4,225,945	-	-	-	-
Common stock		3,202,175	3,202,175	-	-	-	-
Capital surplus		3,626,354	3,622,923	-	-	-	-
Retained earnings	Before distribution	2,060,819	2,077,233	-	-	-	-
	After distribution	1,422,110	1,598,201	-	-	-	-
Unrealized gain or loss on financial instruments		202,477	196,930	-	-	-	-
Cumulative translation adjustments		32,119	(27,010)	-	-	-	-
Net Loss Unrecognized as Pension Cost		-	(37,126)	-	-	-	-
Treasury stock		(30,482)	(30,842)	-	-	-	-
Total stockholders' equity	Before distribution	9,093,102	9,004,283	-	-	-	-
	After distribution	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 2013 (Note 1)					As of March 31, 2016
		2011	2012	2013	2014	2015	
Net sales		13,146,941	12,454,958	-	-	-	-
Gross profit		1,280,861	1,397,759	-	-	-	-
Operating income		551,604	667,264	-	-	-	-
Non-operating income and gains		349,912	194,046	-	-	-	-
Non-operating expenses and losses		106,027	88,632	-	-	-	-
Income before income tax from continuing operations		795,489	772,678	-	-	-	-
Net income from continuing operations		761,510	655,123	-	-	-	-
Income from discontinued operations		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		761,510	655,123	-	-	-	-
Earnings per share (NT\$) (Note 1)		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
2010	KPMG	Ching-Sung Wang and Heng-Sheng Lin	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
2014	KPMG	Pei-Chi Chen and Chia-Hsin Chang	A Modified Unqualified Opinion
2015	KPMG	Pei-Chi Chen and Heng-Sheng Lin	A Modified Unqualified Opinion

## 6.2. Financial Analysis

### 6.2.1. International Financial Reporting Standard - Consolidated

Item (Note 2)		Year	Financial Analysis from 2011 to 2015					As of March 31, 2016(Note 1)
			2011	2012	2013	2014	2015	
Capital Structure Analysis (%)	Debt Ratio	-	31.12	34.80	29.94	26.06	25.74	
	Long-term Fund to Fixed Assets Ratio	-	326.75	322.89	333.66	347.07	358.55	
Liquidity Analysis %	Current ratio	-	225.69	222.07	234.92	274.45	279.90	
	Quick Ratio	-	172.37	164.40	180.28	217.30	217.85	
	Times Interest Earned	-	31.88	33.18	23.87	39.76	46.55	
Operating Performance Analysis	Average Collection Turnover (Times)	-	4.18	4.71	4.57	4.21	4.15	
	Days Sales Outstanding	-	87	77	80	87	88	
	Average Inventory Turnover (Times)	-	5.91	6.21	6.24	6.19	5.60	
	Average Payment Turnover (Times)	-	9.25	11.27	11.70	10.63	9.92	
	Average Inventory Turnover Days	-	62	59	59	59	65	
	Fixed Asset Turnover (Times)	-	4.69	5.20	5.42	4.98	4.55	
	Total Asset Turnover (Times)	-	1.05	1.12	1.21	1.12	0.96	
Profitability Analysis	Return on Total Assets (%)	-	4.52	4.60	6.03	3.80	3.44	
	Return on Equity (%)	-	6.45	6.66	8.55	5.15	4.54	
	To Paid-in Capital Ratio (%)	Operating Income	-	19.78	29.64	31.43	28.30	23.65
		Income before income tax	-	23.73	35.79	42.63	27.41	24.03
	Net Margin (%)	-	4.25	3.95	4.96	3.47	3.47	
	Earnings Per Share (NT\$) (Note 2)	-	2.00	2.44	4.05	2.67	0.69	
Cash Flow (%)	Cash Flow Ratio (%)	-	30.65	3.65	40.43	57.82	8.38	
	Cash Flow Adequacy Ratio (%)	-	58.04	47.92	66.36	82.80	120.06	
	Cash Flow Reinvestment Ratio (%)	-	5.34	(4.31)	8.47	9.32	2.26	
Leverage	Operating Leverage	-	1.00	1.00	1.00	1.00	1.00	
	Financial Leverage	-	1.04	1.04	1.06	1.03	1.02	

Note 1: The financial information of Q1 2016 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 2011 to 2015 (Note 1)					As of March 31, 2016
		2011	2012	2013	2014	2015		
Capital Structure Analysis (%)	Debt Ratio	-	28.62	33.26	29.79	25.31	-	
	Long-term Fund to Fixed Assets Ratio	-	358.25	346.31	364.72	392.44	-	
Liquidity Analysis %	Current ratio	-	216.67	203.68	203.02	241.88	-	
	Quick Ratio	-	165.97	143.76	150.88	187.59	-	
	Times Interest Earned	-	41.40	48.15	54.45	61.78	-	
Operating Performance Analysis	Average Collection Turnover (Times)	-	4.11	4.20	4.30	3.90	-	
	Days Sales Outstanding	-	89	87	85	94	-	
	Average Inventory Turnover (Times)	-	6.65	6.49	6.61	6.43	-	
	Average Payment Turnover (Times)	-	10.23	10.64	11.29	10.32	-	
	Average Inventory Turnover Days	-	55	56	55	57	-	
	Fixed Asset Turnover (Times)	-	4.89	5.40	6.00	5.45	-	
	Total Asset Turnover (Times)	-	0.99	1.10	1.20	1.09	-	
Profitability Analysis	Return on Total Assets (%)	-	5.21	5.69	7.52	5.22	-	
	Return on Equity (%)	-	7.12	8.07	10.78	7.09	-	
	To Paid-in Capital Ratio (%)	-	20.35	30.34	37.66	39.54	-	
		-	23.65	37.06	46.74	32.76	-	
	Net Margin (%)	-	5.14	5.08	6.21	4.92	-	
Earnings Per Share (NT\$) (Note 1)	-	2.00	2.44	4.05	2.67	-		
Cash Flow (%)	Cash Flow Ratio (%)	-	30.28	10.28	42.02	60.01	-	
	Cash Flow Adequacy Ratio (%)	-	107.36	61.68	90.79	202.68	-	
	Cash Flow Reinvestment Ratio (%)	-	3.51	(2.64)	8.08	8.59	-	
Leverage	Operating Leverage	-	1.00	1.00	1.00	0.99	-	
	Financial Leverage	-	1.03	1.03	1.02	1.01	-	

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. Taiwan's General Accepted Accounting Principles - Consolidated

Item (Note 2)		Year	Financial Analysis from 2010 to 2014 (Note 1)					As of March 31, 2016
		2011	2012	2013	2014	2015		
Capital Structure Analysis (%)	Debt Ratio	33.22	30.88	-	-	-	-	
	Long-term Fund to Fixed Assets Ratio	309.94	303.00	-	-	-	-	
Liquidity Analysis %	Current ratio	212.46	226.82	-	-	-	-	
	Quick Ratio	161.42	173.41	-	-	-	-	
	Times Interest Earned	33.76	32.51	-	-	-	-	
Operating Performance Analysis	Average Collection Turnover (Times)	4.05	4.11	-	-	-	-	
	Days Sales Outstanding	90	89	-	-	-	-	
	Average Inventory Turnover (Times)	5.69	5.91	-	-	-	-	
	Average Payment Turnover (Times)	8.62	9.25	-	-	-	-	
	Average Inventory Turnover Days	64	62	-	-	-	-	
	Fixed Asset Turnover (Times)	5.01	4.54	-	-	-	-	
	Total Asset Turnover (Times)	1.08	1.05	-	-	-	-	
Profitability Analysis	Return on Total Assets (%)	5.42	4.63	-	-	-	-	
	Return on Equity (%)	7.80	6.60	-	-	-	-	
	To Paid-in Capital Ratio (%)	Operating Income	22.68	20.26	-	-	-	-
		Income before income tax	26.32	24.21	-	-	-	-
	Net Margin (%)	4.91	4.35	-	-	-	-	
	Earnings Per Share (NT\$) (Note 1)	2.38	2.05	-	-	-	-	
Cash Flow (%)	Cash Flow Ratio (%)	30.41	30.96	-	-	-	-	
	Cash Flow Adequacy Ratio (%)	52.30	70.71	-	-	-	-	
	Cash Flow Reinvestment Ratio (%)	6.00	5.43	-	-	-	-	
Leverage	Operating Leverage	1.00	1.00	-	-	-	-	
	Financial Leverage	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. Taiwan's General Accepted Accounting Principles - Unconsolidated

Item (Note 2)		Year	Financial Analysis from 2011 to 2015 (Note 1)					As of March 31, 2016	
			2011	2012	2013	2014	2015		
Capital Structure Analysis (%)	Debt Ratio		29.33	28.49	-	-	-	-	
	Long-term Fund to Fixed Assets Ratio		339.00	338.93	-	-	-	-	
Liquidity Analysis %	Current ratio		204.36	216.66	-	-	-	-	
	Quick Ratio		157.35	166.16	-	-	-	-	
	Times Interest Earned		41.62	42.22	-	-	-	-	
Operating Performance Analysis	Average Collection Turnover (Times)		3.82	3.79	-	-	-	-	
	Days Sales Outstanding		95	96	-	-	-	-	
	Average Inventory Turnover (Times)		6.26	6.57	-	-	-	-	
	Average Payment Turnover (Times)		8.65	9.54	-	-	-	-	
	Average Inventory Turnover Days		58	56	-	-	-	-	
	Fixed Asset Turnover (Times)		4.95	4.61	-	-	-	-	
	Total Asset Turnover (Times)		1.02	0.99	-	-	-	-	
Profitability Analysis	Return on Total Assets (%)		5.97	5.27	-	-	-	-	
	Return on Equity (%)		8.25	7.24	-	-	-	-	
	To Paid-in Capital Ratio (%)	Operating Income		17.23	20.84	-	-	-	-
		Income before income tax		24.84	24.13	-	-	-	-
	Net Margin (%)		5.79	5.26	-	-	-	-	
Earnings Per Share (NT\$) (Note 1)		2.38	2.05	-	-	-	-		
Cash Flow (%)	Cash Flow Ratio (%)		25.29	30.25	-	-	-	-	
	Cash Flow Adequacy Ratio (%)		71.99	73.28	-	-	-	-	
	Cash Flow Reinvestment Ratio (%)		1.79	3.54	-	-	-	-	
Leverage	Operating Leverage		1.00	1.00	-	-	-	-	
	Financial Leverage		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.

### **6.3. Supervisors' Report**

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

The Board of Directors has prepared the Company's 2015 Business Report, Financial Statements, and proposal for allocation of profits. Both CPA Pei-Chi Chen and Heng-Sheng Lin with KPMG were retained to audit Holy Stone's Financial Statements and have issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the undersigned, the supervisors of Holy Stone Enterprise Company Limited. According to Article 219 of the Company Act, we hereby submit this report.

Holy Stone's Annual Shareholders' Meeting, 2016

Supervisor: Tang-Ming Wu

Chung-Yi Yang

March 25, 2016

- 6.4. Financial Report of 2015:** Please refer to P.88 to P.149 in this report.
- 6.5. Consolidated Financial Report of 2015:** Please refer to P.150 to P.212 in this report.
- 6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2015 and as of the date of this Annual Report:** None.

## 7. Financial Status and Operating Results Analysis and Risk Events

### 7.1. Financial Status

#### Financial Status Analysis Table

Unit: Thousands of NT\$

Item	Year	2015	2014	Difference	
				Amount	%
Current asset		8,368,392	9,024,952	(656,560)	(7.27)
Financial assets – non-current		741,526	791,193	(49,667)	(6.28)
Property, plant and equipment		2,629,430	2,833,549	(204,119)	(7.20)
Other assets		435,890	646,553	(210,663)	(32.58)
Total assets		12,175,238	13,296,247	(1,121,009)	(8.43)
Current liabilities		3,049,178	3,841,732	(792,554)	(20.63)
Long-term liabilities		19,240	21,362	(2,122)	(9.93)
Other liabilities		104,827	117,932	(13,105)	(11.11)
Total liabilities		3,173,245	3,981,026	(807,781)	(20.29)
Capital stock		2,242,154	2,235,481	6,673	0.30
Capital surplus		3,608,244	3,588,009	20,235	0.56
Retained earnings		2,312,475	2,453,917	(141,442)	(5.76)
Unrealized gain or loss on financial instruments available-for-sale		156,047	206,500	(50,453)	(24.43)
The translation of financial statements for foreign operations		45,807	24,645	21,162	85.87
Treasury stock		0	0	0	0.00
Uncontrollable equity		637,266	806,669	(169,403)	(21.00)
Total shareholders' equity		9,001,993	9,315,221	(313,228)	(3.36)

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) :

- (1) A decrease of NT\$210,663 thousand in other assets: Loss from goodwill impairment.
- (2) A decrease of NT\$792,554 thousand in current asset: Decrease in short-term liability.
- (3) A decrease of NT\$50,453 thousand in unrealized gain or loss on financial instruments available-for-sale: Valuation of financial asset.
- (4) An increase of NT\$21,162 thousand in the translation of financial statements for foreign operations: Difference of exchange rate of subsidiaries.
- (5) A decrease of NT\$169,403 thousand in uncontrollable equity: Decrease in operational loss occurred in uncontrollable equity.

## 7.2. Operating Results

### Operating Results Analysis Table

Unit: Thousands of NT\$

Item	Year		Amount increased (decreased)	Changing ratio%
	2015	2014		
Net sales	13,595,819	16,024,893	(2,429,074)	(15.16)
Cost of goods sold	<u>(11,629,937)</u>	<u>(13,980,574)</u>	<u>2,350,637</u>	<u>(16.81)</u>
Gross profit	1,965,882	2,044,319	(78,437)	(3.84)
Operating expenses	<u>(1,331,388)</u>	<u>(1,341,634)</u>	<u>10,246</u>	<u>(0.76)</u>
Operating income	634,494	702,685	(68,191)	(9.70)
Non-operating expenses and income	(19,856)	250,325	(270,181)	(107.93)
Income before income tax	614,638	953,010	(338,372)	(35.51)
from continuing operations				
Income tax expenses	<u>(142,852)</u>	<u>(157,806)</u>	<u>14,954</u>	<u>(9.48)</u>
Net Income from continuing operations	<u>471,786</u>	<u>795,204</u>	<u>(323,418)</u>	<u>(40.67)</u>
Other comprehensive income (Net value after tax)	(60,474)	(144,412)	83,938	(58.12)
Total other comprehensive income for current period	<u>411,312</u>	<u>650,792</u>	<u>(239,480)</u>	<u>(36.80)</u>

Note 1: Analysis of significant changes between 2014 and 2015 (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000):

- (1) A decrease of NT\$270,181 thousand in non-operating expense and income: Decrease in other income
- (2) A decrease of NT\$323,418 thousand in net income after tax from continuing operations: Decrease in net income.
- (3) An increase of NT\$83,938 thousand in other comprehensive income: Change in valuation of Available-for-sale financial asset.
- (4) A decrease of NT\$239,480 thousand in total other comprehensive income for current period: Decrease in net income.

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 2015	Net cash outflow in 2015	Ending cash balance	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
2,567,832	1,762,986	(1,425,286)	2,905,532	-	-

1. Analysis of cash flow:
  - (1) Net cash inflow generated from operation: Resulting from increase in net income, current financial asset, account receivables, and inventories.
  - (2) Net cash outflow: Mainly resulted from investing and financing to estimate net cash outflows which is summarized as follows.
    - a. Net cash generated from investing: Net cash inflow in investing activities resulted from purchase of PP&E.
    - b. Net cash generated from financing: Resulted from repaying short-term debt and paying out cash dividend.
2. Analysis of liquidity:
 

An increase of NT\$209,839 thousand in net cash outflow from operation in 2015 on an year-over-year basis. Cash flow ratio: 57.82%. Cash adequacy ratio: 82.80%. Cash reinvestment ratio: 9.32%.
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
1,649,931	1,328,122	(1,114,512)	1,863,541	-	-

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.	Loss of NT\$89,074	Invested to enter into other industry.	Recognition of Loss of reinvestment	NA	Assessing the necessity of increasing investment considering operating scale.
Uholy Investment Co., Ltd.	Loss of NT\$9,215	Invested to enter into other industry.	Recognition of Loss of reinvestment	NA	Assessing the necessity of increasing investment considering operating scale.

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

## 7.6. Risk Management and Analysis

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

Holy Stone's interest expense and loss on foreign exchange in 2014 and as of printed date of this Annual Report:

Unit: NT\$ thousands

Item	2015	As of March 31, 2016
Interest Expense	15,859	2,957
Gain (loss) on Foreign Exchange	4,292	(2,272)

Source: Consolidated Financial statement of 2014 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 0.12% and 0.10% of net sales in 2015 and as of March 31, 2016; 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 2015. The Company and Subsidiaries' Endorsement & Guarantee were NT\$368,890 thousand and NT\$368,185 thousand on December 31, 2015 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\$370,000 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

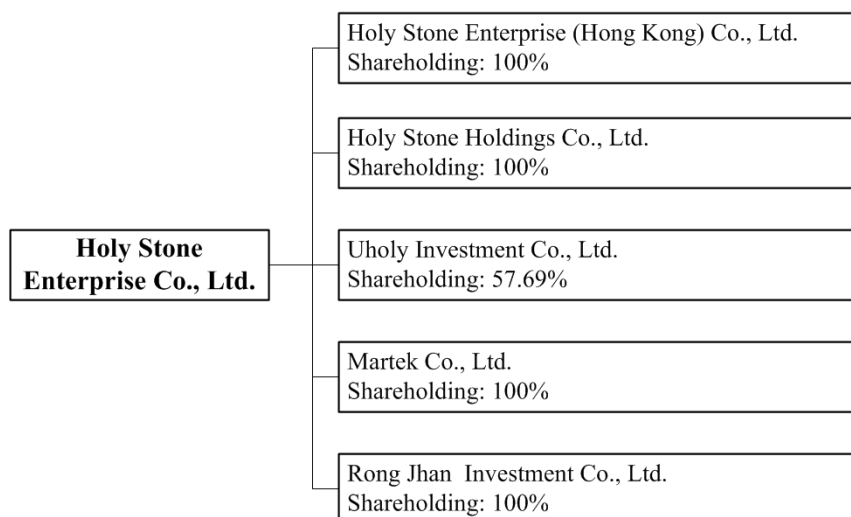
## 8. Special Notes

### 8.1. Affiliates

#### 8.1.1. Affiliates Consolidated Operating Report

##### 8.1.1.1 Holy Stone affiliated companies chart

as of 2015.12.31



##### 8.1.1.2 Holy Stone affiliated companies

Unit: NT\$

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

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

8.1.1.4 Business scope of Holy Stone and its affiliated companies

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

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

Unit: dollars/ shares/ % as of 2015.12.31

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

## 8.1.2. Operational Highlights of Holy Stone Affiliated Companies

Unit: Thousands of NT\$

Company	Paid-in Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (NT\$) (Net of Tax)
Holy Stone Enterprise (Hong Kong) Co., Ltd.	49,046	661,388	376,957	284,431	892,852	5,306	12,775	1.11
Holy Stone Holdings Co., Ltd. (Note 2)	841,951	1,680,705	599,945	1,080,761	2,152,705	(73,199)	(89,052)	(3.30)
Uholy Investment Co., Ltd. (Note 2)	390,000	1,016,435	65,032	951,403	442,684	(177,935)	(141,889)	(3.64)
Mayatek Co., Ltd. (Note 2)	579,000	687,480	83,956	603,524	493,006	5,667	(112,805)	(1.95)
Rong Jhan Investment Co., Ltd. (Note 2)	85,000	112,030	16,604	95,426	64,150	(13,417)	(11,418)	(1.34)

Note 1: Foreign exchange rates were NT\$32.825 and NT\$31.739 for US \$1 in Balance Sheet and Income Statement, respectively.

Note 2: Information from affiliated companies is consolidated.

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

None.

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

None.

**8.4. Other Necessary Supplement:** None.

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

None.

## **Independent Auditors' Report**

The Board of Directors and Shareholders  
Holy Stone Enterprise Company Limited

We have audited the accompanying balance sheets of Holy Stone Enterprise Company Limited as of December 31, 2015 and 2014, 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, 2015 and 2014, the investment amounts accounted under equity method made up 2.44% and 2.05% of total assets, respectively; the gains or losses from subsidiaries accounted under equity method for the year ended December 31, 2015 and 2014 made up 1.74% and 0.86% 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, 2015 and 2014, 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:

Taipei, Taiwan  
Republic of China

March 15, 2016

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

**Balance Sheets**

**December 31, 2015 and 2014**

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

Assets	2015.12.31		2014.12.31			Liabilities and Equity	2015.12.31		2014.12.31	
	Amount	%	Amount	%			Amount	%	Amount	%
<b>Current Assets:</b>						<b>Current Liabilities:</b>				
1100 Cash and Cash Equivalents (Note6.1)	\$ 1,649,931	15	1,407,191	12	2100	Short-term Loans (Note6.9)	\$ 1,260,187	11	1,756,874	15
1110 Financial Assets at Fair Value through Profit or Loss - Current (Note6.2&6.10)	478,636	4	519,700	4	2170	Notes and Accounts Payable	917,803	8	1,033,335	9
1150 Notes and Accounts Receivable, net (Note6.5)	2,178,533	20	2,686,958	22	2180	Accounts Payable - Related Parties (Note7)	50,821	-	44,054	-
1180 Account Receivable - Related Parties (Note6.4&7)	772,961	7	599,562	5	2200	Other Receivables	432,600	4	457,702	4
1200 Other Receivables (Note6.5)	44,936	-	56,785	-	2230	Current Period Income Tax Liability	70,628	1	98,695	1
130X Inventories (Note6.6)	1,472,818	13	1,811,299	15	2321	Current Portion of Puttable Corporate Bonds (Note6.10)	-	-	103,875	1
1410 Prepaid Expenses and Other Current Assets	10,503	-	13,021	-		<b>Total Current Liabilities*</b>	<u>2,732,039</u>	<u>24</u>	<u>3,494,535</u>	<u>30</u>
<b>Total Current Assets</b>	<u>6,608,318</u>	<u>59</u>	<u>7,094,516</u>	<u>58</u>	2570	<b>Noncurrent Liabilities:</b>				
<b>Noncurrent Assets:</b>					2640	Deferred Income Tax Liabilities (Note6.12)	45,711	-	59,366	-
1523 Available-for-sale Financial Assets - Noncurrent (Note6.3)	30,272	-	39,154	-	2670	Accrued Pension Liabilities (Note6.11)	56,774	1	55,763	-
1543 Financial Assets Carried at Cost - Noncurrent (Note6.4)	24,246	-	-	-		Other Noncurrent Liabilities – Others	16	-	15	-
1550 Investments under Equity Method (Note6.7)	2,343,030	21	2,579,779	22		<b>Total Noncurrent Liabilities</b>	<u>102,501</u>	<u>1</u>	<u>115,144</u>	<u>-</u>
1600 Property, Plant and Equipment (Note6.8 & 7)	2,131,464	20	2,332,883	20		<b>Total Liabilities</b>	<u>2,834,540</u>	<u>25</u>	<u>3,609,679</u>	<u>30</u>
1840 Deferred Income Tax Assets (Note6.12)	28,660	-	33,200	-	3110	<b>Equity (Note6.10 &amp; 6.11 &amp; 6.13):</b>				
1915 Prepaid Expense on Equipment	18,057	-	23,535	-	3200	Common Stock	2,242,154	20	2,235,481	18
1990 Other Noncurrent Assets - Others (Note8)	15,220	-	15,164	-		Capital Surplus	3,608,244	32	3,588,009	30
<b>Total Noncurrent Assets</b>	<u>4,590,949</u>	<u>41</u>	<u>5,023,715</u>	<u>42</u>		Retained Earnings:				
					3310	Legal Reserve	1,161,732	11	1,071,291	9
					3350	Unappropriated Earnings	1,150,743	11	1,382,626	11
						Total Retained Earnings	<u>2,312,475</u>	<u>22</u>	<u>2,453,917</u>	<u>20</u>
					3410	Other Equity:				
						Exchange Differences on Translation of Financial Statements of Foreign Operations	45,807	-	24,645	-
					3425	Unrealized Gains and Losses on Available-for-sale Financial Assets	156,047	1	206,500	2
						Total Other Equity	201,854	1	231,145	2
						<b>Total Equity</b>	<u>8,364,727</u>	<u>75</u>	<u>8,508,552</u>	<u>70</u>
<b>Total Assets</b>	<u>\$ 11,199,267</u>	<u>100</u>	<u>12,118,231</u>	<u>100</u>		<b>Total Liabilities and Equity</b>	<u>\$ 11,199,267</u>	<u>100</u>	<u>12,118,231</u>	<u>100</u>

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

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

**HOLY STONE ENTERPRISE COMPANY LIMITED**

**Statements of Income**

**For the years ended December 31, 2015 and 2014**

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

	2015		2014	
	Amount	%	Amount	%
4000 <b>Net Sales</b> (Note6.16&7)	\$ 12,154,324	100	14,565,348	100
5000 <b>Cost of Goods Sold</b> (Note6.6&7)	(10,553,722)	(87)	(12,962,060)	(89)
<b>Gross Profit</b>	1,600,602	13	1,603,288	11
5910 Unrealized Gains and Losses on Sales	7,351	-	(3,256)	-
<b>Gross Profit</b>	1,607,953	13	1,600,032	11
<b>Operating Expense</b> (Note7)				
6100 Selling and Administrative*	(601,899)	(5)	(658,218)	(5)
6300 Research and Development	(119,551)	(1)	(99,873)	-
<b>Total Operating Expense</b>	(721,450)	(6)	(758,091)	(5)
<b>Operating Income</b>	886,503	7	841,941	6
<b>Non-Operating Income and Expenses</b> (Note6.10&7):				
7020 Other Gains and Losses	57,872	-	68,636	-
7050 Financial Costs	(12,085)	-	(19,549)	-
7070 Gains of Losses from Subsidiary Using Equity Method	(211,400)	(1)	138,770	1
7100 Interest Income	13,677	-	15,154	-
<b>Total Non-Operating Income and Expenses</b>	(151,936)	(1)	203,011	1
7900 <b>Income before Income Tax</b>	734,567	6	1,044,952	7
7950 <b>Less: Income Tax Expense</b> (Note6.12)	136,389	1	140,544	1
<b>Net Income for Current Period</b>	598,178	5	904,408	6
8300 <b>Other Comprehensive Gains and Losses:</b>				
8310 <b>Revaluation income</b>				
8311 Defined benefit plan	(1,911)	-	1,764	-
8349 Income Tax incurred	-	-	-	-
<b>Total Revaluation income</b>	(1,911)	-	1,764	-
8360 <b>Revaluation income arising from reclassification</b>				
8361 Exchange Differences on Translation of Financial Statements of Foreign Operations	25,495	-	61,963	-
8362 Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	(51,962)	-	(123,343)	(1)
8399 Income Tax related to reclassification	(2,824)	-	(16,281)	-
<b>Total Revaluation income arising from reclassification</b>	(29,291)	-	(77,661)	(1)
8300 <b>Other Comprehensive Income for Current Period (after tax)</b>	(31,202)	-	(75,897)	(1)
<b>Total Comprehensive Income for Current Period</b>	<u>\$ 566,976</u>	<u>5</u>	<u>828,511</u>	<u>5</u>
<b>Earnings per Share</b> (Note 6.15)				
9750 <b>Basic Earnings per Share</b> (Unit: NT Dollar)*	<u>\$ 2.67</u>		<u>4.05</u>	
9850 <b>Diluted Earnings per Share</b> (Unit: NT Dollar)*	<u>\$ 2.61</u>		<u>3.93</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 Changes in Stockholders' Equity**

**For the years ended December 31, 2015 and 2014**

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

	Equity Attributable to Stockholders of Parent Company				Other Equity		Treasury Stock	Total Equity
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings*	Exchange Differences on Translation Of financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Products		
<b>Beginning Balance, January 1, 2014</b>	\$ 2,241,522	3,572,820	1,001,724	1,171,955	(26,785)	335,591	(28,253)	8,268,574
Net Income	-	-	-	904,408	-	-	-	904,408
Other Comprehensive Income	-	-	-	1,764	51,430	(129,091)	-	(75,897)
Total Comprehensive Income	-	-	-	906,172	51,430	(129,091)	-	828,511
Appropriation of Retained Earnings (note1)								
Provision for Legal Reserve	-	-	69,567	(69,567)	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(625,934)	-	-	-	(625,934)
Other Changes on Capital Surplus								
Share of profit (loss) of associates and joint ventures accounted for using equity method	-	37,401	-	-	-	-	-	37,401
Write-off of Treasury Stock	(6,041)	(22,212)	-	-	-	-	28,253	-
<b>Ending Balance, December 31, 2014</b>	<u>2,235,481</u>	<u>3,588,009</u>	<u>1,071,291</u>	<u>1,382,626</u>	<u>24,645</u>	<u>206,500</u>	<u>-</u>	<u>8,508,552</u>
Net Income	-	-	-	598,178	-	-	-	598,178
Other Comprehensive Income	-	-	-	(1,911)	21,162	(50,453)	-	(31,202)
Total Comprehensive Income	-	-	-	596,267	21,162	(50,453)	-	566,976
Appropriation of Retained Earnings (note 2)								
Provision for Legal Reserve	-	-	90,441	(90,441)	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(737,709)	-	-	-	(737,709)
Other Changes on Capital Surplus								
Share of profit (loss) of associates and joint ventures accounted for using equity method	-	135	-	-	-	-	-	135
Conversion of Convertible Bond	6,673	20,100	-	-	-	-	-	26,773
<b>Ending Balance, December 31, 2015</b>	<u>\$ 2,242,154</u>	<u>3,608,244</u>	<u>1,161,732</u>	<u>1,150,743</u>	<u>45,807</u>	<u>156,047</u>	<u>-</u>	<u>8,364,727</u>

\* (1) : Remuneration of directors and supervisors of NT\$18,742 employee benefit of NT\$99,956 have been deducted from Comprehensive Income Statement

\* (2) : Remuneration of directors and supervisors of NT\$23,553 employee benefit of NT\$125,617 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, 2015 and 2014**

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

	<u>2015</u>	<u>2014</u>
<b>Cash Flows generated from Operating activities:</b>		
<b>Income before Income Tax</b>	\$ 734,567	1,044,952
<b>Adjusted Items:</b>		
Incomes or Expenses		
Depreciation	267,244	283,691
Bad Debt(Turnover)	506	(3,258)
Interest Expense	12,085	19,549
Interest Income	(13,677)	(15,154)
Gains or Losses from Subsidiary Using Equity Method	211,400	(138,770)
Gain or Losses on Disposal and Scrap of Property and Equipment	1,934	27,753
Gain or Losses on Sales of Available-for-Sales	-	(24,646)
Unrealized Gains and Losses on Sales	(7,351)	3,256
Total Incomes or Expenses	472,141	152,421
Change in Assets and Liabilities related to Operating Activities:		
Financial Assets at Fair Value through Profit or Loss - Current	39,107	(67,256)
Account and Notes Payable	507,919	87,511
Accounts Payable - Related Parties	(173,399)	116,631
Other Receivables	10,951	28,878
Inventory	338,481	296,505
Prepaid Expenses and Other Current Assets	2,518	(1,762)
Financial Liabilities at Fair Value through Profit or Loss - Current	-	(595)
Account and Notes Payable	(115,532)	(140,115)
Accounts Payable - Related Parties	6,767	(1,434)
Other Receivables	(24,699)	3,685
Accrued Pension Liabilities	(900)	(1,291)
Total of Adjusted Items	1,063,354	473,178
Cash Flow generated from Operations	1,797,921	1,518,130
Interest Collected	14,575	14,374
Dividends Collected	15,250	56,000
Interest Paid	(11,934)	(19,133)
Income Tax Paid	(176,395)	(100,822)
<b>Net Cash Flows generated from Operating activities</b>	<u>1,639,417</u>	<u>1,468,549</u>
<b>Cash Flows generated from Investing Activities:</b>		
Sale of Available-for-sale Financial Assets	-	27,723
Sale of Financial Assets carried at Cost	(24,246)	-
Acquisition of Property and Equipments	(64,240)	(105,582)
Sale of Property and Equipments	1,959	18,269
Decrease in Other Noncurrent Assets	(56)	1,113
<b>Net Cash Flows generated from (used in) Investing Activities</b>	<u>(86,583)</u>	<u>(58,477)</u>
<b>Cash Flows generated from Financing Activities:</b>		
Increase in Short-term Loans	-	75,569
Decrease in Short-term Loans	(496,687)	-
Repayments on Corporate Bonds	(75,699)	-
Repayments on Long-term Loans	-	(500,000)
Increase (Decrease) in Other Noncurrent Liabilities	1	15
Cash Dividend Distribution	(737,709)	(625,934)
<b>Net Cash Flows used in Financing Activities</b>	<u>(1,310,094)</u>	<u>(1,050,350)</u>
<b>Increase (Decrease) in Cash and Cash in Banks of Current Period</b>	242,740	359,722
<b>Cash and Cash in Banks at Beginning of the Period</b>	1,407,191	1,047,469
<b>Cash and Cash in Banks at End of the Period</b>	<u>\$ 1,649,931</u>	<u>1,407,191</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, 2015 AND 2014  
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

**1. General**

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

**2. Approval Date and Procedures of the Consolidated Financial Statements**

The Board of Directors approved the unconsolidated financial statements on March 15, 2016.

**3. Application on New Standards and Interpretations**

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

<b><u>New Standards, Amendments and Interpretations</u></b>	<b><u>Effective Date Issued by IASB</u></b>
Amended IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
Amended IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
Amended IFRS 1 <i>Government Loans</i>	January 1, 2013
Amended IFRS 7 <i>Disclosures - Transfers of Financial Assets</i>	July 1, 2011
Amended IFRS 7 <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013
IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Subsidiaries will adopt on January 1, 2014)
IFRS 11 <i>Joint Agreements</i>	January 1, 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
Amended IFRS 10, IFRS 12 and IAS 27 <i>Investment Entities</i>	January 1, 2014
IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
Amended IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
Amended IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
Amended IAS 19 <i>Employee Benefits</i>	January 1, 2013
Amended IAS 27 <i>Separate Financial Statements</i>	January 1, 2013
Amended IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

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

(1) *IAS 19 Employee Benefits*

The amendments to IAS 19 require companies to calculate a "net interest" amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on plan assets used in the previous IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses in profit or loss when they occur, and instead require companies to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it is incurred and will no longer be amortized over the average period before meeting vesting conditions on a straight-line basis. In addition, the amendments also require a broader disclosure of defined benefit plans. In compliance with the standards above, Holy Stone made changes on related accounting policies.

(2) *IAS 1 Presentation of Financial Statements*

The primary amendment of IAS 1 was requiring profit or loss and other comprehensive income to be presented together, requiring entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, and requiring tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items. HOLY STONE has followed the amendment of IAS 1 to present the comprehensive income statement.

(3) *IFRS 13 Fair Value Measurement*

IFRS 13 defines the meaning of fair value and sets the method of calculation and the presentation of measurement of fair value. Holy Stone has added related disclosure on Fair value measurement and has not seen any significant influence on the financial condition and performance.

3.2 New standards and interpretations of 2013 IFRSs issued by the IASB but not yet endorsed by the FSC

<b>New Standards, Amendments and Interpretations</b>	<b>Effective Date Issued by IASB</b>
<i>IFRS 9 Financial Instruments</i>	January 1, 2018
<i>IFRS 10/IAS 28 Sales or Contributions of assets between an Investor and its associate/joint venture</i>	TBA
<i>IFRS 10, 12 and IAS 28 Investment entities: Applying the Consolidation Exception</i>	January 1, 2016
<i>Amended IFRS 11 Joint Arrangement</i>	January 1, 2016
<i>IFRS 14 Regulatory Deferral Accounts</i>	January 1, 2016
<i>IFRS 15 Revenue from Contracts with Customers</i>	January 1, 2018

(continued)

<b>New Standards, Amendments and Interpretations</b>	<b>Effective Date Issued by IASB</b>
IFRS 16 <i>Leases</i>	January 1, 2019
Amended IAS1 <i>Disclosure Initiative</i>	January 1, 2016
Amended IAS7 <i>Disclosure Initiative</i>	January 1, 2017
Amended IAS12 <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017
Amended IAS 16/38 <i>Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amended IAS 16/41 <i>Agriculture</i>	January 1, 2016
Amended IAS 19 <i>Employee Benefits</i>	July 1, 2014
Amended IAS 27 <i>Equity Method in separate financial statements</i>	January 1, 2016
Amended IAS 36 <i>Impairment of Assets</i>	January 1, 2014
Amended IAS 39 <i>Financial Instruments</i>	January 1, 2014
2010-2012 and 2011-2013 Annual Improvements	July 1, 2014
2012-2014 IAS Annual Improvements	January 1, 2016
IFRIC21	January 1, 2014

HOLY STONE is assessing the influence on financial condition and performance of the above standards and interpretations. HOLY STONE will disclose the related influence when the assessment is finished.

#### 4. Summary of Significant Accounting Policies

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

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

##### 4.1. Statement of Compliance

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

##### 4.2. Basis of Preparation

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

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

##### 4.2.2. Functional and presentation currency

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

##### 4.3. Foreign Currency

##### 4.3.1. Foreign Currency Transactions

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

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

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

##### 4.3.2. Foreign Operations

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

When loss of control, joint control or significant influences that caused by disposal of a foreign

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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.

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

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

- a. It expects to settle the liability in its normal operating cycle;
- b. It holds the liability primarily for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting period; or
- d. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**4.5. Cash and Cash Equivalents**

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

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

**4.6. Financial Instruments**

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

**4.6.1. Financial Assets**

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

**4.6.1.1. Financial Assets at Fair Value through Profit or Loss**

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

Held-for-trading financial assets acquired or held for the purpose of selling or repurchasing in the

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**Holy Stone Enterprise Company Limited**

**NOTES TO 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.

**4.6.1.2. 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

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**Holy Stone Enterprise Company Limited**

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cost less impairment at effective interest rate. Selling or purchasing the financial assets should be handled using trade date accounting.

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

4.6.1.4. Loans and receivables

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

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

4.6.1.5. Impairment of financial assets

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

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

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

For financial assets carried at amortized cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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.

**4.6.1.6. 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

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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.

4.6.2. 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.

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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 initially.

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

The performance of financial assets is evaluated at fair value.

If derivative plays part of the hybrid instruments.

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

4.6.2.3. Other financial liabilities

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

4.6.2.4. Derecognition of financial assets

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

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

4.6.2.5. Asset and liability offsetting

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

4.6.3. Derivatives

The Company holds derivative as an instrument to avoid foreign currency risk and interest risk. The derivative is initially recognized at fair value whereas the transaction cost is recognized as income. The

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

subsequent measurement of gains or losses of derivatives is measured at fair value, recognized as income, and further reported as other gains and losses under non-operational sales and expenditure. If is positive, the net value shall be recognized as financial assets; on the contrary, if is negative, it shall be recognized as financial liabilities.

4.7. Inventories

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

4.8. Investment in subsidiary

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

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

4.9. Property, plant and equipment

4.9.1. Recognition and measurement

Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or is carried at cost less accumulated depreciation and impairment. Cost shall include expenses of assets acquisition. The cost of self-constructed assets consists of material and direct labor, other attributable to cost that allows asset to reach the serviceable condition, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, in order to meet the borrowing cost for asset capitalization. In

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addition, the cost also includes purchase of property, plant and equipment in foreign currency, which belongs to components of cash flow hedge effectiveness derived from equity. Purchase of software that aims to integrate relevant equipment function shall be capitalized as part of the equipment.

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

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

4. 9.2. Subsequent cost

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

4. 9.3. Depreciation

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

No depreciation shall be recognized for land.

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

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

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

4.10. Impairment of Non-Financial Assets

An entity shall assess at each reporting date whether any inventories, deferred income tax assets, assets generated from employee's bonus, assets classified as held-for-sale non-current assets and other non-financial

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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.

#### 4.11. Revenue

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

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

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

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

#### 4.12. Employee's bonus

##### 4.12.1. Defined Contribution Plans

When providing defined contribution plans, the Company shall recognize the amounts to be

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contributed as current expense for the employees' employment period.

4. 12.2. Defined Benefit Plans

Defined benefit plans are plans not classified as defined contribution plans. The Company shall recognize the amounts to be contributed as current expense for the employees' employment period. The unrecognized fair value of service cost of past period and other plan assets shall be eliminated. The discount rate shall be chosen from the closest date of closing date and the Company's net obligation term, and from the rate at reporting date of high quality corporate bond of which the pricing currency are the same as expected pension.

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

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

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

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

4. 12.3. Short-Term Employee Benefits

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

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

4.13. Share-based payment transactions

Share-based benefit which granted by the Company to employees shall recognized the compensatory

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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.

**4.14. Income taxes**

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

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

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

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

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

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

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

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences

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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.

**4.15. Earnings per Share**

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

**4.16. Operating Segment**

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

**5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

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

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

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

**6. Accounts Statement**

**6.1. Cash and Cash Equivalents**

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	<u>2015.12.31</u>	<u>2014.12.31</u>
Cash on hand	\$ 999	925
Current deposit	1,431,632	1,129,541
Deposit account	<u>217,300</u>	<u>276,725</u>
	<u><b>\$ 1,649,931</b></u>	<u><b>1,407,191</b></u>

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

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

Details:

	<u>2015.12.31</u>	<u>2014.12.31</u>
Financial assets at fair value through profit or loss:		
Non-derivative financial assets:		
Foreign stocks	\$ -	8,001
Bonds	448,897	474,207
Open-ended funds	29,739	35,693
Cooperate Bond	<u>-</u>	<u>1,799</u>
Total	<u><b>\$ 478,636</b></u>	<u><b>519,700</b></u>

6.3. Available-for-Sale Financial Assets

	<u>2015.12.31</u>	<u>2014.12.31</u>
Investment of Stock:		
Foreign Stock (listed companies)	<u><b>\$ 30,272</b></u>	<u><b>39,154</b></u>

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

<u>Bond price on reporting date</u>	<u>2015</u>		<u>2014</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%	<u><b>\$ 303</b></u>	<u>-</u>	<u><b>392</b></u>	<u>-</u>
Decreased by 1%	<u><b>\$ (303)</b></u>	<u>-</u>	<u><b>(392)</b></u>	<u>-</u>

Material foreign currency equity investment on reporting is as follows:

Unit: Thousands of NT\$

	<u>2015.12.31</u>			<u>2014.12.31</u>		
	<u>Foreign currency</u>	<u>Rate</u>	<u>NT\$</u>	<u>Foreign currency</u>	<u>Rate</u>	<u>NT\$</u>
USD	922:	32.825:	30,272	1,237:	31.650	39,154

As of December 31, 2015 and 2014, the Company's available-for-sale financial assets had never been pledged as collaterals.

6.4 Financial assets carried at cost

	<u>2015.12.31</u>	<u>2014.12.31</u>
Foreign Common Stock (not listed yet)	<u><b>\$ 24,246</b></u>	<u>-</u>

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

As of December 31, 2015, the Company's financial assets carried at cost had never been pledged as collaterals.

6.5 Notes, Account and Other Receivable, Net

	<u>2015.12.31</u>	<u>2014.12.31</u>
Notes receivable	\$ 46,132	68,416
Account receivable	2,146,394	2,678,799
Account receivable – related parities	772,961	599,562
Other receivable	44,936	56,785
Less: Allowance for Uncollectible Accounts	<u>(13,993)</u>	<u>(60,257)</u>
	<u><b>\$ 2,996,430</b></u>	<u><b>3,343,305</b></u>

As of December 31, 2015 and 2014, the notes, account and other receivable aging were as follows:

	<u>2015.12.31</u>		<u>2014.12.31</u>	
	<u>Amount</u>	<u>Impairment</u>	<u>Amount</u>	<u>Impairment</u>
Unexpired	\$ 2,997,583	7,722	3,350,573	8,972
1~30 days overdue	10,775	4,206	3,043	1,339
30~60 days overdue	408	408	259	259
Over 90 days overdue	<u>1,657</u>	<u>1,657</u>	<u>49,687</u>	<u>49,687</u>
	<u><b>\$ 3,010,423</b></u>	<u><b>13,993</b></u>	<u><b>3,403,562</b></u>	<u><b>60,257</b></u>

As of December 31, 2015 and 2014, the statement of change in allowance for uncollectible accounts of notes, account and other receivable were as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance, January 1	\$ 60,257	63,703
Impairment loss recognition	506	(3,258)
Offset (current period)	<u>(46,770)</u>	<u>(188)</u>
Ending balance, December 31	<u><b>\$ 13,993</b></u>	<u><b>60,257</b></u>

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

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

41% and 34 % of the notes and account receivables including remains from the most significant client

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in 2014 and 2015 separately, come from the clients with favorable payment history.

As of December 31, 2015 and 2014, the account receivable of Company had never been pledged as collateral,

6.6. Inventories

	<u>2015.12.31</u>	<u>2014.12.31</u>
Raw Material	\$ 44,014	59,204
Supplies	2,773	4,165
Work in process	73,668	83,067
Semi-finished goods	17,708	37,765
Finished goods	256,096	266,786
Merchandise	1,078,559	1,360,312
	<u>\$ 1,472,818</u>	<u>1,811,299</u>

The inventory cost from cost of goods sold and expense recognized at the end of 2015 and 2014 was NT\$10,522,509 thousand and NT\$12,844,264 thousand. Inventory writedown loss to net realizable value in 2015 is NT\$9,309 thousand and recognized as loss on inventory. The factor that caused the realizable value of inventories lower than the cost had gone. Therefore, Net Realizable Value increased and the recognized cost of hood sold was NT\$60,660 thousand.

As of December 31, 2015 and 2014, the inventories of Company had never been pledged as collateral,

6.7. Investment under equity method

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Subsidiaries	<u>\$ 2,343,030</u>	<u>2,579,779</u>

For more information of subsidiaries, please refer to the Company's 2015 consolidated report.

6.7.2. As of December 31, 2015 and 2014, the Company's investment had never been pledged as collateral.

6.8. Property, Plant and Equipment

Details on cost, accumulated depreciation, and impairment loss of the Company for the year ended December 31, 2015 and 2014 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, 2015	\$ 626,348	1,243,401	2,060,803	209,208	4,139,760
Purchasing & adjustment	-	5,092	54,835	9,791	69,718
Disposal	-	(110)	(37,990)	(5,357)	(43,457)
Ending balance December, 31 2015	<u>\$ 626,348</u>	<u>1,248,383</u>	<u>2,077,648</u>	<u>213,642</u>	<u>4,166,021</u>
Beginning balance, January 1, 2014	\$ 626,348	1,235,902	2,003,298	248,287	4,113,835
Purchasing & adjustment	-	40,533	82,281	15,179	137,993
Disposal	-	(33,034)	(24,776)	(54,259)	(112,069)

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Ending balance December, 31 2014	<u>\$ 626,348</u>	<u>1,243,401</u>	<u>2,060,803</u>	<u>209,207</u>	<u>4,139,759</u>
Accumulated depreciation & impairment loss					
Beginning balance, January, 1 2015	\$ -	318,087	1,331,770	157,020	1,806,877
Current year depreciation	-	39,813	207,709	19,722	267,244
Disposal	-	(92)	(35,579)	(3,893)	(39,564)
Ending balance, December 31, 2015	<u>\$ -</u>	<u>357,808</u>	<u>1,503,900</u>	<u>172,849</u>	<u>2,034,557</u>
Beginning balance, January 1, 2014	\$ -	282,173	1,123,031	184,905	1,590,109
Current year depreciation	-	44,746	216,653	22,292	283,691
Disposal	-	(8,832)	(7,914)	(50,177)	(66,923)
Ending balance, December 31, 2014	<u>\$ -</u>	<u>318,087</u>	<u>1,331,770</u>	<u>157,020</u>	<u>1,806,877</u>
Book value:					
Ending balance, December 31, 2015	<u>\$ 626,348</u>	<u>890,575</u>	<u>573,748</u>	<u>40,793</u>	<u>2,131,464</u>
Ending balance, December 31, 2014	<u>\$ 626,348</u>	<u>925,314</u>	<u>729,033</u>	<u>52,187</u>	<u>2,332,882</u>
Beginning balance, January 1, 2014	<u>\$ 626,348</u>	<u>953,729</u>	<u>880,267</u>	<u>63,382</u>	<u>2,523,726</u>

As of December 31, 2015 and 2014, the property, plant and equipment of the Company had never been pledged as collateral.

6.9. Short-Term Loan

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Unsecured bank loans	<u>\$ 1,260,187</u>	<u>1,756,874</u>
Undrawn quotas	<u>\$ 3,430,437</u>	<u>3,135,879</u>
Range of interest rates	<u>0.72%~1.3454%</u>	<u>0.8%~1.43%</u>

6.10. Bond payable

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Total amount of convertible bonds issued	\$ 700,000	700,000
Unamortized discount on bond payable	-	(625)
Accumulated redemption	(671,200)	(595,500)
Accumulated conversion	(28,800)	-
Ending balance of bond payable	<u>\$ -</u>	<u>103,875</u>
Embedded derivatives – call and put options (reported in financial assets at fair value through profit or loss)	<u>\$ -</u>	<u>1799</u>
Equity component – conversion right (reported in capital surplus)	<u>\$ -</u>	<u>16,909</u>
	<u>2015</u>	<u>2014</u>
Embedded derivatives – gain or loss of call and put options reevaluated at fair value	<u>\$ 159</u>	<u>2,393</u>
Interest expense	<u>\$ 554</u>	<u>1,295</u>

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

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

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

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

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

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

## 6.11 Employee Benefits

### 6.11.1. Defined Benefit Plan

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Total present value of obligation	\$ 143,960	143,529
Fair value of plan assets	<u>(87,186)</u>	<u>(87,766)</u>
	56,774	55,763
Affected amount of asset limit	<u>-</u>	<u>-</u>
Defined benefit obligation liabilities recognized (assets)	<u><b>\$ 56,774</b></u>	<u><b>55,763</b></u>

The Company appropriates pension for defined benefit plan to labor retirement reserve account.

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Each and every employee's pension applied to the Labor Standard Act is calculated with cardinal number based on years of work experience and the average wages 6 months before retirement.

6.11.1.1. Composition of Assets

The pension funds appropriated by the Company in accordance with Labor Standard Law are managed by Bureau of Labor Funds, Ministry of Labor (abbreviated to Bureau of Labor Funds, MOL in the following pages). According to "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", the lowest return of annual distribution of settlement cannot lower than the revenue calculated using local bank's 2-year time deposit interest rates.

The ending balance as of December 31, 2015 in labor retirement reserve account was NT\$81,706 thousand. The labor pension funds include return and assets allocation on funds, for more information, please visit website of Labor Pension Fund Supervisory Committee.

6.11.1.2. Changes of Current Value of Defined Benefit Obligation

Changes of Current Value of Defined Benefit Obligation for the year ended December 31, 2014 and 2015 were as follows:

	<u>2015</u>	<u>2014</u>
Defined benefit obligation on January 1	\$ 143,529	140,940
Current service cost and interest	4,753	3,871
Benefit plan payment		
-Profit/loss caused by change of financial assumption	2,252	(1,282)
Actuarial Gains or losses	(6,574)	-
Defined benefit obligation on December 31	<u>\$ 143,960</u>	<u>143,529</u>

6.11.1.3. Changes of Fair Value of the Plan Assets

The changes of current value for benefit plan for the year ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Fair value of the plan assets on January 1	\$ 87,766	82,122
Interest Income	1,905	-
Reevaluated amount of defined benefit		
-Plan Asset Return (excluding current interest)	341	1,919
Allocated amount to plan	3,748	3,725
Paid benefit	(6,574)	-
Plan assets at fair value on December 31	<u>\$ 87,186</u>	<u>87,766</u>

6.11.1.4 Change of affected amount of asset limit

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No change of affected amount of asset limit.

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

Actuarial gains or losses recognized as other comprehensive gains or losses as of December 31,

2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current service cost	\$ 1,703	1,405
Net interest from defined benefit asset (debt)	1,145	1,029
Ending accumulated balance on December 31	<u>\$ 2,848</u>	<u>2,434</u>
	<u>2015</u>	<u>2014</u>
Operating cost	\$ 1,290	1,379
Operating expense	1,558	1,055
	<u>\$ 2,848</u>	<u>2,434</u>

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

	<u>2015</u>	<u>2014</u>
Accumulated amount on January 1	\$ (63,157)	(64,921)
Recognized amount for current period	(1,911)	1,764
Accumulated amount on December 31	<u>\$ (65,068)</u>	<u>(63,157)</u>

6.11.1.7 Actuarial Assumption

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Discount rate	1.75%	2.125%
Gains on future wages	2.50%	2.50%

The allocated amount of 3,720 thousand dollar will be paid up in a year after 2015. The average period of defined benefit plan is 17 years.

6.11.1.8 Sensitivity Analysis

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

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

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

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6.11.2. Defined Contribution Plan

The Company's defined contribution plan is to allocate 6% of workers monthly wages to the labor pension personal account from Bureau of Labor Insurance, in accordance with Labor Pension Act. After the allocation of the fixed amount of allocation, the Company is excused from other mandatory amount or constructive obligation.

As of December 31, 2015 and 2014, the Company had appreciated NT\$24,903 and NT\$24,670 thousand for pension expense to Bureau of Labor Insurance.

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6.12. Income Tax

6.12.1. Income Tax Expense

6.12.1.1. As of December 31, 2015 and 2014, the income tax expense in details is as follows:

	<u>2015</u>	<u>2014</u>
Present value of income tax expense		
Expense generated from current period	\$ 148,328	160,130
Deferred income tax expense		
Temporary differences incurred or reversed	(11,939)	(19,586)
	<u>\$ 136,389</u>	<u>140,544</u>

6.12.1.2. As of December 31, 2015 and 2014, income tax profit (expense) that recognized under other

comprehensive income is as follows:

	<u>2015</u>	<u>2014</u>
Exchange differences from translation of financial report of foreign operation	\$ (4,334)	(10,534)
Unrealized gain or loss on financial instrument in available-for sale	1,510	(5,747)
Total	<u>\$ (2,824)</u>	<u>(16,281)</u>

6.12.1.3. As of December 31, 2015 and 2014, the adjustment of income tax expense and net income before tax were as follows:

	<u>2015</u>	<u>2014</u>
Net income before tax	<u>\$ 734,567</u>	<u>1,044,952</u>
Income tax calculated by using local tax rate of the Company	\$ 124,876	177,642
Tax-exempt income and rental tax credit	(12,325)	(9,234)
Change in gross temporary differences	(39,083)	(39,832)
10 % more on undistributed earnings	7,626	16
Other	55,295	11,952
	<u>\$ 136,389</u>	<u>140,544</u>

6.12.2. Deferred Income Tax Assets and Liabilities

6.12.2.1. Liabilities not recognized as deferred income tax

As of December 31, 2015 and 2014, the Company is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future; hence no deferred income tax liabilities are recognized. The relative amount are listed in the following statements:

	<u>12.31.2015</u>	<u>12.31.2014</u>
Liabilities not recognized as deferred income tax	<u>\$ 229,901</u>	<u>229,901</u>

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6.12.2.2. Assets and liabilities recognized as deferred income tax

	<u>Loss market decline on inventor due to depreciation</u>	<u>Exchange differences from translation of financial report of foreign operation</u>	<u>Other</u>	<u>Total</u>
<b>Deferred income tax asset:</b>				
Beginning balance, January 1, 2015	\$ 28,237	-	4,963	33,200
(Debit) Credit income statement	(1,583)	-	(2,957)	(4,540)
Credit to other comprehensive income	-	-	-	-
<b>Ending balance, December 31, 2015</b>	<b>\$ 26,654</b>	<b>-</b>	<b>2,006</b>	<b>28,660</b>
Beginning balance, January 1, 2014	\$ 17,924	5,486	6,656	30,066
(Debit) Credit income statement	10,313	-	(1,693)	8,620
Debt to other comprehensive income	-	(5,486)	-	(5,486)
<b>Ending balance, December 31, 2014</b>	<b>\$ 28,237</b>	<b>-</b>	<b>4,963</b>	<b>33,200</b>
	<u>Gains of Losses from Subsidiary Using Equity Method</u>	<u>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, 2015	\$ 45,063	5,048	9,255	59,366
Debit income statement	(12,971)	-	(3,508)	(16,479)
Debt (Credit) to other comprehensive income	-	4,334	(1,510)	2,824
<b>Ending balance, December,31 2015</b>	<b>\$ 32,092</b>	<b>9,382</b>	<b>4,237</b>	<b>45,711</b>
Beginning balance, January 1, 2014	\$ 56,301	-	3,236	59,537
Credit to income statement	(11,238)	-	272	(10,966)
Debt (Credit) to other comprehensive income	-	5,048	5,747	10,795
<b>Ending balance, December 31, 2014</b>	<b>\$ 45,063</b>	<b>5,048</b>	<b>9,255</b>	<b>59,366</b>

6.12.2.3. Income Tax Assessment

The income tax has been examined and cleared by the tax authorities to the year 2013. (not authorized for 2012 yet)

6.12.2.4. Related Information of Integrated Income Tax

Integrated income tax is as follows:

	<b>2015.12.31</b>	<b>2014.12.31</b>
Undistributed earnings after 1998	<b>\$ 1,150,743</b>	<b>1,382,626</b>
Balance in the shareholder deductible tax	<b>\$ 176,042</b>	<b>138,302</b>
	<b>2015 (expected)</b>	<b>2014 (actual)</b>
Tax deduction ratio of earning distribution to residents in ROC	<b>21.44 %</b>	<b>17.20 %</b>

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

Since January 1, 2015, the amount of income tax credit of gross dividends (earnings) distributed to

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

6.13. Capital and Other Equities

As of December 31, 2015 and 2014, Holystone had authorized share capital NT\$ 4,500,000 dollars, with face value NT\$ 10 per share and were divided into 450,000 shares. The Issued shares were all common stock, as of December 31, 2015, 2014; there are 224,215 (The Board of Directors resolved to write off 667 thousand shares on 6 May, 2014, and was approved by the authority on 3 June, 2014) and 223,548 thousand shares outstanding. All of the payment of issued shares was collected.

The Reconciliation of shares outstanding as of December 31, 2015 and 2014 is as follows:

	<b><u>Common Stock (Thousand)</u></b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
Beginning balance, January 1	223,548	224,152
Treasury stock write-off	-	(604)
Capital reduction	667	-
Ending balance, December 31	<b><u>224,215</u></b>	<b><u>223,548</u></b>

6.13.1. The components of capital surplus were as follows:

	<b><u>2015.12.31</u></b>	<b><u>2014.12.31</u></b>
From Floating share premium	\$ 1,527,358	1,527,358
From convertible bonds	1,500,091	1,463,082
From bond options	-	16,909
From Merger	144,225	144,225
From employees stock option	272,695	272,695
From employees' bonus	15,410	15,410
From Differences between book value and equity price of acquisition or disposal of subsidiaries	84,793	84,658
From expired option	63,672	63,672
	<b><u>\$ 3,608,244</u></b>	<b><u>3,588,009</u></b>

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

6.13.2. Retained earnings

According to Holy Stone's Articles of Incorporation, if there is a surplus considering all accounts by the end of a fiscal year, the surplus shall be allocated in the following order;

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- a. Pay income taxes as required by law.
- b. Offset accumulated deficits from previous years.
- c. Allocate 10 percent to capital reserve, unless capital reserve has reached total paid-in capital.
- d. Allocate a portion to special capital reserve, as required by government regulations.
- e. The surplus remaining after deduction of items a. to e. should be allocated to the directors, supervisors and employees as follow:
  - (a.) Compensation for directors and supervisors should not exceed 3 percent.
  - (b.) Employee bonuses should be no less than 7 percent.If employee bonuses are distributed as stocks, these employees must be qualified according to the requirements composed by the board or his/her authorized personnel.
- f. The surplus remaining after deductions of items a. to e. could be distributed to the shareholders after the resolution is approved in the shareholders' meeting.

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

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

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

i. Legal Reserve

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

ii. Special Reserve

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

iii. Distribution of earnings

Holystone's estimated bonuses to employees amounted to NT\$125,617 thousand, and the estimated remuneration to directors amounted to NT\$23,553 thousand for the year ended December 31, 2014.

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

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December 31, 2014. The actual distribution of bonuses to employees and remuneration to directors for the year ended December 31, 2014 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, 2014.

On June 9, 2015, and June 11, 2014, the distribution of owners' dividends resolved in the 2014 and 2013 earnings appropriations and distributions of available Cash from capital surplus in shareholders' meeting were as follows:

	2014		2013	
	dividend allotment (dollars)	Amount	dividend allotment (dollars)	Amount
Common stock dividends:				
Cash	\$ 3.30	<u>737,709</u>	2.80	<u>625,934</u>

6.13.3 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. The Board of Directors resolved to write off 604 thousand shares on 6 May, 2014, and was approved by authority on 3 June, 2014.
- 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, 2014, 2013, and January 1, 2013, the Company's buyback in treasury stock was 863 thousand shares (adjusted to 604 thousand shares due to capital reduction.) 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.

6.13.4. Other Equity

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

	Exchange differences from translation of financial report of foreign operation	Available-for-sale investment
Beginning balance, January 1, 2014	\$ (26,785)	335,591

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Exchange differences (Net value after tax):			
The Company		51,430	-
Unrealized gains or losses of available-for-sale financial assets:			
The Company	-		(40,800)
Subsidiaries	-		(88,291)
Ending balance, December 31, 2014	<b>\$</b>	<b>24,645</b>	<b>206,500</b>

6.14. Share-based Payment

As of December 31, 2015, details of share-based payment were as follows:

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

6.14.1. The valuation coefficient of grant date fair value

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

	<b><u>First employment stock option plan in 2007</u></b>
Price on grant date (TWD)	18.755
Stock price on grant date (TWD)	50.00
Exercise price on 12.31.2015 (2015)	37.60
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\$)	<b>2015</b>		<b>2014</b>	
	<b><u>Weighted average exercise price (dollars)</u></b>	<b><u>Numbers of option (Unit: Thousands)</u></b>	<b><u>Weighted average exercise price (dollars)</u></b>	<b><u>Numbers of option (Unit: Thousands)</u></b>
Outstanding on January 1	\$ 41.10	7,002	41.10	7,002
Numbers granted for current period	-	-	-	-
Numbers abandoned for current period	-	-	-	-
Numbers exercised for current period	-	-	-	-
Numbers expired for current period	-	-	-	-
Adjustment of Cash reduction	-	-	-	-
Outstanding numbers on December 31	37.60	<b><u>7,002</u></b>	41.10	<b><u>7,002</u></b>
Exercisable numbers on December 31	37.60	<b><u>7,002</u></b>	41.10	<b><u>7,002</u></b>

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

	<b><u>2015.12.31</u></b>	<b><u>2014.12.31</u></b>
Exercise price (NT\$)	37.6	41.1

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Weighted average remaining interval

1.93years

2.93years

**6.15. Earnings per Share**

6.15.1. Basic EPS

6.15.1.1. Net income available to common shareholders

	<u>2015</u>	<u>2014</u>
Net income available to common shareholders	<u>\$ 598,178</u>	<u>904,408</u>

6.17.1.2. Weighted average of outstanding common stock

Unit: thousand shares	<u>2015</u>	<u>2014</u>
Outstanding common stock on January 1	223,548	223,548
Effect of cash refund of capital reduction	498	-
Weighted average of outstanding common stock on December 31	<u>224,046</u>	<u>223,548</u>

6.17.2. Diluted EPS

i. Net income available to common shareholders (Diluted)

	<u>2015</u>	<u>2014</u>
Net income available to common shareholders (Basic)	\$ 598,178	904,408
Interest expense after tax of convertible bond	554	1,295
Net income available to common shareholders (Diluted)	<u>\$ 598,732</u>	<u>905,703</u>

ii. Weighted average of outstanding shares (Diluted)

Unit: thousand shares	<u>2015</u>	<u>2014</u>
Weighted average of outstanding common shares(Basic)	224,046	223,548
Effect of conversion of convertible bonds	1,005	2,421
Effect of employee bonus share	4,069	4,101
Effect of employee share warrant	190	211
Ending balance of weighted average of outstanding common shares (Diluted) December 31	<u>229,310</u>	<u>230,281</u>

6.16. Revenues

The operating revenues of the Company are detailed as follows:

	<u>2015</u>	<u>2014</u>
Merchandise sales	\$ 12,152,342	14,561,621
Other	1,982	3,727
	<u>\$ 12,154,324</u>	<u>14,565,348</u>

6.17. Financial Instruments

According to company policy which has not been approved by board of shareholders, the Company shall allocate at least 7% of earnings to employee bonus and remuneration to directors if there is profit

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generated in that fiscal year. But if there is loss generated, the Company shall not need to reserve beforehand. The above employee who is eligible for cash or stock, shall include those qualified certain terms.

The estimated bonus and remuneration for fiscal year of 2015 are 88,148 thousand and 16,790 thousand, respectively. The amount is calculated by deducting employee bonus and remuneration to directors from Net income before tax, and then multiplying by percentage specified in the Company's policy. It shall be recognized as operating cost or operating expense. Any change occurred will be recognized gain/loss in the next fiscal year. If the estimated amount is different from actual distributed ones, the difference shall be recognized as gain/loss in fiscal year of 2016.

6.18. Financial Instruments

6.18.1. Credit Risk

i. Credit Risk Exposure

The maximum credit risk exposure of the Company's financial instruments is equal to the carrying amount. As of December 31, 2015 and 2014, the maximum credit risk exposure totaled NT\$5,179,515 and NT\$5,309,350 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.

6.18.2. Liquidity risk

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

	<u>Book Value</u>	<u>Contract Cash Flow</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
December 31, 2015					
Non-derivative financial liabilities					
Short-term loans	\$ 1,260,187	1,260,911	1,260,911	-	-
Accounts payable	917,803	917,803	917,803	-	-
Accounts payable-related parties	50,821	50,821	50,821	-	-
Other payables	432,600	432,600	432,600	-	-
	<u>\$ 2,661,411</u>	<u>2,662,135</u>	<u>2,662,135</u>	-	-
December 31, 2014					
Non-derivative financial liabilities					
Unsecured Corporate Bond	\$ 103,875	103,875	103,875	-	-
Short-term loans	1,756,874	2,224,576	2,224,576	-	-
Accounts payable	1,033,335	1,033,335	1,033,335	-	-
Accounts payable-related parties	44,054	44,054	44,054	-	-

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Other payables	457,702	457,702	457,702	-	-
	<b>\$ 3,395,840</b>	<b>3,863,542</b>	<b>3,863,542</b>	-	-

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

6.18.3. Currency Risk

i. Exposure to Currency Risk

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

Unit: NT\$ Thousand

	2015.12.31			2014.12.31		
	Foreign currency	Exchange rate	New Taiwan dollar	Foreign currency	Exchange rate	New Taiwan dollar
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$ 89,784	32.8250	2,947,156	117,913	31.6500	3,731,948
EUR	42	35.8800	1,504	139	38.4700	5,350
HKD	13,593	4.2350	57,566	15,134	4.0800	61,748
JPY	263,820	0.2727	71,944	283,282	0.2646	74,956
RMB	538	4.9950	2,689	6,244	5.0920	31,797
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	61,103	32.8250	2,005,699	92,857	31.6500	2,938,926
EUR	197,555	0.2727	53,873	435,537	0.2646	115,243

ii. Sensivity Analysis

The main currency risk of the Company comes from cash and cash equivalent, account and other payables, loans, account and other receivables that priced in foreign dollars. Foreign currency gain/loss is generated from translation. As of December 31, 2015 and 2014, 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\$51,064 thousand and NT\$42,582 thousand. The analysis of these two periods is based on the same basis.

iii. Profit or loss from currency exchange

	2015		2014	
	P/L from currency exchange	Average currency rate	P/L from currency exchange	Average currency rate
NTD	<b>\$ 35,858</b>	-	<b>31,367</b>	-

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6.18.4. Interest Rate Analysis

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

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

If the interest rate increased or dropped by 1%, other variations remain unchanged, the Company's net profit as of December 31, 2015 and 2014 would increase or decrease NT\$12,602 dollar and NT\$17,568 dollar. The chief reason of this is because the Company adopts floating rates loans.

6.18.5. Fair Value

i. Types of financial instruments and fair value

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

	2015.12.31				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial asset calculated through profit and loss carried at fair value	\$ 478,636	478,636	-	-	478,636
Available-for-sale financial asset					
Common Stock	30,272	30,272	-	-	30,272
Financial asset carried at cost	24,246	-	-	-	-
Account receivable					
Cash and cash equivalent	1,649,931	-	-	-	-
Notes receivable and accounts receivable	2,178,533	-	-	-	-
Other receivable	44,936	-	-	-	-
Accounts receivable-related parties	772,961	-	-	-	-
Subtotal	4,646,361	-	-	-	-
Total	<b>\$ 5,179,515</b>	<b>508,908</b>	-	-	<b>508,908</b>

	2015.12.31				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial asset carried at amortized cost					
Bank loans	\$ 1,260,187	-	-	-	-
Accounts payable	917,803	-	-	-	-
Accounts payable-related parties	50,821	-	-	-	-
Other payable	432,600	-	-	-	-
Subtotal	2,661,411	-	-	-	-
Total	<b>\$ 2,661,411</b>	-	-	-	-

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	2014.12.31				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial asset calculated through profit and loss carried at fair value	\$ 519,700	519,700	-	-	519,700
Available-for-sale financial asset					
Common Stock	39,154	39,154	-	-	39,154
Account receivable					
Cash and cash equivalent	1,407,191	-	-	-	-
Notes receivable and accounts receivable	2,686,958	-	-	-	-
Other receivable	56,785	-	-	-	-
Accounts receivable-related parties	599,562	-	-	-	-
Subtotal	4,750,496	-	-	-	-
Total	<b>\$ 5,309,350</b>	<b>558,854</b>	-	-	<b>558,854</b>
Financial asset carried at amortized cost					
Bank loans	\$ 1,756,874	-	-	-	-
Accounts payable	1,033,335	-	-	-	-
Accounts payable-related parties	44,054	-	-	-	-
Other payable	457,702	-	-	-	-
Puttable corporate bond due in one year	103,875	-	103,875	-	103,875
Subtotal	3,395,840	-	103,875	-	103,875
Total	<b>\$ 3,395,840</b>	-	<b>103,875</b>	-	<b>103,875</b>

ii. Determine valuation techniques and hypothesis for fair value

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

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

iii. Level of Fair Value

- (i) Non-derivative financial instrument

6.19. Financial Risk Management

6.19.1. Summary

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

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

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

6.19.2. Risk Management Structure

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

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

6.18.3. Credit risk

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

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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, 2015 and 2014, the Company provided condition of endorsement and guarantee, for more details please refer to note 7.

iv. Liquidity Risk

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

Loans are one of the significant liquidities. As of December 31, 2015 and 2014, the unexpended short-term loan commitments are NT\$3,430,437 and NT\$3,135,879 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.

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ii. Interest Rate Risk

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

iii. Other Market Price Risk

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

6.20. Capital Management

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

As of December 31, 2015 and 2014, the liabilities to debt ratio were as follows:

	<u>2015.12.31</u>	<u>2014.12.31</u>
Total liabilities	\$ 2,834,540	3,609,679
Less: Cash and cash equivalent	(1,649,931)	(1,407,191)
Net liabilities	<u>\$ 1,184,609</u>	<u>2,202,488</u>
Total equity	\$ 8,364,727	8,508,552
Less: Adjustment	-	-
Adjusted capital	<u>\$ 8,364,727</u>	<u>8,508,552</u>
Liabilities to debt ratio	<u>14.16%</u>	<u>25.89%</u>

6.21. Non-cash investment and financing

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

**7. Related-Party Transactions**

7.1. Subsidiaries of Holystone are detailed as follows:

Investor Companies	Subsidiaries	Location	Shareholding ratio		
			2015.12.31	2014.12.31	Note
The Company	Holy Stone Enterprise (Hong Kong) Co., Ltd. (Holy Stone H.K)	Hong Kong	100.00%	100.00%	
The Company	Holy Stone Holdings Co., Ltd. (HSH)	Samoa	100.00%	100.00%	
The Company	UHOLY Investments Co., Ltd. (UHOLY Investments)	Taiwan	57.69%	57.69%	
The Company	Mayatek Co., Ltd. (Mayatek)	Taiwan	100.00%	100.00%	
The Company	Rong Jhan Investments Co., Ltd. (Rong Jhan Investments)	Taiwan	100.00%	100.00%	

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HSH	Holy Stone Investments Co., Ltd. (HSIC)	Hong Kong	100.00%	100.00%	
HSH	Holypaq Corporation (HC)	Cayman Islands (British Overseas Territory)	100.00%	100.00%	
HSH	Green Glory Holdings Ltd. (GGH)	Samoa	100.00%	100.00%	
HSH	Mayatek Co., Ltd. (Mayatek)	Belize	100.00%	100.00%	
HSH	Holystone Polytech Co., Ltd. (HPC)	Japan	- %	100.00%	
EPM	Everplus Material Co., Ltd. (EPM)	Japan	100.00%	100.00%	(Note 4)
HSH	Holy Stone Holdings (Singapore) Pte.Ltd.(HSHS)	Singapore	100.00%	100.00%	(Note3)
HSIC	Holy Stone international trading (Shanghai) Co., Ltd. (Holy Stone Shanghai)	China	100.00%	- %	
HSIC	Infortech (CHINA) Co., Ltd. (Infortech)	China	100.00%	100.00%	
GGH	Infortech International Trading (Shanghai) Ltd. (Infortech International)	China	- %	100.00%	(Note5)
GGH	Milestone Global Technology Ltd.(MGT)	U.S.A	100.00%	100.00%	
GGH	Holy Stone (Europe) Ltd. (HSE)	England	100.00%	100.00%	
UHOLY Investments Co., Ltd. (UHOLY Investments)	Holy Stone Biotech Co., Ltd. (Biotech)	Taiwan	29.02%	29.02%	(Note1)
Holy Stone Healthcare	Global Search Holdings Ltd.(GSH)	Samoa	100.00%	100.00%	
Holy Stone Healthcare	MDT INT'L SA (MDT)	Switzerland	100.00%	100.00%	
GSH	Holy Stone Biotech Co., Ltd. (Biotech)	England	100.00%	100.00%	
GSH	Aihol Corporation (Aihol)	U.S.A	100.00%	100.00%	
Rong Jhan Investment	OHGA Electronics Co.,Ltd.( Ohga Electronics)	Taiwan	100.00%	- %	(Note 2)
Rong Jhan Investment	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare)	Taiwan	70.00%	70.00%	(Note 1)
OHGA Electronics Co., Ltd.	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare)	Taiwan	0.01%	0.01%	(Note 1)
The Company	Holy Stone Enterprise (Hong Kong) Co., Ltd. (Holy Stone H.K)	Hong Kong	100.00%	100.00%	

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

Note 2: As of November, 2014, GSH held 100% of shares of Aihol, and regarded Aihol as Subsidiary since then.

Note 3: As of January, 2014, HSH held 100% of shares of HSHS, and regarded HSHS as Subsidiary since then.

Note 4: As of August 2015, EPM held 75% of shares of EPP, and regarded EPP as Subsidiary since then

Note 5: As of April 2015, Infotech International Trading (Shanghai) Ltd. had been liquidated completely.

## 7.2. Parent Company and Ultimate Controlling Party

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

## 7.3. Other Related-Party Transactions

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

	Sales		AR- Related parties	
	2015	2014	2015.12.31	2014.12.31
Subsidiaries	\$ 2,384,650	2,057,120	772,387	598,633
Related parties	3,332	4,517	451	617
	<b>\$ 2,387,982</b>	<b>2,061,637</b>	<b>772,838</b>	<b>599,250</b>

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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:

	<u>Purchases</u>		<u>Account payables-related parties</u>	
	<u>2015</u>	<u>2014</u>	<u>2015.12.31</u>	<u>2014.12.31</u>
Subsidiaries	\$ 100,643	122,859	17,008	6,800
Related parties	82,027	124,146	19,701	28,291
	<u>\$ 182,670</u>	<u>247,005</u>	<u>36,709</u>	<u>35,091</u>

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

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

	<u>Trading amount</u>		<u>Account payables-related parties</u>	
	<u>2015</u>	<u>2014</u>	<u>2015.12.31</u>	<u>2014.12.31</u>
Subsidiaries - business				
promotion	\$ 55,797	58,199	2,805	5,762
Subsidiaries - technique				
and consulting service	30,708	35,327	11,147	3,157
	<u>\$ 86,505</u>	<u>93,526</u>	<u>13,952</u>	<u>8,919</u>

7.3.4. Endorsements/Guarantees

- i. On December 31, 2015 and 2014, the Company did not offer any endorsement to subsidiary.
- ii. On December 31, 2015 and 2014, the Company endorsed loans of subsidiaries for NT\$369,130 thousand and NT\$361,170 thousand, respectively, of which actual amount used were JPY 200,000 thousand, respectively.

7.3.6. Other

- i. As of December 31, 2015 and 2014, the Company purchased machinery and equipments through subsidiaries for NT\$30,737 thousand and NT\$7,304 thousand. As of December 31, 2015, 2014, payment were both made.
- ii. As of December 31, 2015 and 2014, receivables from subsidiaries and related parties due to on behalf of the Company, collection and payment fees, expenses and other expenditure, amounted to NT\$123 thousand and NT\$312 thousand, respectively. Other expenses and other expenditure amounted to NT\$160 thousand and NT\$44 thousand, respectively.

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iii. Holy Stone's subsidiary HSH disposed its subsidiaries HPC in May, 2014, resulting loss on inventory and property, plant, and equipment. Therefore, HSH offered NT\$26,486 thousand of sales allowance for inventory loss, and a NT\$ 30,532 thousand of indemnity income for loss on property, plant and equipment. All payment had been made on 12/31/2014.

7.4. Remuneration of key management personnel

Remuneration of other key management personnel is as follows:

	<u>2015</u>	<u>2014</u>
Short-term employee benefits	<u>\$ 33,417</u>	<u>40,606</u>

**8. Assets Pledged**

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

<u>Assets</u>	<u>Objects of guarantee and pledge</u>	<u>2015.12.31</u>	<u>2014.12.31</u>
Certificate deposit	Import duties	<u>\$ 13,565</u>	<u>13,527</u>

**9. Contingent Liabilities and Unrecognized Commitment**

9.1 As of December 31, 2015 and 2014, the Company's outstanding letters of credit amounted to NT\$68,226 thousand and NT\$51,147 thousand.

9.2 Group lawsuit against antitrust in USA received from Japanese Fair Trade Commission is under investigation, to which the attorney was assigned. As of December 31, 2015, no preliminary conclusion was made.

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

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

**12. Other**

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

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Characters	Functions	2015			2014		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Welfare Expenses							
Payroll		235,005	350,429	585,434	248,824	621,101	
Labor and health insurance		25,391	26,614	52,005	26,491	51,315	
Pension expense		14,026	13,725	27,751	14,601	27,104	
Others		7,501	7,205	14,706	7,146	14,249	
Depreciation		256,007	11,237	267,244	273,220	283,691	

The number of employees for 2015 and 2014 are 796 and 840.

**13. Additional Disclosure**

**13.1. Significant Transaction Information**

In 2015, 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	49,305			1.8%	2	-	Reversal for operation	-		-	142,216	284,4311
2	Holy Stone Holdings Co., Ltd.	Infotech (China) Co., Ltd.	Other Receivables	Yes	69,027			2.20%	2	-	Reversal for operation	-		-	540,290	1,080,5800

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 Holdings Co., Ltd.	2	1,672,945	164,350	164,125	-	-	1.96%	4,182,363	Y	N	N
0	The Company	Rong Jhan Investment	2	1,672,945	150,000	150,000	-	-	1.79%	4,182,363	Y	N	N
0	The Company	Everplus Material Co., Ltd.	3	1,672,945	54,780	54,540	54,540	-	0.65%	4,182,363	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 t	December 31, 2015				Note
				Shares	Carrying amount	Ratio of ownership	Fair value	
The Company	JPMorgan (Taiwan) Greater Europe	-	Financial assets at fair value through profit or loss - current - open-ended fund	615	10,535	-	10,535	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account t	December 31, 2015				Note
				Shares	Carrying amount	Ratio of ownership	Fair value	
The Company	JPMorgan (Taiwan) Multi Inc	-	"	1,875	19,204	-	19,204	-
The Company	Jinli Group Holdings Limited Bond A	-	Financial assets at fair value through profit or loss	200	23,231	-	23,231	-
The Company	Yeong Guan Energy Technology Group Co., Ltd. Bond A	-	"	200	20,402	-	20,402	-
The Company	Ginko International Co., Ltd. Bond A	-	"	300	30,453	-	30,453	-
The Company	Apex International Bond B	-	"	800	80,802	-	80,802	-
The Company	INTAI TECHNOLOGY Bond A	-	"	300	30,000	-	30,000	-
The Company	Portwell, Inc. Bond C	-	"	200	20,482	-	20,482	-
The Company	PARPRO Bond A	-	"	50	5,101	-	5,101	-
The Company	MPI CORPORATION Bond C	-	"	200	20,000	-	20,000	-
The Company	Chi Hua Bond A	-	"	100	10,100	-	10,100	-
The Company	Chime Ball Bond A	-	"	100	10,000	-	10,000	-
The Company	SOLTEAM Bond A	-	"	200	20,000	-	20,000	-
The Company	QST Bond B	-	"	100	10,457	-	10,457	-
The Company	Shan Wei Bond B	-	"	100	10,201	-	10,201	-
The Company	T3EX Bond B	-	"	400	40,000	-	40,000	-
The Company	Yeong Guan Energy Technology	-	"	200	20,302	-	20,302	-
The Company	Kee Song Bio-Technology Bond A	-	"	200	20,402	-	20,402	-
The Company	CHLITINA HOLDING LIMITED Bond A	-	"	300	30,756	-	30,756	-
The Company	INTEGRATED SERVICE TECHNOLOGY Bond C	-	"	200	20,150	-	20,150	-
The Company	FIDELITY EURO BLUE CHIP FUND	-	"	33	12,529	-	12,529	-
The Company	INVESCO EUROPEAN SMALL HEDGED USD	-	"	33	13,529	-	13,529	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial asset-noncurrent	248	30,272	1.08 %	30,272	-
The Company	CNO Co.,Ltd.Stock	-	Financial asset carried at cost-noncurrent	1,400	24,246	-	-	-
Mayatek Co., Ltd.	Fuh Hwa Greater China Fund	-	Financial assets at fair value through profit or loss-current-open ended fund	107	1,613	-	1,613	-
Mayatek Co., Ltd.	Apex International Bond B	-	Financial assets at fair value through profit or loss-current-bond	1,000	10,100	-	10,100	-
Mayatek Co., Ltd.	PARPRO CORPORATION Bond A	-	"	50	5,101	-	5,101	-
Holy Stone HK	Invesco European Small	-	Financial assets at fair value through profit or loss-current-overseas fund	1	6,620	-	6,620	-
Holy Stone HK	Euro Blue Chip Fund	-	"	18	6,760	-	6,760	-
Holy Stone HK	Best Pacific International Holdings Ltd	-	Financial assets at fair value through profit or loss-current-overseas stock	200	3,132	-	3,132	-
Holy Stone Holdings Co., Ltd.	Greenvity Communications, Inc	-	Financial asset carried at cost-noncurrent	220	8,206	-	-	-
Holy Stone Holdings Co., Ltd.	Fiedlity Founds Euro Blue Chip Fund	-	Financial assets at fair value through profit or	21	7,962	-	7,962	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account t	December 31, 2015				Note
				Shares	Carrying amount	Ratio of ownership	Fair value	
			loss-current-overseas fund					
Holy Stone Holdings Co., Ltd.	European Small Cap Equity Fund	-	"	17	6,969	-	6,969	-
Infortech (CHINA) Co., Ltd.	BANK OF CHINA Bond Fund	-	"	401	5,341	-	5,341	-
Infortech (CHINA) Co., Ltd.	BANK OF CHINA pocket fund	-	"	6,000	30,167	-	30,167	-
Holy Stone International Trading (Shanghai)	BANK OF CHINA Bond Fund	-	"	472	6,285	-	6,285	-
Holy Stone International Trading (Shanghai)	BANK OF CHINA Money Fund	-	"	3,000	15,070	-	15,070	-
Uholy Investment Co., Ltd.	T50 anti 1 00632R	-	Financial assets at fair value through profit or loss-current-domestic stock	180	3,584	-	3,584	-
Uholy Investment Co., Ltd.	eGalax_eMPIA Technology Inc Stock	-	Available-for-sale financial asset-noncurrent	5,574	290,399	10.14 %	290,399	-
Uholy Investment Co., Ltd.	Yuan Jing Venture Capital Stock	-	Financial asset carried at cost-noncurrent	8,900	89,000	-	-	-
Uholy Investment Co., Ltd.	C2 MICROSYSTEMS INC.stock	-	"	1,200	-	-	-	-
Uholy Investment Co., Ltd.	Zilltek Technology Stock	-	"	859	19,757	-	-	-
Uholy Investment Co., Ltd.	Metanoia Stock	-	"	599	2,994	-	-	-
Uholy Investment Co., Ltd.	Yuan Rong Venture Capital Stock	-	"	5,900	59,000	-	-	-
Uholy Investment Co., Ltd.	TaiwanJ Stock	-	"	1,500	15,000	-	-	-
Rong Jhan Investment Co., Ltd.	Metanoia Stock	-	Financial asset carried at cost-noncurrent	150	4,500	-	-	-
Rong Jhan Investment Co., Ltd.	Fu Bon Securities Stock	-	"	5,638	51,375	-	-	-
Rong Jhan Investment Co., Ltd.	JYA-NAY CO., LTD Stock	-	"	2,976	32,741	-	-	-
Rong Jhan Investment Co., Ltd.	CNO Co., Ltd Stock	-	"	494	34,356	-	-	-
Rong Jhan Investment Co., Ltd.	BioMaty Co. LTD. Stock	-	Financial asset carried at cost-noncurrent	550	5,500	-	-	-
Rong Jhan Investment Co., Ltd.	Ji Dii Stock	-	"	300	15,000	-	-	-
Rong Jhan Investment Co., Ltd.	AVEO Technology Stock	-	"	1,846	24,875	-	-	-
Rong Jhan Investment Co., Ltd.	ThroughTek Co.Stock	-	Financial asset carried at cost-noncurrent	140	10,000	-	-	-
Rong Jhan Investment Co., Ltd.	JPMorgan (Taiwan) Greater Europe	-	Financial assets at fair value through profit or loss-current-overseas fund	597	10,227	-	10,227	-
Rong Jhan Investment Co., Ltd.	PROMISE Technology Stock	-	Financial assets at fair value through profit or loss-current-domestic stock	200	3,850	-	3,850	-
Rong Jhan Investment Co., Ltd.	ShunSin Technology Stock	-	"	4	494	-	494	-
Rong Jhan Investment Co., Ltd.	AURAS Technology Stock	-	"	150	5,835	-	5,835	-
Rong Jhan Investment Co., Ltd.	Laster Tech Stock	-	"	24	578	-	578	-
OHGA ELECTRONICS	Portwell, Inc. Bond C	-	Financial assets at fair value through profit or loss-current-bond	100	10,241	-	10,241	-
OHGA ELECTRONICS	AVEO Technology Stock	-	Financial asset carried at cost-noncurrent	540	7,195	-	-	-
OHGA ELECTRONICS	TaiwanJ Stock	-	"	237	7,110	-	-	-
OHGA ELECTRONICS	ThroughTek Co.Stock	-	"	140	10,000	-	-	-

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

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

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

the paid-in capital:

Unit: Thousand shares/ Thousands of NTS

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Share	Amount	Share	Amount	Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Share
The Company	Franklin Templeton Sinoam Money Market.	Financial assets at fair value through profit or loss - current	-	-	-	-	98,395	1,000,000	98,395	1,001,205	1,000,000	1,205	-	-
The Company	Mega Diamond Currency Market Fund	"	-	-	-	-	44,620	350,000	44,620	550,678	550,000	678	-	-
The Company	Nomura Taiwan Money Market	"	-	-	-	-	56,011	900,000	56,011	900,993	900,000	993	-	-
The Company	Yuanta Cosmos Currency Market	"	-	-	-	-	37,491	560,000	37,491	560,233	560,000	233	-	-
The Company	Taishin 1699 Money Market.	"	-	-	-	-	26,415	370,000	26,415	370,223	370,000	223	-	-

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

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

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		
			Purchases/Sales	Amount	% to Total	Payment Terms	Company Name	Related Party	Nature of Relationship	Purchases/Sales	Amount
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	920,635	7.57%	Next month-end 150 days	-	-	335,462	11.37%	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	816,224	6.72%	Next month-end 120 days	-	-	318,324	10.79%	-
The Company	Infortech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	646,836	5.32%	Month-end 120 days	-	-	118,407	4.01%	-

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

Unit: NT\$ in thousand

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Company Name
					Amount	Action Taken		
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	335,462	2.66	-	-	198,576	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	318,324	3.81	-	-	258,375	-
The Company	Infortech(CHINA) Co., Ltd.	Third-tier Subsidiary	118,407	5.20	-	-	116,575	-

13.1.9. Derivatives transaction: None.

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

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

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

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

(China investees excluded)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of Dec. 31, 2015			Investor Company	Investee Company	Location
				Dec. 31, 2013	Dec. 31, 2011	Shares	%	Carrying Value			
The Company	Holy Stone Enterprise (H.K) Co., Ltd.	Hong Kong	MLCC and electronic components trading	49,046	49,046	11,500	100.00%	273,603	12,775	12,775	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	1,071,839	(88,963)	(89,074)	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	398,982	(15,975)	(9,215)	Subsidiary of the Company
The Company	Mayatek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	20,000	8,500	100.00%	95,426	(11,418)	(11,418)	Subsidiary of the Company
The Company	Rong Jhan Investments Co.	Taipei City	Investment activities	340,000	340,000	57,900	100.00%	503,180	(114,468)	(114,468)	Subsidiary of the Company
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	226,493	218,385	6,900	100.00%	320,615	(24,576)	(24,576)	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings Co., Ltd.	Holypaq Corporation	Cayman	Investment activities	39,390	37,980	1,200	100.00%	878	-	-	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd.	Samoa	Investment activities	40,723	67,751	1,310	100.00%	17,777	3,259	3,259	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	458,762	442,340	2,500	100.00%	409,665	7,537	7,537	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	95,445	92,610	4	100.00%	90,948	293	293	Subsidiary of Holy Stone Holdings Co.
Holy Stone Investments Co., Ltd.	Holy Stone Holdings (Singapore) Pte. Ltd.	Singapore	Electronic retailing and trading	3,283	3,165	100	100.00%	609	(695)	(695)	Subsidiary of Holy Stone Holdings Co.
Everplus Material Co.,Ltd.	Everplus Planning Co.,Ltd.	Japan	Alcohol and produce retailing	818	-	0.3	75.00%	542	(355)	(266)	Subsidiary of Holy Stone Holdings Co.
Green Glory Holdings Ltd.	Milestone Global Technology Ltd.	Shanghai, China	Electronic components developing and selling	16,413	15,825	500	100.00%	13,671	(1,864)	(1,864)	Subsidiary of Green Glory Holdings
Green Glory Holdings Ltd.	Holystone (Europe) Ltd.	Shanghai, China	Electronic retailing and trading	22,547	21,740	350	100.00%	3,593	(219)	(219)	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co.	Dongguan, Guangdong province, China	Western medicine wholesaling and medical instruments wholesaling	276,370	276,370	17,588	29.02%	107,197	(177,394)	(51,480)	UHOLY's long-term investee recognized under equity method
Holy Stone Healthcare Co.	MDT INT'L SA	Shanghai, China	Medical instruments trading	78,768	78,768	2,550	100.00%	63,534	(11,946)	(11,946)	Subsidiary of Holy Stone Healthcare Co.
Holy Stone Healthcare Co.	Global Search Holdings Ltd.	U.S.A	Investment activities	46,774	46,774	1,550	100.00%	8,016	(6,867)	(6,867)	Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	Holy Stone Biotech Co., Ltd.	England	Selling and authorization if medicine and medical instruments	49,068	47,311	900	100.00%	6,694	(6,804)	(6,804)	Second-tier Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	AIHOL Corporation	U.S.A	Patent application	657	633	10,000	100.00%	475	(22)	(22)	Second-tier Subsidiary of Holy Stone Healthcare Co.
RongJhan Investments Co.	OHGA Electronics Co., Ltd.	Taipei City	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70.00%	234,134	5,541	3,879	Subsidiary of Rong Jhan Investments Co.
RongJhan Investments Co.	Holy Stone Healthcare Co.	Switzerland	Western medicine wholesaling and medical instruments wholesaling	31,135	31,135	1,600	2.64%	16,964	(177,394)	(4,683)	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	154	154	8	0.01%	92	(177,394)	(17)	UHOLY's long-term investee recognized under equity method

13.3. Information on Investment in Mainland China

13.3.1. Information of business investment in Mainland China

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

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method Note (1)	Accumulated Remittance as of Jan. 1, 2014	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2013	Gains and losses of current period of Investees Note (2)	Ownership Held by The Company (Direct and Indirect)	Current Recognized Investment Gain (Loss) (Note 2)	Ending Balance of Investment	Name of Investee in Mainland China
					Remitted	Collected						
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	131,628	(2)	118,498	-	-	118,498	(12,155)	100.00%	(12,155)	188,840	-
Infotech International Trading (Shanghai) Ltd.	Electronic components R&D and selling	32,825	(2)	32,825	-	-	32,825 (Note 3)	311	-	311	-	-
Infotech (CHINA) Co., Ltd.	Electronic components selling	68,933	(2)	68,933	-	-	68,933	(12,337)	100.00%	(12,337)	131,009	-

Note 1: Three kinds of investment are noted:

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

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

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

13.3.2. Quota of reinvestment in Mainland China:

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	Investment quota in Mainland China according to Investment Commissions, Ministry of Economic Affairs
220,256	233,386	5,018,836

13.3.3. Significant Transaction Information

Significant transaction information of direct and indirect investment in Investee Company in Mainland China in 2015 is described in Note “related significant transaction information”.

**14. Segment Information**

Please refer to 2015 Consolidated Financial Report.

English Translations of Notes Originally Issued in Chinese

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

**Holy Stone Enterprise Co., Ltd.**  
**List of Cash and Cash Equivalents**  
**From January 1 to December 31, 2015**

Unit: NT\$ thousand

<u>Items</u>	<u>Items</u>	<u>Amount</u>
Inventory cash and working capital		\$ 999
Current Deposits		1,085,193
Foreign Currency Deposits (Note)	USD: 8, 525 thousand	279,850
	EUR: 30 thousand	1,083
	JPY: 157, 227 thousand	42,876
	HKD: 4, 797 thousand	20,316
	RMB: 1 thousand	5
Check deposits		2,309
Fixed deposits	Current Portion; interest interval 0. 27%~ 1. 205%	<u>217,300</u>
		<u><b>\$ 1,649,931</b></u>

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

USD : TWD= 1 : 32.825

EUR : TWD= 1 : 35.88

JPY : TWD= 1 : 0.2727

HKD : TWD= 1 : 4.235

RMB : TWD= 1 : 4.995

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

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

**From January 1 to December 31, 2015**

Unit: NT\$ thousand/ Thousands of Units

Securities	Market Price
Bond:	
YongLi Bond A	\$ 23,231
YongGuan Bond A	20,402
JingCo Bond A	30,453
DingTai Bond B	80,802
YinTai Bond A	30,000
SuanSan Bond C	20,482
ShiShin Bond A	5,101
MPI Corp. Bond C	20,000
CHI HUA FITNESS CO.,LTD. Bond A	10,100
Chime Ball Bond A	10,000
SOLTEAM Bond A	20,000
QST Bond B	10,457
SWANCOR Bond B	10,201
T3EX Global Holdings Bond B	40,000
YongGuan Bond B	20,302
Kee Song Bio-Technology Bond A	20,402
CHLITINA HOLDING Bond A	30,756
INTEGRATED SERVICE TECHNOLOGY Bond C	20,150
FIDELITY EURO BLUE CHIP FUND	12,529
INVESCO EUROPEAN SMALL HEDGED USD	13,529
Subtotal	<u>448,897</u>
Open-ended Fund	
JPMorgan (Taiwan) Greater Europe	10,535
JPMorgan (Taiwan) Multi Inc	19,204
Subtotal	<u>29,739</u>
Total	<u><u>\$ 478,636</u></u>

**Holy Stone Enterprise Co., Ltd.**  
**List of Notes and Accounts Receivable**  
**From January 1 to December 31, 2015**

Unit: NT\$ thousand

<b>Customer</b>	<b>Amount</b>
Note Receivables :	
Customer J	\$ 2,953
Customer R	2,625
Others (lower than 5%)	40,554
Subtotal	46,132
Less: Allowance for doubtful accounts	(4,532)
	41,600
Account Receivables:	
Customer S	114,106
Others (lower than 5%)	2,032,288
Subtotal	2,146,394
Less: Allowance for doubtful accounts	(9,461)
	2,136,933
Total	<b>\$ 2,178,533</b>

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

**List of Inventory**

**From January 1 to December 31, 2015**

**Unit: NT\$ thousand**

<u>Items</u>	<u>Amount</u>		<u>Remarks</u>
	<u>Cost</u>	<u>Market Price</u>	
Supplies	\$ 45,406	-	Note
Raw material	2,924	-	"
Work in progress	75,222	-	"
Semi-finished goods	35,601	-	"
Finished goods	275,224	337,463	Net realizable value
Merchandise	<u>1,183,837</u>	<u>1,320,245</u>	"
Subtotal	1,618,214		
Less: Allowances for losses	<u>(145,396)</u>		
	<b><u>\$ 1,472,818</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 changes in investment under equity method**  
**From January 1 to December 31, 2015**

Unit: Thousand of shares / NT\$

Investees	Beginning balance		Increase in current period		Decrease in current period		Gain (loss) on equity		Ending balance			Market price or net value of equity			
	Shares	Amount	Shares	investments	Shares	Amount	method	Other (Note)	Shares	Ratio	Amount	Market price per share/Net value per share (Dollars)	Total value	Valuation basis	Collateral
investment under equity method:															
Holy Stone Enterprise (Hong Kong) Co., Limited	11,500	\$ 248,651	-	-	-	-	12,775	12,177	11,500	100.00%	273,603	24.73	284,431	Equity	None
Holy Stone Holdings Co., Ltd.	26,976	1,140,736	-	-	-	-	(89,074)	20,177	26,976	100.00%	1,071,839	40.00	1,079,290	Equity	None
UHOLY Investment Co., Ltd.	22,500	462,003	-	-	-	-	(9,215)	(53,806)	22,500	57.69%	398,982	17.73	398,982	Equity	None
Mayatek Co., Ltd.	8,500	110,844	-	-	-	-	(11,418)	(4,000)	8,500	100.00%	95,426	11.23	95,426	Equity	None
Rong Jhan Investments Co., Ltd.	57,900	617,545	-	-	-	-	(114,468)	103	57,900	100.00%	503,180	8.69	503,180	Equity	None
		<u>\$ 2,579,779</u>		<u>-</u>		<u>-</u>	<u>(211,400)</u>	<u>(25,349)</u>			<u>2,343,030</u>				

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

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

**List of short-term loans**

**From January 1 to December 31, 2015**

**Unit: NT\$ thousand**

<u>Types</u>	<u>Bank</u>	<u>Ending Balance</u>	<u>Contract period</u>	<u>Interest rate range</u>	<u>Financing Credit</u>	<u>Collaterals</u>
Unsecured	Huanan, Hsin Wei Branch	\$ 573,781	Less than 1 year	0.8%~1.3454%	800,000	None
"	Land Bank, Xihu Branch	349,372	"	0.72%~0.92%	800,000	None
"	Mizuho Bank	281,421	"	1.01%	984,750	None
"	Taiwan Bank- Shinyi brnach	55,613	"	0.81%~0.82%	480,000	None
Total		<u>\$ 1,260,187</u>				

**List of Notes and Accounts Payables**

<u>Supplier</u>	<u>Amount</u>
Supplier (a)	\$ 175,302
Supplier (h)	160,333
Supplier (d)	108,386
Supplier (g)	58,988
Others (lower than 5%)	414,794
Total	<u>\$ 917,803</u>

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

**List of Sales**

**From January 1 to December 31, 2015**

**Unit: NT\$ thousand**

<u>Item</u>	<u>Quantity (thousand PCS)</u>	<u>Amount</u>
Passive Component	7,374,254	\$ 3,165,304
Active Component	681,775	5,109,882
System & Module	141,566	2,469,063
Other	477,348	<u>1,410,075</u>
Net Sales		<b><u>\$ 12,154,324</u></b>

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

## Holy Stone Enterprise Co., Ltd.

## List of Operating Expense

From January 1 to December 31, 2015

Unit: NT\$ thousand

<u>Items</u>	<u>Amount</u>
Merchandise	
Beginning balance of inventory	\$ 1,491,438
Add: Net purchases for current period	8,695,204
Processing expenses	1,184
Less: Ending balance of inventory	133
Marketing and management expenses transferred	(1,183,837)
Research and development expenses transferred	(1,222)
Loss on scraps	(1,340)
Cost of goods sold - Merchandise	<u>(27,171)</u>
Supplies	<u>8,974,389</u>
Beginning balance of supplies	
Add: Net purchases for current period	62,473
Less: Ending balance of supplies	389,635
Supplies sold	(45,406)
Marketing and management expenses transferred	(341)
Research and development expenses transferred	(8,534)
Loss on scraps	(8,074)
Supplies consumed in current period	<u>(4,178)</u>
Raw Material	<u>385,575</u>
Beginning Raw Material	
Add: Net purchases for current period	4,535
Less: Ending balance of supplies	57,758
Marketing and management expenses transferred	(2,924)
Research and development expenses transferred	(211)
Indirect Materials	<u>(990)</u>
Direct Labor	<u>58,168</u>
Manufacturing Expenses	<u>207,730</u>
Manufacturing Costs	<u>642,603</u>
Add: Beginning balance of work in progress and semi-finished goods	1,294,076
Net Purchases for current period	136,586
Less: Ending balance of work in progress and semi-finished goods	408
Marketing and management expenses transferred	(110,823)
Research and development expenses transferred	(2,582)
Inventory loss	(4,013)
Cost of Finished Goods	<u>(6,509)</u>
Add: Beginning balance of finished goods	1,307,143
Purchases for current period	282,370
Other	236,461
Less: Ending balance of finished goods	(275,224)
Marketing and management expenses transferred	(763)
Research and development expenses transferred	(41)
Loss on scraps	(2,167)
Cost of goods sold – Finished Goods	<u>1,547,779</u>
Add: Cost of goods sold – Supplies	<u>341</u>
Expenses and losses related to inventory	31,213
Cost of Goods Sold	<u><b>\$ 10,553,722</b></u>

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

**From January 1 to December 31, 2015**

Unit: NT\$ thousand

<b>Items</b>	<b>Amounts</b>
Salary Expenses	\$ 291,843
Freight Expenses	55,918
Commission	58,365
Entertainment Expense	36,047
Other Expenses (Lower than 5%)	159,726
<b>Total</b>	<b>\$ 601,899</b>

**List of Research and Development Expenses**

<b>Items</b>	<b>Amount</b>
Salary Expenses	\$ 58,586
Materials consumed	15,634
Other Expenses (Lower than 5%)	45,331
<b>Total</b>	<b>\$ 119,551</b>

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

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

## **Representation Letter**

The entities that are required to be included in the combined financial statements of Holy Stone Enterprise Company Limited as of and for the year ended December 31, 2015, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the FSC-approved IAS 10. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Holy Stone Enterprise Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang

Date: March 15, 2016

## **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, 2015 and 2014, 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, 2015 and 2014, the total assets made up 5.43% and 2.84% of consolidated total assets, respectively; the net income for the year ended December 31, 2015 and 2014 made up 6.57% and 3.90% 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.

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, 2015 and 2014, 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:

Taipei, Taiwan  
Republic of China

March 15, 2016

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

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2015 and 2014**

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

		<u>2015.12.31</u>		<u>2014.12.31</u>				<u>2015.12.31</u>		<u>2014.12.31</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>			<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Assets</b>											
<b>Current Assets:</b>											
1100	Cash and Cash Equivalents (Note6.1)	\$ 2,905,532	24	2,567,832	19	2100	Short-term Loans (Note6.10&8)	\$ 1,300,187	11	1,816,874	14
1110	Financial Assets at Fair Value through Profit or Loss - Current (Note6.2&6.12)	618,567	5	868,712	7	2170	Accounts Payable	1,052,056	9	1,087,389	8
1150	Notes and Accounts Receivable, net (Note6.5&7)	3,046,660	25	3,417,539	26	2180	Accounts Payable - Related Parties (Note7)	19,701	-	28,336	-
1200	Other Receivables (Note6.5)	54,669	-	69,054	1	2200	Other Payable	599,627	5	652,811	1
130X	Inventories (Note6.6)	1,705,637	14	2,053,176	15	2230	Current Period Income Tax Liability	75,485	2	150,366	6
1410	Prepaid Expenses and Other Current Assets	37,327	-	48,639	-	2321	Current Portion of Puttable Corporate Bonds (Note6.12)	-	-	103,875	1
	<b>Total Current Assets</b>	<u>8,368,392</u>	<u>68</u>	<u>9,024,952</u>	<u>68</u>	2322	Current Portion of Long-term Debt (Note6.11&8)	2,122	-	2,081	-
<b>Noncurrent Assets:</b>											
1523	Available-for-sale Financial Assets - Noncurrent (Note6.3)	320,671	3	405,901	3	<b>Total Current Liabilities</b>		<u>3,049,178</u>	<u>27</u>	<u>3,841,732</u>	<u>30</u>
1543	Financial Assets Carried at Cost - Noncurrent (Note6.4)	420,855	3	385,292	3	<b>Noncurrent Liabilities:</b>					
1600	Property, Plant and Equipment (Note6.8&8)	2,629,430	22	2,833,549	21	2540	Long-term Loans (Note6.11&8)	19,240	-	21,362	-
1780	Intangible Assets (Note6.9)	314,614	3	480,814	4	2570	Deferred Income Tax Liabilities (Note6.14)	45,752	-	59,786	-
1840	Deferred Income Tax Assets (Note6.14)	29,079	-	34,196	-	2640	Accrued Pension Liabilities (Note6.13)	56,774	-	55,763	-
1915	Prepaid Expense on Equipment	18,057	-	29,781	-	2670	Other Noncurrent Liabilities – Others	2,301	-	2,383	-
1990	Other Noncurrent Assets - Others (Note6.7&8)	74,140	1	101,762	1	<b>Total Noncurrent Liabilities</b>		<u>124,067</u>	<u>-</u>	<u>139,294</u>	<u>-</u>
	<b>Total Noncurrent Assets</b>	<u>3,806,846</u>	<u>32</u>	<u>4,271,295</u>	<u>32</u>	<b>Total Liabilities</b>		<u>3,173,245</u>	<u>27</u>	<u>3,981,026</u>	<u>30</u>
						<b>Equity Attributable to Parent Company (Note6.12, 6.13&amp;6.15):</b>					
						3110	Common Stock	2,242,154	18	2,235,481	17
						3200	Capital Surplus	3,608,244	30	3,588,009	27
						Retained Earnings:					
						3310	Legal Reserve	1,161,732	10	1,071,291	8
						3350	Unappropriated Earnings	1,150,743	9	1,382,626	10
						Total Retained Earnings		<u>2,312,475</u>	<u>19</u>	<u>2,453,917</u>	<u>18</u>
						Other Equity:					
						3410	Exchange Differences on Translation of Financial Statements of Foreign Operations	45,807	-	24,645	-
						3425	Unrealized gains and losses on Available-for-sale Financial Assets	156,047	1	206,500	2
						Total Other Equity		<u>201,854</u>	<u>1</u>	<u>231,145</u>	<u>2</u>
						<b>Total Equity Attributable to Stockholders of Parent Company</b>		<u>8,364,727</u>	<u>68</u>	<u>8,508,552</u>	<u>64</u>
						36XX	<b>Non-Controlling Equity</b>	637,266	5	806,669	6
						<b>Total Equity</b>		<u>9,001,993</u>	<u>73</u>	<u>9,315,221</u>	<u>70</u>
<b>Total Assets</b>		<u>\$ 12,175,238</u>	<u>100</u>	<u>13,296,247</u>	<u>100</u>	<b>Total Liabilities and Equity</b>		<u>\$ 12,175,238</u>	<u>100</u>	<u>13,296,247</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, 2015 and 2014**

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

		2015		2014	
		Amount	%	Amount	%
4000	Net Sales (Note 6.18&7)	\$ 13,595,819	100	16,024,893	100
5000	Cost of Goods Sold (Note 6.6&7)	11,629,937	85	13,980,574	87
	<b>Gross Profit</b>	1,965,882	15	2,044,319	13
	<b>Operating Expense</b>				
6100	Selling and Administrative (Note 6.13)	1,091,260	8	1,131,675	7
6300	Research and Development (Note 6.13)	240,128	2	209,959	1
	<b>Total Operating Expense</b>	1,331,388	10	1,341,634	8
	<b>Operating Income</b>	634,494	5	702,685	5
	<b>Non-Operating Income and Expenses:</b>				
7020	Other Gains and Losses (Note6.7&6.20)	(28,341)	-	236,492	1
7050	Financial Costs (Note6.12)	(15,859)	-	(27,842)	-
7100	Interest Income	24,344	-	41,675	-
	<b>Total Non-Operating Income and Expenses</b>	(19,856)	-	250,325	1
7900	<b>Income before Income Tax</b>	614,638	5	953,010	6
7050	<b>Less: Income Tax Expense</b> (Note6.14)	(142,852)	(1)	(157,806)	(1)
	<b>Net Income for Current Period</b>	471,786	4	795,204	5
8300	<b>Other Comprehensive Gains and Losses:</b>				
8310	<b>Revaluation income</b>				
8311	Defined benefit plan	(1,911)	-	1,764	-
8349	Income Tax incurred	-	-	-	-
	<b>Total Revaluation income</b>	(1,911)	-	1,764	-
8360	<b>Revaluation income arising from reclassification</b>				
8361	Exchange Differences on Translation of Financial Statements of Foreign Operations	27,819	-	58,202	-
8362	Unrealized Valuation Gains (Loss) on Available-for-sale Financial Assets	(83,558)	(1)	(188,097)	(1)
8399	Income Tax related to reclassification	(2,824)	-	(16,281)	-
	<b>Total Revaluation income arising from reclassification</b>	(58,563)	(1)	(146,176)	(1)
8300	<b>Other Comprehensive Income for Current Period (after tax)</b>	(60,474)	(1)	(144,412)	(1)
	<b>Total Comprehensive Income for Current Period</b>	<b>\$ 411,312</b>	<b>3</b>	<b>650,792</b>	<b>4</b>
	<b>Total Net Income for Current Period attributable to:</b>				
8610	Parent Company	\$ 598,178	5	904,408	6
8620	Non-controlling Equity	(126,392)	(1)	(109,204)	(1)
		<b>\$ 471,786</b>	<b>4</b>	<b>795,204</b>	<b>5</b>
	<b>Total Comprehensive Income for Current Period attributable to:</b>				
8710	Parent Company	\$ 566,976	4	828,511	5
8720	Non-controlling Equity	(155,664)	(1)	(177,719)	(1)
		<b>\$ 411,312</b>	<b>3</b>	<b>650,792</b>	<b>4</b>
	<b>Earnings per Share</b> (Note 6.17)				
9750	<b>Basic Earnings per Share</b> (Unit: NT Dollar)*	<b>\$ 2.67</b>		<b>4.05</b>	
9850	<b>Diluted Earnings per Share</b> (Unit: NT Dollar)*	<b>\$ 2.61</b>		<b>3.93</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, 2015 and 2014**

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

	Equity Attributable to Stockholders of Parent Company									
	Common Stock	Capital Surplus	Retained Earnings		Other Equity		Treasury Stock	Total Equity Attributable to Stockholders of Parent Company*	Non-Controlling Equity	Total Equity
			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, 2014</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
Net Income for Current Period	-	-	-	904,408	-	-	-	904,408	(109,204)	795,204
Other Comprehensive Profit or Loss for Current Period	-	-	-	1,764	51,430	(129,091)	-	(75,897)	(68,515)	(144,412)
Total Comprehensive Profit or Loss for Current Period	-	-	-	906,172	51,430	(129,091)	-	828,511	(177,719)	650,792
Appropriation of Earnings:										
Legal reserve	-	-	69,567	(69,567)	-	-	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(625,934)	-	-	-	(625,934)	(9,720)	(635,654)
Other changes in Capital Surplus:										
Profit(loss) of associates and joint ventures accounted for using equity method	-	37,401	-	-	-	-	-	37,401	-	37,401
Write-off of Treasury Stock	(6,041)	(22,212)	-	-	-	-	28,253	-	-	-
Non-Controlling Equity	-	-	-	-	-	-	-	-	(25,970)	(25,970)
<b>Ending Balance, September 31, 2014</b>	2,235,481	3,588,009	1,071,291	1,382,626	24,645	206,500	-	8,508,552	806,669	9,315,221
Net Income for Current Period	-	-	-	598,178	-	-	-	598,178	(126,392)	471,786
Other Comprehensive Profit or Loss for Current Period	-	-	-	(1,911)	21,162	(50,453)	-	(31,202)	(29,272)	(60,474)
Total Comprehensive Profit or Loss for Current Period	-	-	-	596,267	21,162	(50,453)	-	566,976	(155,664)	411,312
Appropriation of Earnings:										
Legal reserve	-	-	90,441	(90,441)	-	-	-	-	-	-
Cash Dividend for Common Stock	-	-	-	(737,709)	-	-	-	(737,709)	-	(737,709)
Other changes in Capital Surplus:										
Profit(loss) of associates and joint ventures accounted for using equity method	-	135	-	-	-	-	-	135	-	135
Conversion of convertible bond	6,673	20,100	-	-	-	-	-	26,773	-	26,773
Increase/decrease in non-controlling equity	-	-	-	-	-	-	-	-	(13,739)	(13,739)
<b>Ending Balance, December 31, 2015</b>	\$ 2,242,154	3,608,244	1,161,732	1,150,743	45,807	156,047	-	8,364,727	637,266	9,001,993

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

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

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

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows**

**For the years ended December 31, 2015 and 2014**

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

	<u>2015</u>	<u>2014</u>
<b>Cash Flows generated from Operating activities:</b>		
Income before Income Tax	\$ 614,638	953,010
<b>Adjusted Items:</b>		
Incomes or Expenses		
Depreciation	307,786	330,238
Amortization	3,418	3,616
Bad Debt Reclassified as Income	(6,293)	2,834
Financial Assets at Fair Value through Profit or Loss	(36,167)	-
Interest Expense	15,859	20,363
Interest Income	(24,344)	(41,675)
Dividend Income	(29,183)	-
Gain on Disposal and Scrap of Property and Equipment	2,335	(439)
Gain on Disposal of Investments	(11,986)	-
Impairment Loss on Goodwill	175,192	96,672
Total Incomes or Expenses that do not affect Cash Flow	<u>396,617</u>	<u>411,609</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	284,355	(186,647)
Notes and Accounts Receivable	377,074	89,101
Other Receivables	13,410	43,112
Inventory	347,539	240,938
Prepaid Expenses and Other Current Assets	11,312	99,297
Total of Net Change in Assets related to Operating Activities	<u>1,033,690</u>	<u>285,801</u>
Net Change in Liabilities related to Operating Activities:		
Financial Liabilities at Fair Value through Profit or Loss - Current	-	(595)
Notes and Accounts Payable	(35,333)	(129,636)
Accounts Payable - Related Parties	(8,635)	14,936
Other Payables	(47,039)	86,276
Accrued Pension Liabilities-Noncurrent	(900)	(1,291)
Total Net Change in Liabilities related to Operating Activities	<u>(91,907)</u>	<u>(30,310)</u>
Total Net Change in Assets and Liabilities related to Operating Activities	<u>941,783</u>	<u>255,491</u>
Total of Adjusted Items	<u>1,338,400</u>	<u>667,100</u>
Cash Flow generated from Operations	1,953,038	1,620,110
Interest Received	25,319	43,578
Dividend Received	29,183	-
Interest Paid	(14,882)	(16,297)
Income Tax Paid	(229,672)	(94,244)
<b>Net Cash Flows generated from Operating activities*</b>	<u>1,762,986</u>	<u>1,553,147</u>
<b>Cash Flows generated from Investing Activities:</b>		
Sale of Available-for-sale Financial Assets	9,422	5,330
Acquisition of Financial Assets carried at Cost	(53,953)	(31,875)
Sale of Financial Assets carried at Cost	22,407	-
Disposal of subsidiaries	-	95,786
Acquisition of Property and Equipments	(104,192)	(120,322)
Disposal of Property and Equipments	2,425	16,483
Acquisition of Intangible Assets	(771)	(386)
Increase (Decrease) in Other Noncurrent Assets	30,180	(83,858)
<b>Net Cash Flows generated from (used in) Investing Activities</b>	<u>(94,482)</u>	<u>(118,842)</u>
<b>Cash Flows generated from Financing Activities:</b>		
Increase (Decrease) in Short-term Loans	(516,687)	(295,551)
Payment on corporate bonds	(75,699)	-
Borrowings on Long-term Loans	-	51,000
Repayments on Long-term Loans	(2,081)	(616,154)
Decrease (Increase) in Other Noncurrent Liabilities	(82)	2,215
Cash Dividend Payout	(737,709)	(635,654)
Changes in Non-Controlling Equity	(13,386)	11,431
<b>Net Cash Flows (generated from) used in Financing Activities*</b>	<u>(1,345,644)</u>	<u>(1,482,713)</u>
Effect of Exchange Rate Changes in Cash and Cash Equivalents*	14,840	63,167
<b>Increase in Cash and Cash in Banks of Current Period</b>	337,700	14,759
<b>Cash and Cash in Banks at Beginning of the Period</b>	2,567,832	2,553,073
<b>Cash and Cash in Banks at End of the Period</b>	<u>\$ 2,905,532</u>	<u>2,567,832</u>

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

**Chairman: Jing-Rong Tang**

**President: Jing-Rong Tang**

**Accountant Manager: Shu-Ying Chang**

**Holy Stone Enterprise Company Limited**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014**

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

**1. General**

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

**2. Approval Date and Procedures of the Consolidated Financial Statements**

The Board of Directors approved the consolidated financial statements on March 15, 2016.

**3. New Standards and Interpretations has been adopted**

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

<b><u>New Standards, Amendments and Interpretations</u></b>	<b><u>Effective Date Issued by IASB</u></b>
Amended IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
Amended IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
Amended IFRS 1 <i>Government Loans</i>	January 1, 2013
Amended IFRS 7 <i>Disclosures - Transfers of Financial Assets</i>	July 1, 2011
Amended IFRS 7 <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013
IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Subsidiaries will adopt on January 1, 2014)
IFRS 11 <i>Joint Agreements</i>	January 1, 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
Amended IFRS 10, IFRS 12 and IAS 27 <i>Investment Entities</i>	January 1, 2014
IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
Amended IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
Amended IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
Amended IAS 19 <i>Employee Benefits</i>	January 1, 2013
Amended IAS 27 <i>Separate Financial Statements</i>	January 1, 2013
Amended IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

In the Holy Stone’s assessment, except for the following standards, the 2013 IFRSs will not have significant influence after their adoption:

(1) *IAS 19 Employee Benefits*

The amendments to IAS 19 require companies to calculate a “net interest” amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on plan assets used in the previous IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses in profit or loss when they occur, and instead require companies to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it is incurred and will no longer be amortized over the average period before meeting vesting conditions on a straight-line basis. In addition, the amendments also require a broader disclosure of defined benefit plans. In compliance with the standards above, Holy Stone anticipates that accrued pension

(2) *IAS 1 Presentation of Financial Statements*

The primary amendment of IAS 1 was requiring profit or loss and other comprehensive income to be presented together, requiring entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, and requiring tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items. HOLY STONE will follow the amendment of IAS 1 to present the comprehensive income statement.

(3) *IFRS 13 Fair Value Measurement*

IFRS 13 defines the meaning of fair value and sets the method of calculation and the presentation of measurement of fair value. After assessing the standard, HOLY STONE does not expect any significant influence on the financial condition and performance, and will follow IFRS 13 to additionally disclose the information on measurement of fair value.

3.2 New standards and interpretations of 2013 IFRSs issued by the IASB but not yet endorsed by the FSC

<b>New Standards, Amendments and Interpretations</b>	<b>Effective Date Issued by IASB</b>
<i>IFRS 9 Financial Instruments</i>	January 1, 2018
<i>IFRS 10/IAS 28 Sales or Contributions of assets between an Investor and its associate/joint venture</i>	TBA
<i>IFRS 10, 12 and IAS 28 Investment entities: Applying the Consolidation Exception</i>	January 1, 2016
<i>Amended IFRS 11 Joint Arrangement</i>	January 1, 2016
<i>IFRS 14 Regulatory Deferral Accounts</i>	January 1, 2016
<i>IFRS 15 Revenue from Contracts with Customers</i>	January 1, 2018

(continued)

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
IFRS 16 <i>Leases</i>	January 1, 2019
Amended IAS1 <i>Disclosure Initiative</i>	January 1, 2016
Amended IAS7 <i>Disclosure Initiative</i>	January 1, 2017
Amended IAS12 <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017
Amended IAS 16/38 <i>Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amended IAS 16/41 <i>Agriculture</i>	January 1, 2016
Amended IAS 19 <i>Employee Benefits</i>	July 1, 2014
Amended IAS 27 <i>Equity Method in separate financial statements</i>	January 1, 2016
Amended IAS 36 <i>Impairment of Assets</i>	January 1, 2014
Amended IAS 39 <i>Financial Instruments</i>	January 1, 2014
2010-2012 and 2011-2013 Annual Improvements	July 1, 2014
2012-2014 IAS Annual Improvements	January 1, 2016
IFRIC21	January 1, 2014

HOLY STONE is assessing the influence on financial condition and performance of the above standards and interpretations. HOLY STONE will disclose the related influence when the assessment is finished.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**4. Summary of Significant Accounting Policies**

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

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

**4.1. Statement of Compliance**

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

**4.2. Basis of Preparation**

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

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

**4.2.2. Functional and presentation currency**

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

**4.3. Basis of Consolidation**

**4.3.1. Principles of preparation of consolidated financial statements**

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

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

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

Changes in the ownership of a subsidiary that do not result in loss of control are accounted for as equity transactions.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.3.2. The subsidiaries included in the consolidated financial statements

Investor	Subsidiaries	Style	Share holding %		Remark
			2015.12.31	2014.12.31	
The Company	Holy Stone Enterprise (Hong Kong) Co., Ltd. (Holy Stone H.K)	Sales of MLCC, electronic components	100.00%	100.00%	-
The Company	Holy Stone Holdings Co., Ltd. (HSH , Samoa)	General investment	100.00%	100.00%	-
The Company	UHOLY Investment Co., Ltd. (UHOLY, Taiwan)	General investment	57.69%	57.69%	-
The Company	Mayatek Co., Ltd. (Mayatek, Taiwan)	Electric appliance wholesaling, precision instrument wholesaling, computer and business equipments wholesaling	100.00%	100.00%	-
The Company	Rong Jhan Investments Co., Ltd.(Rong Jhan Investments, Taiwan)	General investment	100.00%	100.00%	-
HSH	Holy Stone Investments Co., Ltd. (HSIC , H.K.)	General investment	100.00%	100.00%	-
HSH	Holypaq Corporation (HC , Cayman)	General investment	100.00%	100.00%	-
HSH	Green Glory Holdings Ltd. (GGH , Samoa)	General investment	100.00%	100.00%	-
HSH	Mayatek Co., Ltd. (Mayatek , Belize)	Electric appliance wholesaling, precision instrument wholesaling, computer and business equipments wholesaling	100.00%	100.00%	-
HSH	Everplus Material Co., Ltd. (EPM , Japan)	Sale and produce of electronics, sale and material of mechatronics	100.00%	100.00%	(Note 3)
HSH	Holy Stone Holdings Co., Ltd. (HSH , Singapore)	Electronic Retailing	100.00%	100.00%	-
HSIC	Holy Stone International Trading (Shanghai) Co., Ltd. ("Holy Stone Shanghai", China)	Sale of capacitor	100.00%	100.00%	-
HSIC	Infortech (CHINA) Co., Ltd. (Infortech, CHINA)	sales of electronic components	100.00%	100.00%	-
GGH	Infortech International Trading (Shanghai) Ltd. (Infortech International, China)	Development design and sale of electronics	-	100.00%	(Note 5)
GGH	Milestone Global Technology Ltd. (MGT , US)	Development design and sale of electronics	100.00%	100.00%	-
GGH	Holy Stone (Europe) Ltd. (HSE , UK)	Electronic Retailing	100.00%	100.00%	-
EPM	Everplus Planning Co., Ltd. (EPP , Japan)	Alcohol and produce retailing	75.00%	- %	(Note 4)
UHOLY Investment Co., Ltd.	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	29.02%	29.02%	(Note 1)
Holy Stone Healthcare	Global Search Holdings Ltd. (GSH , Samoa)	General investment	100.00%	100.00%	-
Holy Stone Healthcare	MDT INT'L SA (MDT Swiss)	Development and sale of Medical instruments, and biological techniques	100.00%	100.00%	-
GSH	Aihol Corporation (Aihol, USA)	Patent Application	100.00%	100.00%	(Note 2)
GSH	Holy Stone Biotech Co., Ltd. (Biotech UK)	Authorizing and sale of medical instruments and	100.00%	100.00%	-

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

Rong Jhan Investments	OHGA Electronic Co., Ltd. (OHGA, Taiwan)	medicines Electric appliance and audiovisual electric products manufacturing	70.00%	70.00%	-
Rong Jhan Investments	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	2.64%	2.64%	(Note 1)
OHGA Electronic Co., Ltd.	Holy Stone Healthcare Co., Ltd. (Holy Stone Healthcare, Taiwan)	western medicine wholesaling and medical instruments wholesaling	0.01%	0.01%	(Note 1)

Note 1 : As of December 31, 2015, The Consolidated Company owned most of the voting right of Holy Stone Healthcare, in consequence, it was Holy Stone's subsidiary.

Note 2 : As of November 31, 2014, GSH invests and 100% owned Aihol, and listed as subsidiary as of December 2014.

Note 3 : As of January, 2014, HSH invested and established HSHS, 100% owning it. HSHS was HSH's subsidiary since.

Note 4 : EPM reinvested in EPP in August 2015, with ownership of 75%, and has listed EPP as subsidiary since then.

Note 5 : Infotech International Trading (Shanghai) Ltd. has completed liquidation during April 2015.

4.3.3. Subsidiaries not listed in the Consolidated Financial Report: None

#### **4.4. Foreign Currency**

##### **4.4.1. Foreign Currency Transactions**

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

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

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

##### **4.4.2. Foreign Operations**

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**4.5. 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 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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4.7.1.4. Loans and receivables

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

4.7.1.5. Impairment of financial assets

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

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

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

For financial assets carried at amortized cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not be reversed in subsequent periods.

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

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

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

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

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

4.7.1.6. Derecognition of financial assets

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

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

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

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 original liability and equity.

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

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

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

Financial liabilities that classified as theses type are either held-for-trading or financial liabilities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Property, plant and equipment**

4.9.1. Recognition and measurement

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.9.2. Subsequent cost

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

4.9.3. Depreciation

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

No depreciation shall be recognized for land.

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

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

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

**4.10. Intangible Asset**

4.10.1. Goodwill

4.10.1.1. Initial recognition

Goodwill acquired in a business combination is included in intangible assets.

4.10.1.2. Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. The carrying amount of the investments in associates includes goodwill. The impairment losses on investments would not be allocated to goodwill or any other assets.

4.10.2. R & D

Research and development activities are conducted with expectation to acquire and be better understand the cutting edge science and technology. The relevant expenditure shall be recognized when the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.
- (4) how the intangible asset will generate probable future economic benefits.
- (5) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (6) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Capitalized development expenditure shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

4.10.3. Other intangible assets

Other intangible assets that are acquired through business combinations or are internally developed are measured at cost less accumulated amortization and any accumulated impairment losses.

4.10.4. Subsequent cost

Subsequent cost may only be capitalized when is able to add future economic benefit to the relevantly specific assets. Other expenditure, including goodwill and brand name of internal development, shall be recognized when it is incurred.

4.10.5. Amortization

The amount to be amortized is its recorded cost of asset, less any residual value

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with an indefinite useful life, from the date that they are available for use.

The Company shall review the residual value, amortization term and amortization method of intangible asset before the end of each fiscal year once or more. Any alternation or changes shall be regarded as changes in accounting estimate.

**4.11. Impairment of Non-financial Assets**

The Company measures whether impairment incurred in non-financial assets (except for inventories, deferred income tax assets, and employee benefits) on every reporting date, and estimates the recoverable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the Company shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

#### 4.12. Revenue

Revenue is income that arises in the course of ordinary activities of an entity, and shall be measured at the fair value of the agreed-upon consideration (after taking into account the amount of any trade discounts and volume discounts) between the enterprise and its buyer or user.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

**4.13. Employee's bonus**

4.13.1. Defined Contribution Plans

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

4.13.2. Defined Benefit Plans

Defined benefit plans are plans not classified as defined contribution plans. The Company shall recognize the amounts to be contributed as current expense for the employees' employment period. The unrecognized fair value of service cost of past period and other plan assets shall be eliminated. The discount rate shall be chosen from the closest date of closing date and the Company's net obligation term, and from the rate at reporting date of high quality corporate bond of which the pricing currency are the same as expected pension.

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

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

As of January 1, 2013, the conversion date of IFRS which approved by FSC, all the actuarial gains and losses shall be recognized as retained earnings. All the subsequently generated actuarial gains and losses of defined benefit plan shall be recognized as other comprehensive gains and losses immediately.

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

4.13.3. Short-Term Employee Benefits

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

**4.14. Share-based Payment**

The Company shall increase the corresponding equity and recognized the remuneration cost, within the period of unconditional right to subscribe or which it has the right to receive, to the employees' share-based numeration at the fair value and grant date.

The recognized compensation cost shall be adjusted by the compensation amount of expected service condition and non-market vesting condition. The final recognition amount shall meet the compensation amount of expected service condition and non-market vesting condition and be calculated accordingly.

No adjustment shall be made if there is a difference between expected and actual result regarding the vesting condition of share-based payment numeration, which has already reflected in the measurement of share-based payment at fair value and grant date.

**4.15. Income taxes**

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

#### **4.16. Earnings per Share**

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

#### **4.17. Operating Segment**

An operating segment is a component of the Consolidated Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Company), whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### **5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

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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 Notes and account receivable, other receivable, and impairment test in note 6.5, and impairment test of intangible assets in Note 6.9.

**6. Accounts Statement**

6.1. Cash and Cash Equivalents

	<u>2015.12.31</u>	<u>2014.12.31</u>
Cash on hand	\$ 3,175	2,543
Current deposit	2,254,980	1,612,782
Deposit account	<u>647,377</u>	<u>952,507</u>
	<b><u>\$ 2,905,532</u></b>	<b><u>2,567,832</u></b>

Please refer to Note 6.21 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>2015.12.31</u>	<u>2014.12.31</u>
Financial assets at fair value through profit or loss-current-current:		
Non-derivative financial assets:		
Foreign stocks	\$ 17,473	79,515
Bonds	474,339	509,749
Open-ended funds	126,755	277,649
Cooperate Bond	<u>-</u>	<u>1,799</u>
Total	<b><u>\$ 618,567</u></b>	<b><u>868,712</u></b>

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Investment of Stock:		
Domestic Stock (OTC & TSEC listed)	\$ 290,399	366,747
Foreign Stock (listed companies)	<u>30,272</u>	<u>39,154</u>
Total	<b><u>\$ 320,671</u></b>	<b><u>405,901</u></b>

Change in price of equity securities on reporting date (Analysis of these two periods are based on same

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basis, and assume that the other variations remain unchanged). The effect of comprehensive profit and loss is as follows:

Bond price on reporting date	2015		2014	
	Other post-tax comprehensive profit and loss	Post-tax profit and loss	Other post-tax comprehensive profit and loss	Post-tax profit and loss
Increased by 1%	\$ 3,207	-	4,059	-
Decreased by 1%	\$ (3,207)	-	(4,059)	-

Material foreign currency equity investment on reporting is as follows:

Unit: Thousands of NT\$

	2015.12.31			2014.12.31		
	Foreign currency	Rate	NT\$	Foreign currency	Rate	NT\$
USD	922	32.825	30,272	1,237	31.650	39,154

As of December 31, 2015 and 2014, the Consolidated Company's available-for-sale financial assets had never been pledged as collaterals.

#### 6.4. Financial Assets Carried at Cost

	2015.12.31	2014.12.31
Domestic/foreign common stock (TSEC & OTC listed)	\$ 420,855	385,292

The stock investment above held by the Consolidated Company was evaluated using cost deducting impairment on the reporting date. Due to the interval of reasonable estimates at fair value was material and the possibility of various estimates were not able to be evaluated fairly; therefore, management believes that the fair value cannot be evaluated credibly.

The Company sold unlisted common stocks with face value of 18,390 thousand dollars. The valuation was calculated by deducting loss from cost before disposal, and a disposal gain of 4,017 thousand was generated.

As of December 31, 2015 and 2014, the Consolidated Company's financial assets carried at cost had never been pledged as collaterals.

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

	2015.12.31	2014.12.31
Notes receivable	\$ 98,310	141,459
Account receivable	2,974,120	3,354,887
Other receivable	54,669	69,054
Less: Allowance for Uncollectible Accounts	(25,770)	(78,807)

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\$ 3,101,329      3,486,593

As of December 31, 2015 and 2014, the notes, account and other receivable aging were as follows:

	2015.12.31		2014.12.31	
	Amount	Impairment	Amount	Amount
Unexpired	\$ 3,098,260	(12,657)	3,480,005	(12,999)
1~30 days overdue	19,244	(4,247)	20,915	(2,330)
30~60 days overdue	713	(415)	4,945	(4,319)
Over 90 days overdue	8,882	(8,451)	59,535	(59,159)
	<u>\$ 3,127,099</u>	<u>(25,770)</u>	<u>3,565,400</u>	<u>(78,807)</u>

The Consolidated Company's evaluation on impairment of notes, account and other receivables included individual and group evaluations. As of December 31, 2015 and 2014, the statement of change in allowance for uncollectible accounts of notes, account and other receivable were as follows:

	2015	2014
Beginning balance, January 1	\$ 78,807	76,686
Impairment loss recognition	(6,293)	3,022
Offset (current period)	(46,770)	(188)
Gains or Losses on translation of foreign currency	26	(713)
Ending balance, December 31	<u>\$ 25,770</u>	<u>78,807</u>

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

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

19% and 23 % of the notes and account receivables including remains from the most significant client in 2015 and 2014 separately, come from the clients with favorable payment history.

As of December 31, 2015 and 2014, the account receivable of Company had never been pledged as collateral,

**6.6 Inventories**

	2015.12.31	2014.12.31
Raw Material	\$ 58,831	79,453
Supplies	2,773	4,165
Work in process	73,700	83,368
Semi-finished goods	21,476	39,982
Finished goods	291,885	315,437
Merchandise	<u>1,256,972</u>	<u>1,530,771</u>

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\$ 1,705,637      2,053,176

The inventory cost from cost of goods sold and expense recognized at the end of 2015 and 2014 was NT\$11,597,669 thousand and NT\$13,869,151 thousand dollars. Inventory writedown loss to net realizable value in 2015 is NT\$12,103 thousand and recognized as loss on inventory. The factor that caused the realizable value of inventories lower than the cost had gone. Therefore, Net Realizable Value decreased and the recognized cost of goods sold was NT\$53,611 thousand dollars.

As of December 31, 2015 and 2014, the inventories of Consolidated Company had never been pledged as collateral.

**6.7. Loss of Control of Subsidiary and gain on disposal**

On June 11, 2014, the board of directors of Consolidated Company approved sale of HPC, tantalum capacitor business, and lose control of the subsidiary. The gain on disposal was listed in the following statement:

Gain on disposal	\$ 286,921
Loss on inventory and property, plant and equipment	<u>(46,011)</u>
Gain on disposal	<u><b>\$ 240,910</b></u>

The consolidated sold HPC on June 11, 2014 to Vishay Israel Limited, which resulted in loss of control to the subsidiary. The disposal price was USD \$15,668 thousand (Contract price, USD \$21242 thousand, deducted USD \$5,574 thousand debt payment by Holdings). The gain of disposal totaled USD \$9,505 thousand. (Related tax payment has been deducted).

As of May 31, 2014, balance sheet of subsidiary was listed in the following statement:

Cash and cash balance	\$ 517
Inventory	3,909
Account receivable and other receivable	2,841
Property, plant and equipment	1,739
Tangible asset	28
Other asset	39
Long and short-term debt	(5,574)
Account payable and other payable	(1,444)
Effect of exchange rate changes	<u>(12)</u>
Carrying amount of HPC	<u><b>\$ 2,043</b></u>

The aforementioned USD \$13,068 thousand of disposal price was received when the subsidiary was put for sale, the remaining USD \$2,600 thousand was saved in private import escrow account in accordance with the contract (As of December 31, 2015, USD \$1,135 thousand has been deducted in accordance with

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the contract. The remains would be deducted in accordance with the contract) As of December 31, 2015, the payment was recognized under “Other Non-Current Asset – Other”.

**6.8. Property, Plant and Equipment**

Details on cost, accumulated depreciation, and impairment loss of the Company for the year ended December 31, 2015 and 2014 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, 2015	\$ 782,870	1,558,349	2,113,810	345,446	4,800,475
Purchasing & adjustment	-	5,543	79,128	24,829	109,500
Disposal	-	(110)	(38,022)	(11,242)	(49,374)
Effect of change in exchange rate	-	(2,065)	809	(259)	(1,515)
Ending balance December, 31 2015	<b><u>\$ 782,870</u></b>	<b><u>1,561,717</u></b>	<b><u>2,155,725</u></b>	<b><u>358,774</u></b>	<b><u>4,859,086</u></b>
Beginning balance, January 1, 2014	\$ 787,591	1,565,664	2,118,825	391,384	4,863,464
Purchasing & adjustment	-	42,766	103,119	27,030	172,915
Disposal	-	(34,041)	(28,868)	(55,239)	(118,148)
Other	(4,721)	(19,341)	(78,081)	(18,938)	(121,081)
Effect of change in exchange rate	-	3,301	(1,185)	1,209	3,325
Ending balance December, 31 2014	<b><u>\$ 782,870</u></b>	<b><u>1,558,349</u></b>	<b><u>2,113,810</u></b>	<b><u>345,446</u></b>	<b><u>4,800,475</u></b>
Accumulated depreciation & impairment loss					
Beginning balance, January, 1 2015	\$ -	389,862	1,355,316	221,748	1,966,926
Depreciation	-	54,894	214,990	37,902	307,786
Disposal	-	(92)	(35,611)	(8,911)	(44,614)
Effect of change in exchange rate	-	(747)	509	(204)	(442)
Ending balance, December 31, 2015	<b><u>\$ -</u></b>	<b><u>443,917</u></b>	<b><u>1,535,204</u></b>	<b><u>250,535</u></b>	<b><u>2,229,656</u></b>
Beginning balance, January 1, 2014	\$ -	345,657	1,183,236	249,916	1,778,809
Depreciation	-	60,330	227,667	42,241	330,238
Disposal	-	(9,821)	(7,915)	(54,746)	(72,482)
Other	-	(7,580)	(46,618)	(16,604)	(70,802)
Effect of change in exchange rate	-	1,276	(1,054)	941	1,163
Ending balance, December 31, 2014	<b><u>\$ -</u></b>	<b><u>389,862</u></b>	<b><u>1,355,316</u></b>	<b><u>221,748</u></b>	<b><u>1,966,926</u></b>
Book value:					
Ending balance, December 31, 2015	<b><u>\$ 782,870</u></b>	<b><u>1,117,800</u></b>	<b><u>620,521</u></b>	<b><u>108,239</u></b>	<b><u>2,629,430</u></b>
Ending balance, December 31, 2015	<b><u>\$ 782,870</u></b>	<b><u>1,168,487</u></b>	<b><u>758,494</u></b>	<b><u>123,698</u></b>	<b><u>2,833,549</u></b>
Beginning balance, January 1, 2014	<b><u>\$ 787,591</u></b>	<b><u>1,220,007</u></b>	<b><u>935,589</u></b>	<b><u>141,468</u></b>	<b><u>3,084,655</u></b>

As of December 31, 2015 and 2014, the pledged long-term loans and financing quota was detailed in note 8.

**6.9. Intangible Assets**

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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, 2015	\$ 550,351	47,278	597,629
Separate acquisition	-	771	771
Effect of exchange rate changes	17,245	1,615	18,860
Ending balance December, 31 2015	<u>\$ 567,596</u>	<u>49,664</u>	<u>617,260</u>
Beginning balance, January 1, 2014	\$ 530,876	50,112	580,988
Separate acquisition	-	386	386
Other	-	(1,221)	(1,221)
Effect of exchange rate changes	19,475	(1,999)	17,476
Ending balance December, 31 2014	<u>\$ 550,351</u>	<u>47,278</u>	<u>597,629</u>
Amortization and impairment loss:			
Beginning balance, January, 1 2015	\$ 96,672	20,143	116,815
Amortization	-	3,097	3,097
Impairment loss	175,192	-	175,192
Effect of exchange rate changes	6,846	696	7,542
Ending balance, December 31, 2015	<u>\$ 278,710</u>	<u>23,936</u>	<u>302,646</u>
Beginning balance, January 1, 2014	\$ -	17,766	17,766
Amortization	-	3,616	3,616
Impairment loss	96,672	-	96,672
Other	-	(403)	(403)
Effect of change in exchange rate	-	(836)	(836)
Ending balance, December 31, 2014	<u>\$ 96,672</u>	<u>20,143</u>	<u>116,815</u>
Book value:			
Ending balance, December 31, 2015	<u>\$ 288,886</u>	<u>25,728</u>	<u>314,614</u>
Ending balance, December 31, 2014	<u>\$ 453,679</u>	<u>27,135</u>	<u>480,814</u>
Beginning balance, January 1, 2014	<u>\$ 530,876</u>	<u>32,346</u>	<u>563,222</u>

1. Recognition of Amortization and Impairment Loss

As of December 31, 2015 and 2014, the recognized amortization and impairment loss from tangible asset was listed in consolidated income statement:

	<u>2015</u>	<u>2014</u>
Operating expense	<u>\$ 3,097</u>	<u>3,616</u>
Non-operating revenues and expenses	<u>\$ 175,192</u>	<u>96,672</u>

2. Impairment Loss and Reversal

As of 2015, the Consolidated Company estimated the cash-generating units of goodwill. The recoverable amount was estimated by its value in use, and it is recognized as impairment loss because the

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carrying amount is higher than the recoverable amount.

**6.10. Short-term Loans**

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Unsecured bank loans	<u>\$ 1,300,187</u>	<u>1,816,874</u>
Undrawn quotas	<u>\$ 4,313,720</u>	<u>4,045,751</u>
Range of interest rate	<u>0.72%~2.20%</u>	<u>0.80%~1.84%</u>

**6.11. Long-term Loans**

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

	<u>2015.12.31</u>			
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	TWD	1.57%	114	\$ 21,362
Less: current portion				<u>(2,122)</u>
Total				<u>\$ 19,240</u>
Undrawn quotas				<u>\$ -</u>
	<u>2014.12.31</u>			
	<u>Currency</u>	<u>Range of interest rates</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	TWD	1.64%	114	\$ 23,443
Less: current portion				<u>(2,081)</u>
Total				<u>\$ 21,362</u>
Undrawn quotas				<u>\$ -</u>

Please refer to note 8 for more details of consolidated assets pledged as collateral.

**6.12. Bond payable**

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Total amount of convertible bonds issued	\$ 700,000	700,000
Unamortized discount on bond payable	-	(625)
Accumulated redemption	(671,200)	(595,500)
Accumulated conversion	<u>(28,800)</u>	<u>-</u>
Ending balance of bond payable	<u>\$ -</u>	<u>103,875</u>
Embedded derivatives – call and put options (reported in financial assets at fair value through profit or loss)	<u>\$ -</u>	<u>1,799</u>
Equity component – conversion right (reported in capital surplus)	<u>\$ -</u>	<u>16,909</u>
	<u>2015</u>	<u>2014</u>
Embedded derivatives – gain or loss of call and put options reevaluated at fair value	<u>\$ 159</u>	<u>2,393</u>

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Interest expense	<u>\$</u>	<u>554</u>	<u>1,295</u>
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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 NT\$43.16 on August 12, 2014.

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

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

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

As of June 24<sup>th</sup> 2015, all of the above convertible bonds have been redeemed and are no longer traded over the counter.

### 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>2015.12.31</u>	<u>2014.12.31</u>
Total present value of obligation	\$ 143,960	143,529
Fair value of plan assets	<u>(87,186)</u>	<u>(87,766)</u>
	56,774	55,763
Impact from cap of asset	<u>-</u>	<u>-</u>
Defined benefit obligation liabilities recognized (assets)	<u>\$ 56,774</u>	<u>55,763</u>

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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 of 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 Bureau of Labor Funds, Ministry of Labor (abbreviated to Bureau of Labor Funds, Ministry of Labor, BLF in the following pages). According to "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", the lowest return of annual distribution of settlement cannot lower than the revenue calculated using local bank's 2-year time deposit interest rates.

The ending balance as of December 31, 2015 in labor retirement reserve account was NT\$81,706 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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Defined benefit obligation on January 1	\$ 143,529	140,940
Current service cost and interest	4,753	3,871
Reevaluated number of defined benefit obligation		
-actuarial gain(loss) derived from change of financial assumption	2,252	(1,282)
Benefit plan payment	<u>(6,574)</u>	<u>-</u>
Defined benefit obligation on December 31	<u><u>\$ 143,960</u></u>	<u><u>143,529</u></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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Fair value of the plan assets on January 1	\$ 87,766	82,122
Interest income	1,905	-
Reevaluated number of defined benefit obligation (asset)		
-return on plan asset (excluding interest for current period)	341	1,919
Appropriation for the plan	3,748	3,725
Benefit plan payment	<u>(6,574)</u>	<u>-</u>

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Plan assets at fair value on December 31 \$ 87,186 87,766

6.13.1.4 Changes derived from impact of asset cap

There is no change derived from impact of asset cap as of December 31<sup>st</sup>, 2015 and 2014.

6.13.1.5 Expense recognized as gain or loss

The details of the Consolidated Company's expense for the year ended December 2015 and 2014 are reported as follows:

	<u>2015</u>	<u>2014</u>
Current service cost	\$ 1,703	1,405
Interest of defined benefit obligation (asset)	1,145	1,029
	<u>\$ 2,848</u>	<u>2,434</u>
	<u>2015</u>	<u>2014</u>
Operating cost	\$ 1,290	1,379
Operating expense	1,558	1,055
	<u>\$ 2,848</u>	<u>2,434</u>

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

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

	<u>2015</u>	<u>2014</u>
Beginning accumulated balance on January 1	\$ (63,157)	(64,921)
Recognition in current period	(1,911)	1,764
Ending accumulated balance on December 31	<u>\$ (65,068)</u>	<u>(63,157)</u>

6.13.1.7 Actuarial Assumption

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

	<u>2015.12.31</u>	<u>2014.12.31</u>
Discount rate	1.75%	2.125%
Gains on future wages	2.50%	2.50%

The appropriation to defined benefit obligation in a year after 2015 reporting date is 3,720 thousand dollars. The average weighted duration of defined benefit plan is 17 years.

6.13.1.8. Sensitivity Analysis

When calculating present value of defined benefit, the Company shall determine related actuarial assumption of balance sheet date by evaluating and estimating, including discount rate and changes on future payroll. Any changes on actuarial assumption might have significant impact on defining amount of defined benefit obligation.

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The impact of changes of actuarial assumption on present value of defined benefit obligation as of December 31<sup>st</sup>, 2015 is listed below:

	<b>Impact on defined benefit obligation</b>	
	<b>Up by 0.25%</b>	<b>Down by 0.25%</b>
December 31 <sup>st</sup> , 2015		
Discount rate	\$ (4,253)	4,432
Increase (decrease) in future payroll	4,295	(4,143)

The above sensitivity analysis is the impact of single assumption change based on no changes of the other assumptions. In real life, many changes of assumptions might be correlated. The method of analyzing sensitivity is the same as of calculating defined benefit obligation.

The fashion and assumption of compiling sensitivity analysis for fiscal year of 2015 is the same as of 2014.

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, 2015 and 2014, the Company had appreciated NT\$45,148 and NT\$46,075 thousand for pension expense to Bureau of Labor Insurance.

**6.14. Income Tax**

6.14.1. Income Tax Expense

i. As of December 31, 2015 and 2014, the income tax expense in details is as follows:

	<b>2015</b>	<b>2014</b>
Present value of income tax expense		
Expense generated from current period	\$ 154,791	174,102
Deferred income tax expense (profit)		
Temporary differences incurred or reversed	(11,939)	(16,296)
	<b>\$ 142,852</b>	<b>157,806</b>

ii. As of December 31, 2015 and 2014, income tax profit (expense) that recognized under other comprehensive income is as follows:

	<b>2015</b>	<b>2014</b>
Exchange differences from translation of financial report of foreign operation	\$ (4,334)	(10,534)

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Unrealized gains or losses on available-for-sale financial asset	1,510	(5,747)
	<u>\$ (2,824)</u>	<u>(16,281)</u>

iii. As of December 31, 2015 and 2014, the adjustment of income tax expense and net income before tax were as follows:

	<u>2015</u>	<u>2014</u>
Net income before tax	<u>\$ 614,638</u>	<u>953,010</u>
Income tax calculated by using local tax rate of the Company	\$ 104,488	162,012
Tax-exempt income and rental tax credit	(15,105)	(9,481)
Temporary unrecognized changes	(39,083)	(39,083)
10 % more on undistributed earnings	10,103	17
Impact of tax differentiation from foreign countries and other	<u>82,449</u>	<u>44,341</u>
Total	<u>\$ 142,852</u>	<u>157,806</u>

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

1. Unrecognized deferred income tax liability

As of December 31, 2015 and 2014, the reversal time point of temporary differences between the Company and subsidiaries can be controlled by Consolidated Company. In addition, it is positive that the reversal will not occur in the foreseeable future, hence the deferred income tax liability was not recognized. The detail is listed below:

	<u>2015.12.31</u>	<u>2014.12.31</u>
Unrecognized deferred income tax liability	<u>\$ 229,901</u>	<u>229,901</u>

2. Recognized deferred income tax liability

As of December 31, 2015 and 2014, changes of deferred income tax assets and liabilities were as follows:

	<u>Loss due to market decline on inventory</u>	<u>Exchange differences from translation of financial report of foreign operation</u>	<u>Other</u>	<u>Total</u>
<b>Deferred income tax asset:</b>				
Beginning balance, January 1, 2015	\$ 28,363	-	5,833	34,196
(Debit) Credit to income statement	(1,571)	-	(3,546)	(5,117)
Credit to other comprehensive income	-	-	-	-
<b>Ending balance, December 31, 2015</b>	<u>\$ 26,792</u>	<u>-</u>	<u>2,287</u>	<u>29,079</u>
Beginning balance, January 1, 2014	\$ 18,050	5,486	7,032	30,568
(Debit) Credit income statement	10,313	-	(1,199)	9,114

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Credit to other comprehensive income	-	(5,486)	-	(5,486)
<b>Ending balance, December 31, 2014</b>	<b>\$ 28,363</b>	<b>-</b>	<b>5,833</b>	<b>34,196</b>

	Gains or 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, 2015	\$ 45,063	5,048	9,675	59,786
Credit (Debit) to income statement	(12,971)	-	(3,887)	(16,858)
Credit (Debit) to other comprehensive income	-	4,334	(1,510)	2,824
<b>Ending balance, December, 31 2015</b>	<b>\$ 32,092</b>	<b>9,382</b>	<b>4,278</b>	<b>45,752</b>
Beginning balance, January 1, 2014	\$ 56,301	-	3,236	59,537
Credit (Debit) income statement	(11,238)	-	692	(10,546)
Debit to other comprehensive income	-	5,048	5,747	10,795
<b>Ending balance, December 31, 2014</b>	<b>\$ 45,063</b>	<b>5,048</b>	<b>9,675</b>	<b>59,786</b>

6.14.3. Income Tax Assessment

The income tax has been examined and cleared by the tax authorities to the fiscal year of 2013 (it has not been approved for the one of fiscal year of 2012)

6.14.4. Related Information of Integrated Income Tax

Integrated income tax is as follows:

	2015.12.31	2014.12.31
Undistributed earnings after 1998	<u>\$ 1,150,743</u>	<u>1,382,626</u>
Balance in the shareholder deductible tax	<u>\$ 176,042</u>	<u>138,302</u>

	2015 (expected)	2014 (actual)
Tax deduction ratio of earning distribution to residents in ROC	<u>21.44%</u>	<u>17.20%</u>

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

Since January 1st, 2015, creditable withholding tax for net stock dividend or profit has been amended to half of the original amount for any individual stockholder resident in R.O.C. In addition, creditable withholding tax for stock dividend or profit which has been categorized as actual enterprise tax payment, can be deducted from withholding tax for half of the amount.

6.15. Capital and Other Equities

As of December 31, 2015 and 2014, Holystone had authorized share capital NT\$ 4,500,000 dollars, with face value NT\$ 10 per share and 450,000 thousand of shares. The Issued shares were all common stock,

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as of December 31, 2015 and 2014; there are 224,215 (the Company converted putable bonds into 667 thousand of common shares) and 223,548 thousand shares outstanding (the Company's BOD resolved to write off 604 thousand of treasury stock on May 6<sup>th</sup> 2014, and it has been approved by the authorities on June 3<sup>rd</sup> 2014). All of the payment of issued shares was collected.

The Reconciliation of shares outstanding as of December 31, 2015 and 2014 is as follows:

	<b>Common Stock (Thousand)</b>	
	<b>2015</b>	<b>2014</b>
Beginning balance, January 1	223,548	224,152
Treasury stock write-off	-	(604)
Capital reduction	667	-
Ending balance, December 31	<b><u>224,215</u></b>	<b><u>223,548</u></b>

6.15.1. Capital Surplus

The components of capital surplus were as follows:

	<b>2015.12.31</b>	<b>2014.12.31</b>
From Floating share premium	\$ 1,527,358	1,527,358
Premium from convertible bonds	1,500,091	1,463,082
From bond options	-	16,909
From Merge and Acquisition	144,225	144,225
From employees stock option	272,695	272,695
From employees' bonus-stock	15,410	15,410
From Differences between book value and equity price of acquisition or disposal of subsidiaries	84,793	84,658
From expired option	63,672	63,672
	<b><u>\$ 3,608,244</u></b>	<b><u>3,588,009</u></b>

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

6.15.2. Retained earnings

According to Holy Stone's Articles of Incorporation, if there is a surplus considering all accounts by the end of a fiscal year, the surplus shall be allocated in the following order;

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

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- (a.) Compensation for directors and supervisors shall not exceed 3 percent.  
 (b.) Employee bonuses shall be no less than 7 percent.

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

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

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

According to Company Act amended in May 2015, employee bonus and remuneration to board directors and supervisors are no longer listed in items of earnings distribution. The Company will be making amendment to Article of Incorporation.

6.15.2.1. Legal Reserve

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

6.15.2.2. Special Reserve

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

6.15.2.3 Distribution of earnings

Holystone's estimated bonuses to employees amounted to NT\$125,617 thousand and the estimated remuneration to directors amounted to NT\$23,553 thousand for fiscal year of 2014.

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 2014. The actual distribution of bonuses to employees and remuneration to directors for the year of 2014 were same as estimation.

The earnings appropriations for 2014 and 2013 were resolved on June 9th, 2015, and June 11th, 2014, respectively. The dividend distributed to owners were as follows:

	2014		2013	
	dividend allotment (dollars)	Amount	dividend allotment (dollars)	Amount
Common stock dividends:				
Cash dividends from earnings	\$ 3.30	<u>737,709</u>	2.80	<u>625,934</u>

6.15.3 Treasury stock

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- 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. The Board of Directors resolved to write off 604 thousand shares on May 6<sup>th</sup>, 2014, and was approved by authority on June 3<sup>rd</sup>, 2014.
- ii. According to the Securities Exchange Act, the proportion of the Company's shares buyback cannot exceed 10% of the total shares issued; 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.
- 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.

6.15.4. Other Equity

	<u>Exchange differences from translation of financial report of foreign operation</u>	<u>Available-for-sale investment</u>
Beginning balance, January 1, 2015	\$ 24,645	206,500
Exchange differences (Net value after tax):		
The Company	21,162	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	(7,372)
Subsidiaries	-	(43,081)
Ending balance, December 31, 2015	<u><u>\$ 45,807</u></u>	<u><u>156,047</u></u>
	<u>Exchange differences from translation of financial report of foreign operation</u>	<u>Available-for-sale investment</u>
Beginning balance, January 1, 2014	\$ (26,785)	335,591
Exchange differences (Net value after tax):		
The Company	51,430	-
Unrealized gains or losses of available-for-sale financial assets:		
The Company	-	(40,800)
Subsidiaries	-	(88,291)
Ending balance, December 31, 2014	<u><u>\$ 24,645</u></u>	<u><u>206,500</u></u>

**6.16 The valuation coefficient of grant date fair value**

As of December 31, 2015, details of share-based payment were as follows:

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

6.16.1. 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:

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	<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 3.31.2015 (2015)	37.60
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\$)	<u>2015</u>		<u>2014</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	\$ 41.10	7,002	41.10	7,002
Numbers granted for current period	-	-	-	-
Numbers abandoned for current period	-	-	-	-
Numbers exercised for current period	-	-	-	-
Numbers expired for current period	-	-	-	-
Adjustment of Cash reduction	-	-	-	-
Outstanding numbers on December 31	37.60	<u>7,002</u>	41.10	<u>7,002</u>
Exercisable numbers on December 31	37.60	<u>7,002</u>	41.10	<u>7,002</u>

The information on shares outstanding is as follows:

	<u>2015.12.31</u>	<u>2014.12.31</u>
<b>Range of exercise price (NTD)</b>	37.6	41.1
<b>Weighted average remaining year</b>	1.93	2.93

**6.17. Earnings per Share**

6.17.1. Basic EPS

i. Net income available to common shareholders (Diluted)

	<u>2015</u>	<u>2014</u>
Net income available to common shareholders	<u>\$ 598,178</u>	<u>904,408</u>

ii. Weighted average of outstanding common stock

Unit: thousand shares	<u>2015</u>	<u>2014</u>
Outstanding common stock on January 1	223,548	223,548
Effect of cash refund of capital reduction	498	-
Weighted average of outstanding common stock on December 31	<u>224,046</u>	<u>223,548</u>

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6.17.2. Diluted EPS

i. Net income available to common shareholders (diluted)

	<u>2015</u>	<u>2014</u>
Net income available to common shareholders (Basic)	\$ 598,178	904,408
Interest expense after tax of convertible bond	554	1,295
Net income available to common shareholders (Diluted)	<u>\$ 598,732</u>	<u>905,703</u>

ii. Weighted average of outstanding shares (diluted)

	<u>2015</u>	<u>2014</u>
Unit: thousand shares		
Weighted average of outstanding common shares(Basic)	224,046	223,548
Effect of conversion of convertible bonds	1,005	2,421
Effect of employee bonus share	4,069	4,101
Effect of employee stock options	190	211
Ending balance of weighted average of outstanding common shares (Diluted) December 31	<u>229,310</u>	<u>230,281</u>

6.18. Revenues

The operating revenues of the Company are detailed as follows:

	<u>2015</u>	<u>2014</u>
Merchandise sales	\$ 12,871,024	15,390,674
Other	724,795	634,219
	<u>\$ 13,595,819</u>	<u>16,024,893</u>

6.19. Remuneration to employees, directors and the board

According to articles and regulations which has not been approved by shareholders, the allocation to employees shall be above 7% and the one to directors shall not exceed 3% of profit, if there is any. However, if there is accumulated loss, the allocation shall not be reserved. Employee bonus distributed with stock or cash includes employees qualifies certain terms.

The estimated bonus to employees and directors for fiscal year of 2015 were 88,148 thousand and 16,790 thousand, respectively. The amount was calculated by deducting bonus to employees and directors from net income before tax, and then multiplying by fraction defined in the Company's article. This amount shall be recognized as operating cost or expense for fiscal year of 2015. Please got to MOPS for more details. If there is any change to be made in the next year, the impact shall be recognized as loss. If there is difference between actual distribution and estimation, it shall be recognized as loss for fiscal year of 2016.

6.20. Other Gains & Losses

	<u>2015</u>	<u>2014</u>
Gain - loss on disposal of assets	\$ -	240,910

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Impairment loss on goodwill	(175,192)	(96,672)
Gains (losses) on Financial Assets (Liabilities) at Fair Value through Profit or Loss)	29,183	-
Other	36,167	-
	<u>81,501</u>	<u>92,254</u>

Please refer to note 6.9 for more details of goodwill impairment loss.

6.21. Financial Instruments

6.21.1. 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, 2015 and 2014, the maximum credit risk exposure totaled NT\$7,366,954 thousand and 7,329,038 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.

6.21.2. Liquidity risk

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

	<u>Book Value</u>	<u>Contract Cash Flow</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
December 31, 2015					
Non-derivative financial liabilities					
Short-term loans	\$ 1,300,187	1,301,003	1,301,003	-	-
Accounts payable	1,052,056	1,052,056	1,052,056	-	-
Accounts payable-related parties	19,701	19,701	19,701	-	-
Other payables	599,627	599,627	599,627	-	-
Long-term loans	21,362	22,647	2,155	9,522	10,970
	<u>\$ 2,992,933</u>	<u>2,995,034</u>	<u>2,974,542</u>	<u>9,522</u>	<u>10,970</u>
December 31, 2014					
Non-derivative financial liabilities					
Short-term loans	\$ 1,816,874	2,306,256	2,306,256	-	-
Accounts payable	1,087,389	1,087,389	1,087,389	-	-
Accounts payable-related parties	28,336	28,336	28,336	-	-
Other payables	457,702	457,702	457,702	-	-
Puttable bond for current period	103,875	103,875	103,875	-	-

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Long-term loans	23,443	24,702	2,450	12,550	10,002
	<u>\$ 3,517,619</u>	<u>4,008,260</u>	<u>3,986,008</u>	<u>12,550</u>	<u>10,002</u>

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

6.21.3. Currency Risk

i. Exposure to Currency Risk

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

Unit: NT\$ Thousand

	2015.12.31			2014.12.31			
	Foreign currency	Exchange rate	New Taiwan dollar	Foreign currency	Exchange rate	New Taiwan dollar	
<u>Financial Assets</u>							
<u>Monetary Items</u>							
USD	\$	98,050	32.8250	3,218,478	126,799	31.6500	4,013,175
EUR		1,187	35.8800	42,591	1,341	38.4700	51,579
HKD		28,687	4.2350	121,491	22,675	4.0800	92,514
GBP		272	48.6700	13,233	67	49.2700	3,293
JPY		310,966	0.2727	84,800	295,644	0.2646	78,227
RMB		25,088	4.9950	125,315	33,933	5.0920	172,788
CHF	-	-	-	-	52	31.9750	1,655
TWD		1,126	1.0000	1,126	3,369	1.0000	3,369
<u>Financial Liabilities</u>							
<u>Monetary Items</u>							
USD		74,550	32.8250	2,447,103	110,743	31.6500	3,505,017
EUR		364	35.8800	13,074	244	38.4700	9,375
HKD		426	4.2350	1,803	366	4.0800	1,495
GBP		426	48.6700	20,747	71	49.2700	3,518
JPY		200,550	0.2727	54,690	437,478	0.2646	115,757
CAD	-	-	-	-	39	27.2700	1,053
CHF	-	-	-	-	40	31.9750	1,279
TWD		1,012	1.0000	1,012	1,053	1.0000	1,053

ii. Sensivity Analysis

The main currency risk of the Company comes from cash and cash equivalent, account and other payables, loans, account and other receivables that priced in foreign dollars. Foreign currency gain/loss is generated from translation. As of December 31, 2015 and 2014, 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\$53,430 thousand and NT\$38,903 thousand. The analysis of these two periods is based on the same basis.

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iii. Profit or loss from currency exchange

Profit or loss from currency exchange for 2015 and 2014 was (4,292) thousand and 16,081 thousand dollars.

6.21.4. Interest Rate Analysis

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

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

If the interest rate increased or dropped by 1%, other variations remain unchanged, the Company's net profit as of December 31, 2015 and 2014 would increase or decrease NT\$13,215 dollar and NT\$ 18,403 dollar. The chief reason of this is because the Company adopts floating rates loans.

6.21.5. Fair Value

i. Types of financial instruments and fair value

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

	2015.12.31				Total
	Book Value	Fair Value			
		Level 1	Level 2	Level 3	
Financial asset calculated through profit and loss carried at fair value	\$ 618,567	618,567	-	-	618,567
Available-for-sale financial asset					
Common Stock	320,671	320,671	-	-	320,671
Financial asset carried at cost	420,855	-	-	-	-
Account receivable					
Cash and cash equivalent	2,905,532	-	-	-	-
Notes receivable and accounts receivable	3,046,660	-	-	-	-
Other receivable	54,669	-	-	-	-
Subtotal	6,006,861	-	-	-	-
Total	<b>\$ 7,366,954</b>	<b>939,238</b>	-	-	<b>939,238</b>
Financial asset carried at amortized cost					
Short-term loans	\$ 1,300,187	-	-	-	-
Accounts payable	1,052,056	-	-	-	-
Accounts payable-related parties	19,701	-	-	-	-
Other payable	599,627	-	-	-	-
Long-term loans	21,362	-	-	-	-
Subtotal	2,992,933	-	-	-	-

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Total	\$	<b>2,992,933</b>	-	-	-	-
			<b>2014.12.31</b>			
			<b>Fair Value</b>			
	<b>Book Value</b>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial asset calculated through profit and loss carried at fair value	\$	868,712	868,712	-	-	868,712
Available-for-sale financial asset						
Common Stock		405,901	405,901	-	-	405,901
Financial asset carried at cost		385,292	-	-	-	-
Account receivable						
Cash and cash equivalent		2,567,832	-	-	-	-
Notes receivable and accounts receivable		3,417,539	-	-	-	-
Other receivable		69,054	-	-	-	-
Subtotal		6,054,425	-	-	-	-
Total	\$	<b>7,714,330</b>	<b>1,274,613</b>	-	-	<b>1,274,613</b>
Financial asset carried at amortized cost						
Short-term loans	\$	1,816,874	-	-	-	-
Accounts payable		1,087,389	-	-	-	-
Accounts payable-related parties		28,336	-	-	-	-
Other payable		457,702	-	-	-	-
Puttable corporate bond due in one year		103,875	-	103,875	-	103,875
Long-term loans		23,443	-	-	-	-
Subtotal		3,517,619	-	103,875	-	103,875
Total	\$	<b>3,517,619</b>	-	<b>103,875</b>	-	<b>103,875</b>

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. Valuation skills in determining financial instruments calculating by fail value

(i) Non-derivative financial instrument

If there is active market for offering and bidding in terms of financial instrument, the fail value would be the public quotation. The main exchange and the market value of popular securities announced by OTC are the basis of fair value for any equity instrument of public listed company and debt instrument with public quotation.

If the information of public quotation can be accessed timely and frequently from the exchange,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

brokers, underwriters, industrial union, pricing organization or the authorities, and the quotation represents actual and frequent fair market traders, this financial instrument possess active market public quotation. If not, the market is inactive. Generally speaking, significant bid-offer spread, material increase in bid-offer spread, or very few of trading are indicators of inactive market.

As for active market financial instrument held by the Company, the fair value is listed as follows segmented by category and attribute:

Stocks of public listed company is an financial asset and liability with standard provisions and conditions and traded in active market, and the fair value is determined according to public quotation.

Except for the above financial instrument with active market, the fair value of the rest financial instrument is gained with valuation skills and reference to competitors' information. The fair value gained via valuation skills can be calculated by referring to current fair value of similar instruments, or with discounted cash flow method or any other valuation techniques, including models whose market information can be retrieved on the date of balance sheet (for example, yield curve or average quotation of commercial paper from Reuters).

## 6.22. Financial Risk Management

### 6.22.1. 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 consolidated financial report.

### 6.22.2. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6.22.3. 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, 2015 and 2014, the Company did not provide condition of endorsement and guarantee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

iv. Liquidity Risk

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

Loans are one of the significant liquidities. As of December 31, 2015 and 2014, the unexpended short-term loan commitments are NT\$4,313,720 and NT\$4,045,751 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**6.23. 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, 2015 and 2014, the liabilities to debt ratio are as follows:

	<u>2015.12.31</u>	<u>2014.12.31</u>
Total liabilities	\$ 3,173,245	3,981,026
Less: Cash and cash equivalent	<u>(2,905,532)</u>	<u>(2,567,832)</u>
Net liabilities	<u>\$ 267,713</u>	<u>1,413,194</u>
Total equity	\$ 9,001,993	9,315,221
Less: Adjustment	<u>-</u>	<u>-</u>
Adjusted capital	<u>\$ 9,001,993</u>	<u>9,315,221</u>
Liabilities to debt ratio	<u>2.97%</u>	<u>15.17%</u>

**6.24. Non-Cash Investment and Financing**

The non-cash investment and financing occurred in fiscal year of 2015 is conversion from puttable corporate bond to common stock. Please refer to Note 6.15 for more details.

**7. Related-Party Transactions**

## 7.1. The Parent Company and the ultimate ownership

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

## 7.2. Major Transaction with related parties

## 7.2.1 Sales and account receivables-related parties

	<u>Sales</u>		<u>Account receivables- related parties (Reported in net value of notes and account receivables)</u>	
	<u>2015</u>	<u>2014</u>	<u>2015.12.31</u>	<u>2014.12.31</u>
Related parties	<u>\$ 3,332</u>	<u>4,517</u>	<u>451</u>	<u>677</u>

There is no significant selling price difference between general customers and related parties. The payment terms with general suppliers is OA 30-120 days and OA 30 days for related parties.

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

	<u>Purchases</u>		<u>Account payables-related parties</u>	
	<u>2015</u>	<u>2014</u>	<u>2015.12.31</u>	<u>2014.12.31</u>
Related parties	<u>\$ 82,027</u>	<u>124,146</u>	<u>19,701</u>	<u>28,291</u>

Material price of the related parties is incomparable to those of suppliers because the Consolidated Companies have not purchased similar products as those from the related parties..

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7.3 Compensation of key management personnel

The compensation to other key management personnel is as follows:

	<u>2015</u>	<u>2014</u>
Short-term employee benefits	\$ 45,832	53,503
Post-employment benefit	65	87
	<u>\$ 45,897</u>	<u>53,590</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>2015.12.31</u>	<u>2014.12.31</u>
Land	Loans	\$ 156,522	156,522
Buildings	Loans	61,776	62,454
Time deposit	Import and commodity tax secured	14,627	14,027
		<u>\$ 232,925</u>	<u>233,003</u>

**9. Contingent Liabilities and Unrecognized Commitment**

i. As of December 31, 2015 and 2014, the Company's outstanding letters of credit amounted to NT\$68,226 thousand and NT\$51,147 thousand.

ii. Regarding former Subsidiary in Japan was under investment from U.S. class lawsuit of antitrust, the case was under court jurisdiction, which assigned attorney was dealing with. As of December 31, 2015, no primary conclusion had been made.

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

**11. Significant Subsequent Events:**

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other

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

Characters	Functions	2015			2014		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Welfare Expenses							
Payroll		244,609	613,104	857,713	292,352	638,198	930,550
Labor and health insurance		26,711	48,893	75,604	32,880	47,910	80,790
Pension expense		14,734	33,262	47,996	17,504	31,005	48,509
Others		8,221	14,688	22,909	7,856	13,322	21,178
Depreciation		258,941	48,845	307,786	278,640	51,598	330,238
Amortization		-	3,418	3,418	-	3,616	3,616

13. Additional Disclosure

13.1. Significant Transaction Information

In 2015, 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 (Note 2)	Interest Rate	Nature of financing (Note 3)	Amount of business interaction	Reason for short-term Loan	Allowance for doubtful Account	Collateral		Credit line for single party (Note 1)	Total Credit Line (Note 1)
													Name	Value		
1	Holy Stone Enterprise (HK) Co., Ltd.	Holy Stone Holdings Co., Ltd.	Other Receivables	Yes	49,305	-	-	1.8%	2	-	Reversal for operation	-	-	-	142,216	284,431
2	Holy Stone Holdings Co., Ltd.	Infotech (CHINA) CO., Ltd.	Other Receivables	Yes	69,027	-	-	2.20%	2	-	Reversal for operation	-	-	-	540,290	1,080,580

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: Transaction has been reversed by the time this report was compiled.

Note 3: To fill out the form of the nature of financing:

- 1 for the ones with business interaction.
- 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 Holdings Co., Ltd.	2	1,672,945	164,350	164,350	-	-	1.96%	4,182,363	Y	N	N
0	The Company	Rong Jhan Investment	2	1,672,945	150,000	150,000	-	-	1.79%	4,182,363	Y	N	N
0	The Company	Everplus Material Co., Ltd.	3	1,672,945	54,780	54,540	54,540	-	0.65%	4,182,363	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

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2015				Highest ownership and capital contribution Marketable Securities Type and Name	Note
				Shares	Carrying amount	Ratio of ownership	Holding Company		
The Company	JPMorgan (Taiwan) Greater Europe	-	Financial assets at fair value through profit or loss - current – open-ended fund	615	10,535	-	10,535	615	-
The Company	JPMorgan (Taiwan) Multi Inc	-	"	1,875	19,204	-	19,204	1,875	-
The Company	Jinli Group Holdings Limited Bond A	-	Financial assets at fair value through profit or loss - current – bond	200	23,231	-	23,231	200	-
The Company	Yeong Guan Energy Technology Group Co., Ltd. Bond A	-	"	200	20,402	-	20,402	200	-
The Company	Ginko International Co., Ltd. Bond A	-	"	300	30,453	-	30,453	300	-
The Company	Apex International Co., Ltd. Bond A	-	"	800	80,802	-	80,802	800	-
The Company	INTAI TECHNOLOGY CORP. Bond A	-	"	300	30,000	-	30,000	300	-
The Company	Portwell, Inc. Bond C	-	"	200	20,482	-	20,482	200	-
The Company	PARPRO CORPORATION Bond A	-	"	50	5,101	-	5,101	50	-
The Company	MPI CORPORATION Bond C	-	"	200	20,000	-	20,000	200	-
The Company	CHI HUA Bond A	-	"	100	10,100	-	10,100	100	-
The Company	Chime Ball Technology Co.,Ltd. Bond A	-	"	100	10,000	-	10,000	100	-
The Company	SOLTEAM Bond A	-	"	200	20,000	-	20,000	200	-
The Company	BOLTUN BVI CORPORATION Bond B	-	"	100	10,457	-	10,457	100	-
The Company	SWANCOR Bond B	-	"	100	10,201	-	10,201	100	-
The Company	T3EX Global Holdings Corp. Bond B	-	"	400	40,000	-	40,000	400	-
The Company	Yeong Guan Energy Technology Group Co., Ltd. Bond B	-	"	200	20,302	-	20,302	200	-
The Company	Kee Song Bio-Technology Holdings Limited Bond A	-	"	200	20,402	-	20,402	200	-
The Company	CHLITINA HOLDING LIMITED Bond A	-	"	300	30,756	-	30,756	300	-
The Company	INTEGRATED SERVICE TECHNOLOGY INC Bond C	-	"	200	20,150	-	20,150	200	-
The Company	FIDELITY EURO BLUE CHIP FUND	-	"	33	12,529	-	12,529	33	-
The Company	INVESCO EUROPEAN SMALL HEDGED USD	-	"	33	13,529	-	13,529	33	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sales financial asset-noncurrent	248	30,272	1.08%	30,272	248	-
The Company	CNO Co.,Ltd. Stock	-	Financial Asset carried at cost-noncurrent	1,400	24,246	-	-	1,400	-
Mayatek Co., Ltd.	Fuh Hwa Greater China Fund.	-	Financial assets at fair value through profit or loss - current – open-ended fund	107	1,613	-	1,613	107	-
Mayatek Co., Ltd.	Apex International Co., Ltd. Bond A	-	Financial assets at fair value through profit or loss - current – open-ended fund	100	10,100	-	10,100	100	-
Mayatek Co., Ltd.	PARPRO CORPORATION Bond A	-	"	50	5,101	-	5,101	50	-
Holy Stone	Invesco European Small	-	Financial assets at	1	6,620	-	6,620	1	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2015				Highest ownership and capital contribution Marketable Securities Type and Name	Note
				Shares	Carrying amount	Ratio of ownership	Holding Company		
Enterprise (HK) Co., Ltd.			fair value through profit or loss - current – international fund						
Holy Stone Enterprise (HK) Co., Ltd.	Euro Blue Chip Fund	-	#	18	6,760	-	6,760	34	-
Holy Stone Enterprise (HK) Co., Ltd	Best Pacific International Holdings Ltd	-	Financial assets at fair value through profit or loss - current – international stock	200	3,132	-	3,132	200	-
Holy Stone Holdings Co., Ltd.	Greenvity Communications, Inc	-	Financial Asset carried at cost-noncurrent	220	8,206	-	-	220	-
Holy Stone Holdings Co., Ltd.	Fidelity Funds Euro Blue Chip Fund	-	Financial assets at fair value through profit or loss - current – international fund	21	7,962	-	7,962	21	-
Holy Stone Holdings Co., Ltd.	European Small Cap Equity Fund	-	#	17	6,969	-	6,969	33	-
Infortech (CHINA) Co., Ltd.	BOC Thematic Bond Fund.	-	#	401	5,341	-	5,341	401	-
Infortech (CHINA) Co., Ltd.	BOC pocket money market funds	-	#	6,000	30,167	-	30,167	12,000	-
Holy Stone International Trading (Shanghai) Co., Ltd.	BOC Thematic Bond Fund.	-	Financial assets at fair value through profit or loss - current – international fund	472	6,285	-	6,285	472	-
Holy Stone International Trading (Shanghai) Co., Ltd.	BOC pocket money market funds	-	#	3,000	15,070	-	15,070	9,800	-
UHOLY Investments Co.	T50anti 1 00632R	-	Financial assets at fair value through profit or loss - current – domestic stock	180	3,584	-	3,584	180	-
UHOLY Investments Co.	eMPIA Technology Inc Stock	-	Available-for-sales financial asset-noncurrent	5,574	290,399	10.14 %	290,399	5,574	-
UHOLY Investments Co.	YuanJin Venture Capital Stock	-	Financial Asset carried at cost-noncurrent	8,900	89,000	-	-	8,900	-
UHOLY Investments Co.	C2 MICROSYSTEMS INC.Stock	-	#	1,200	-	-	-	1,200	-
UHOLY Investments Co.	YuTai Technology Co. Ltd. Stock	-	#	859	19,757	-	-	859	-
UHOLY Investments Co.	YiChuang Technology Co. Ltd. Stock	-	#	599	2,994	-	-	599	-
UHOLY Investments Co.	YuanRong Venture Capital Stock	-	#	5,900	59,000	-	-	5,900	-
UHOLY Investments Co.	JingKai Biotech Stock	-	#	1,500	15,000	-	-	1,500	-
Rong Jhan Investments Co.	YiChuang Technology Co. Ltd. Stock	-	Financial Asset carried at cost-noncurrent	150	4,500	-	-	150	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2015				Highest ownership and capital contribution Marketable Securities Type and Name	Note
				Shares	Carrying amount	Ratio of ownership	Holding Company		
Rong Jhan Investments Co.	FuBon Securities Stock	-	"	5,638	51,375	-	-	5,638	-
Rong Jhan Investments Co.	JYA-NAY Co., Ltd. Stock	-	"	2,976	32,741	-	-	2,976	-
Rong Jhan Investments Co.	CNO Co., Ltd. Stock	-	"	494	34,356	-	-	494	-
Rong Jhan Investments Co.	HsinYin Biotech Stock	-	"	550	5,500	-	-	550	-
Rong Jhan Investments Co.	GLOBAL DISPLAY TAIWAN CO., LTD. Stock	-	"	300	15,000	-	-	600	-
Rong Jhan Investments Co.	AVEO Technology Corporation Stock	-	"	1,846	24,875	-	-	1,846	-
Rong Jhan Investments Co.	Throughtek Co., Ltd. Stock	-	"	140	10,000	-	-	140	-
Rong Jhan Investments Co.	JPMorgan (Taiwan) Greater Europe	-	Financial assets at fair value through profit or loss - current – international fund	597	10,227	-	10,227	597	-
Rong Jhan Investments Co.	Promise Technology, Inc. Stock	-	Financial assets at fair value through profit or loss - current – domestic stock	200	3,850	-	3,850	218	-
Rong Jhan Investments Co.	ShunSin Technology Holdings, Stock	-	"	4	494	-	494	4	-
Rong Jhan Investments Co.	AURAS Technology Co.,Ltd. Stock	-	"	150	5,835	-	5,835	150	-
Rong Jhan Investments Co.	Laster Tech, Stock	-	"	24	578	-	578	24	-
OHGA Electronics Co.	Portwell, Inc. Bond	-	Financial assets at fair value through profit or loss - current – bond	100	10,241	-	10,241	100	-
OHGA Electronics Co.	AVEO Technology Corporation Stock	-	Financial Asset carried at cost-noncurrent	540	7,195	-	-	540	-
OHGA Electronics Co.	JingKai Biotech Stock	-	"	237	7,110	-	-	350	-
OHGA Electronics Co.	Throughtek Co., Ltd. Stock	-	"	140	10,000	-	-	140	-

13.1.4. Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital:

Unit: Thousand shares/ Thousands of NT\$

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Share	Amount	Share	Amount	Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Share
The Company	Franklin Templeton Sinoam Money Market	Financial assets at fair value through profit or loss - current –	-	-	-	-	98,395	1,000,000	98,395	1,001,205	1,000,000	1,205	-	-
The Company	Mega Diamond Currency	"	-	-	-	-	44,620	550,000	44,620	550,678	550,000	678	-	-

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	Market Fund													
The Company	Nomura Taiwan Money Market.	"	-	-	-	-	56,011	900,000	56,011	900,993	900,000	993	-	-
The Company	Yuanta Wan Tai Money Market.	"	-	-	-	-	37,491	560,000	37,491	560,233	560,000	233	-	-
The Company	Taishin Ta-Chong Money Market.	"	-	-	-	-	26,415	370,000	26,415	370,223	370,000	223	-	-

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

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

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Remarks
			Purchases/Sales	Amount	% to Total	Payment Terms	Company Name	Related Party	Nature of Relationship	Purchases/Sales	
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	920,635	6.77%	Next month-end 150 days	-	-	335,462	11.01%	Note
The Company	Holy Stone Enterprise (H.K.)	First-tier Subsidiary	Sales	816,224	6.00%	Next month-end 120 days	-	-	318,324	10.45%	Note
The Company	Infotech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	646,836	4.76%	Month-end 120 days	-	-	118,407	3.89%	Note

Note: Transaction had been reversed by the time this report was compiled.

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

Unit: NT\$ in thousand

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Company Name
					Amount	Action Taken		
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	335,46	2.66	-	-	198,576	-
The Company	Holy Stone Enterprise (H.K.)	First-tier Subsidiary	318,32	3.81	-	-	258,375	-
The Company	INFORTECH(CHINA), Inc.	Third-tier Subsidiary	118,40	5.20	-	-	116,576	-

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

13.1.9. Derivatives transaction: None.

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

No.	Company Name	Object	Relationship	Condition			Ration of amount to total operating revenue or total asset
				Subject	Amount	Terms	
0	The Company	Holy Stone Enterprise (H.K.)	1	Sales	816,224	Next month-end 120 days	6.00%
0	The Company	Holy Stone Enterprise (H.K.)	1	Accounts receivable	318,324	Next month-end 120 days	2.61%
0	The Company	Holy Stone international trading (Shanghai) Co.	1	Sales	920,635	Next month-end 150 days	6.77%
0	The Company	Holy Stone international trading (Shanghai) Co.	1	Accounts receivable	335,462	Next month-end 150 days	2.76%

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

**Holy Stone Enterprise Company Limited**

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

0	The Company	Infortech (China) Co., Ltd.	1	Sales	646,836	Next month-end 120 days	4.76%
0	The Company	Infortech (China) Co., Ltd.	1	Accounts receivable	118,407	Next month-end 120 days	0.97%
2	EPM	The Company	2	Sales	93,532	Next month cash	0.69%
2	EPM	The Company	2	Accounts receivable	13,656	Next month cash	0.11%

Note 1. For the number:

1.0: The Parent Company

2: The numbers of subsidiaries are in numerical order starting with 1

Note 2. Relationship:

1. Parent Company to subsidiaries

2. Subsidiaries to Parent Company

3. Subsidiaries to subsidiaries

Note 3. Only one-side of sales, revenue and account receivables were revealed without the corresponding purchase, expense and account payables.

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

Information about derivatives of investees over which the Company has a controlling interest of 2015 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, 2015			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note	Investor Company
				Dec. 31, 2015	Dec. 31, 2014	Shares	%	Carrying Value				
The Company	Holy Stone Enterprise (H.K) Co., Ltd.	Hong Kong	MLCC and electronic components trading	49,046	49,046	11,500	100.00%	273,603	11,500	12,775	12,775	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	1,071,839	26,976	(88,963)	(89,074)	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei	Investment activities	225,000	225,000	22,500	57.69%	398,982	22,500	(15,975)	(9,215)	Subsidiary of the Company
The Company	Mayatek Co., Ltd.	Taipei	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	20,000	8,500	100.00%	95,426	20,000	(11,418)	(11,418)	Subsidiary of the Company
The Company	Rong Jhan Investments Co.	Taipei	Investment activities	340,000	340,000	57,900	100.00%	503,180	57,900	(114,468)	(114,468)	Subsidiary of the Company
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	226,493	218,385	6,900	100.00%	320,615	6,900	(24,576)	(24,576)	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Holypaq Corporation	Cayman	Investment activities	39,390	37,980	1,200	100.00%	878	1,200	-	-	Subsidiary of Holy Stone Holdings Co.
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd.	Samoa	Investment activities	40,723	67,751	1,310	100.00%	17,777	2,210	3,259	3,259	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	458,762	442,340	2,500	100.00%	409,665	2,500	7,537	7,537	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	95,445	92,610	4	100.00%	90,948	4	293	293	Subsidiary of Holy Stone Holdings Co.
Holy Stone Investments Co., Ltd.	Holy Stone Holdings (Singapore) Pte. Ltd.	Singapore	Electronic retailing	3,283	3,165	100	100.00%	609	100	(695)	(695)	Subsidiary of Holy Stone Holdings Co.
Everplus Material Co., Ltd.	Everplus Planning Co., Ltd.	Japan	Liquor and produce trading	818	-	0.3	75.00%	542	-	(355)	(266)	2 <sup>nd</sup> -tier Subsidiary of Holy Stone Holdings Co.
Green Glory Holdings Ltd.	Milestone Global Technology Ltd.	USA	Electronic components developing and selling	16,413	15,825	500	100.00%	13,671	500	(1,864)	(1,864)	Subsidiary of Green Glory Holdings
Green Glory Holdings Ltd.	Holystone (Europe) Ltd.	UK	Electronic retailing and trading	22,547	21,740	350	100.00%	3,593	350	(219)	(219)	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co.	Taipei	Western medicine wholesaling and medical instruments wholesaling	276,370	276,370	17,588	29.02%	107,197	17,588	(177,394)	(51,480)	UHOLY's long-term investee recognized under equity method
Holy Stone Healthcare Co.	MDT INTL SA	Switzerland	Medical instruments trading	78,768	78,768	2,550	100.00%	63,534	2,550	(11,946)	(11,946)	Subsidiary of Holy Stone Healthcare Co.
Holy Stone Healthcare Co.	Global Search Holdings Ltd.	Samoa	Investment activities	46,774	46,774	1,550	100.00%	8,016	1,550	(6,867)	(6,867)	Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	Holy Stone Biotech Co., Ltd.	UK	Selling and authorization if medicine and medical instruments	49,068	47,311	900	100.00%	6,694	900	(6,804)	(6,804)	Subsidiary of Holy Stone Healthcare Co.
Global Search Holdings Ltd.	AIHOL Corporation	USA	IP Application	657	633	10,000	100.00%	475	10,000	(22)	(22)	Subsidiary of Holy Stone Healthcare Co.

Rong Jhan Investments Co.	OHGA Electronics Co., Ltd.	New Taipei City	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70.00%	234,134	15,120	5,541	3,879	Subsidiary of Rong Jhan Investments Co.
Rong Jhan Investments Co.	Holy Stone Healthcare Co.	Taipei	Western medicine wholesaling and medical instruments wholesaling	31,135	31,135	1,600	2.64%	16,964	1,600	(177,394)	(4,683)	UHOLY's long-term investee recognized under equity method
OHGA Electronics Co., Ltd.	Holy Stone Healthcare Co.	Taipei	Western medicine wholesaling and medical instruments wholesaling	154	154	8	0.01%	92	8	(177,394)	(17)	UHOLY's long-term investee recognized under equity method

Note: Transaction has been reversed by the time this report was compiled.

### 13.3. Information on Investment in Mainland China

#### 13.3.1. Names, locations, and related information of investees on which the Company exercises significant influence:

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method Note (1)	Accumulated Remittance as of Jan. 1, 2015	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2013	Gains and losses of current period of Investees Note (2)	Ownership Held by The Company (Direct and Indirect)	Highest ownership and capital contribution	Current Recognized Investment Gain (Loss) (Note 2 & 3)	Ending Balance of Investment	The Investment Gain (Loss) Remitted as of Dec. 31, 2015
					Remitted	Collected							
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	131,628	(2)	118,498	-	-	118,498	(12,155)	100.00%	100.00%	(12,155)	188,840	-
Infortech International Trading (Shanghai) Ltd.	Electronic components R&D and selling	32,825	(2)	32,825	-	-	32,825 (Note 4)	311	-	100.00%	311	-	-
Infortech (CHINA) Co., Ltd.	Electronic components selling	68,933	(2)	68,933	-	-	68,933	(12,337)	100.00%	100.00%	(12,337)	131,009	-

Note 1: Three kinds of investment are noted:

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

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

Note 3: Transaction had been reversed by the time this report was compiled.

Note 4: Infortech International Trading (Shanghai) Ltd. had been liquidated by April 2015, and application of cancellation was complete by July 29<sup>th</sup> 2015.

#### 13.3.2. Quota of reinvestment in Mainland China:

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	Investment quota in Mainland China according to Investment Commissions, Ministry of Economic Affairs
220,256	233,386	5,018,836

#### 13.3.3. Significant Transaction Information

Significant transaction information of direct and indirect investment in Investee Company in Mainland China in 2015 (has been offset in the preparation of this consolidated report) is described in "Related Significant Transaction Information" and "Parent-Subsidiaries Business Relationship and Significant Transactions".

## 14. Segment Financial Information

The Consolidate Companies' operating units and adjustments were as follows:

### 14.1 General Information

The Consolidated Company consists of two reported sectors: the Electronics sector and the Other sector. The Electronics sector is involved in the development, design, manufacturing and sales of electronics related industries. The Other sector is involved in professional investment businesses, and medicine and medical instrument wholesaling. Other Sector did not reach the threshold quantization for the

year ended December 31, 2015 and 2014.

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>2015</b>			
	<b>Electronics sector</b>	<b>Investment sector</b>	<b>Adjustments and Elimination</b>	<b>Total</b>
Income:				
Income from external customers	\$ 12,745,055	850,764	-	13,595,819
Interest income	21,216	3,128	-	24,344
Total income	<b><u>\$ 12,766,271</u></b>	<b><u>853,892</u></b>	<b><u>-</u></b>	<b><u>13,620,163</u></b>
Interest expense	<b><u>\$ 12,919</u></b>	<b><u>2,940</u></b>	<b><u>-</u></b>	<b><u>15,859</u></b>
Sector profit and loss	<b><u>\$ 845,478</u></b>	<b><u>(230,840)</u></b>	<b><u>-</u></b>	<b><u>614,638</u></b>
Sector Assets	<b><u>\$ 10,506,512</u></b>	<b><u>1,668,726</u></b>	<b><u>-</u></b>	<b><u>12,175,238</u></b>
Sector Liabilities	<b><u>\$ 3,065,784</u></b>	<b><u>107,461</u></b>	<b><u>-</u></b>	<b><u>3,173,245</u></b>
	<b>2014</b>			
	<b>Electronics sector</b>	<b>Investment sector</b>	<b>Adjustments and Elimination</b>	<b>Total</b>
Income:				
Income from external customers	\$ 15,273,050	751,843	-	16,024,893
Interest income	36,598	5,077	-	41,675
Total income	<b><u>\$ 15,309,648</u></b>	<b><u>756,920</u></b>	<b><u>-</u></b>	<b><u>16,066,568</u></b>
Interest expense	<b><u>\$ 26,492</u></b>	<b><u>1,350</u></b>	<b><u>-</u></b>	<b><u>27,842</u></b>
Sector profit and loss	<b><u>\$ 1,148,164</u></b>	<b><u>(195,154)</u></b>	<b><u>-</u></b>	<b><u>953,010</u></b>
Sector Assets	<b><u>\$ 11,222,840</u></b>	<b><u>2,073,407</u></b>	<b><u>-</u></b>	<b><u>13,296,247</u></b>
Sector Liabilities	<b><u>\$ 3,866,504</u></b>	<b><u>114,522</u></b>	<b><u>-</u></b>	<b><u>3,981,026</u></b>

#### 14.3. Product information

Information on income from external customers was as follows:

Product type	2015	2014
Passive Components	\$ 3,418,249	4,191,602
Active Components	5,137,404	5,741,566
System and Modules	2,766,533	2,519,123
Others	2,273,633	3,572,602
Total	<b>\$ 13,595,819</b>	<b>16,024,893</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:

Territory	2015	2014
Revenue generated from customers outside		
China	\$ 9,148,056	10,068,830
R.O.C.	3,318,818	4,478,283
U.S.A.	337,992	371,823
Others	790,953	1,105,957
	<b>\$ 13,595,819</b>	<b>16,024,893</b>
Noncurrent assets:		
R.O.C	\$ 2,503,905	2,857,352
China	394,187	432,150
Others	138,149	162,770
Total	<b>\$ 3,036,241</b>	<b>3,452,272</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

There is no customer need to be disclosed during 2015.

	<u>2014</u>
The customer from the Electronics sector	<u><b>\$ 1,258,187</b></u>

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

**Chairman: Jing-Rong Tang**