

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2014 AND 2013

(With Independent Accountants' Review Report Thereon)

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have reviewed the accompanying condensed interim consolidated balance sheets of Pegatron Corporation and its subsidiaries (the “Group”) as of September 30, 2014 and 2013, and the related consolidated statements of comprehensive income for the three months and the nine months ended September 30, 2014 and 2013, and changes in equity and cash flows for the nine months ended September 30, 2014 and 2013. These condensed interim consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews. We did not review the financial statements of certain consolidated subsidiaries, which statements reflect total assets of NT\$64,558,147 thousand and NT\$48,761,839 thousand, representing 15.41% and 11.85%, and net sales of NT\$14,521,865 thousand, NT\$11,014,815 thousand, NT\$42,638,617 thousand and NT\$29,282,401 thousand, representing 6.14%, 4.34%, 6.39%, and 4.28% of the related consolidated total as of and for the three months ended September 30, 2014 and 2013, and for the nine months ended September 30, 2014 and 2013, respectively. Those statements were reviewed by other auditors whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for certain consolidated subsidiaries, are based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 “Engagements to Review Financial Statements.” A review consists principally of inquiries of the Group’s management and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The consolidated financial statements of certain subsidiaries were consolidated based on their financial statements as of and for the nine months ended September 30, 2014 and 2013, which were not reviewed by independent accountants. The total assets of these subsidiaries amounted to NT\$ 43,441,238 thousand and NT\$44,399,768 thousand, representing 10.37% and 10.79% of the related consolidated total assets and the total liabilities amounted to NT\$ 13,064,509 thousand and NT\$12,445,005 thousand, representing 4.96% and 4.55% of the related consolidated liabilities as of September 30, 2014 and 2013, respectively. The comprehensive income of these subsidiaries amounted to NT\$1,145,830 thousand, NT\$247,927 thousand, NT\$2,316,556 thousand and NT\$1,372,122 thousand, representing 13.17%, 9.30%, 16.16%

and 11.15% of the related consolidated comprehensive income for the three months and the nine months ended September 30, 2014 and 2013, respectively. The financial statements of certain equity-accounted investees were not reviewed by independent accountants. Long-term investments in these companies amounted to NT\$92,956 thousand and NT\$47,693 thousand as of September 30, 2014 and 2013, respectively, and the related investment gain (loss) amounted to NT\$(1,441) thousand, NT\$3,826 thousand, NT\$(9,043) thousand and NT\$3,685 thousand for the three months and nine months ended September 30, 2014 and 2013, respectively.

Based on our reviews and the reports of other accountants, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some consolidated subsidiaries and some equity-accounted investees been reviewed as described in the preceding paragraphs, we are not aware of any material modifications that should be made to the condensed interim consolidated financial statements referred to the first paragraph for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No. 34 “Interim Financial Reporting” which are endorsed by the Financial Supervisory Commission in the Republic of China (R.O.C.).

We also audited the consolidated financial statements of the Group as of and for the year ended December 31, 2013 in accordance with “Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China (R.O.C.), and expressed thereon a modified unqualified auditors’ report dated March 24, 2014. In our opinion, the accompanying condensed interim consolidated balance sheet and related disclosures of the Company as of December 31, 2013, are consistent, in all material respects, with the audited consolidated financial statements from which they have been derived.

CPA: Ulyos Maa
Securities and Futures Commission,
Ministry of Finance, R.O.C. regulation
(88) Tai-Tsai-Jung (6) No. 18311

November 10, 2014

Notes to Readers

The accompanying interim condensed consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with IAS 34 as endorsed by the FSC and not those of any other jurisdictions. The standards, procedures and practices to review such interim condensed consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent accountants’ review report and the accompanying interim condensed consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants’ report and financial statements shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards.
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2014, DECEMBER 31, 2013, AND SEPTEMBER 30, 2013
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2014		December 31, 2013		September 30, 2013	
	Amount	%	Amount	%	Amount	%
ASSETS						
Current Assets:						
Cash and cash equivalents (Note 6(1))	\$ 80,749,265	19	74,261,306	18	62,449,613	15
Financial assets at fair value through profit or loss – current (Note 6(2))	5,876,846	2	7,018,321	2	6,517,778	2
Available-for-sale financial assets – current (Note 6(2))	495,858	-	431,458	-	390,048	-
Notes and accounts receivable, net (Notes 6(3), (27) and 7)	107,838,302	26	104,037,486	26	112,195,079	27
Other receivables, net (Notes 6(3) and 7)	20,107,506	5	29,198,019	7	19,771,684	5
Inventories (Note 6(4))	105,952,068	25	103,598,872	25	107,969,990	26
Non-current assets classified as held-for-sale, net (Note 6(5))	-	-	365,243	-	-	-
Other financial assets – current (Notes 6(11) and 8)	1,453,087	-	1,836,937	-	2,491,536	1
Other current assets (Note 6(11))	9,918,688	2	6,187,337	1	10,145,576	2
	332,391,620	79	326,934,979	79	321,931,304	78
Non-current assets:						
Available-for-sale financial assets – noncurrent (Note 6(2))	2,039,743	1	1,156,550	-	1,271,513	-
Financial assets carried at cost – noncurrent (Note 6(2))	568,763	-	539,645	-	490,100	-
Investments accounted for using equity method (Note 6(6))	992,655	-	1,187,753	-	1,553,742	1
Property, plant and equipment (Notes 6(8) and 8)	70,702,982	17	73,916,654	18	74,077,742	18
Investment property, net (Note 6(9))	651,347	-	659,131	-	661,726	-
Intangible assets (Note 6(10))	1,903,569	1	1,969,832	1	2,424,426	1
Deferred tax assets	3,122,307	1	3,100,485	1	3,599,744	1
Prepayments on purchase of equipment	1,407,774	-	1,482,165	-	1,368,344	-
Other financial assets – noncurrent (Notes 6(11) and 8)	1,246,392	-	1,236,088	-	472,307	-
Long-term prepaid rents (Notes 6(17) and 8)	3,802,890	1	3,645,795	1	3,607,657	1
Other noncurrent assets (Note 6(11))	110,985	-	66,447	-	96,729	-
	86,549,407	21	88,960,545	21	89,624,030	22
TOTAL ASSETS	\$ 418,941,027	100	415,895,524	100	411,555,334	100

The accompanying notes are an integral part of the condensed interim consolidated financial statements.
(With KPMG review report dated November 10, 2014.)

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (CONT'D)
SEPTEMBER 30, 2014, DECEMBER 31, 2013, AND SEPTEMBER 30, 2013
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2014		December 31, 2013		September 30, 2013	
	Amount	%	Amount	%	Amount	%
LIABILITIES						
Current Liabilities:						
Short-term loans (Note 6(12))	\$ 20,981,205	5	23,014,478	6	22,314,196	5
Short-term notes and bills payable (Note 6(13))	-	-	79,978	-	99,970	-
Financial liabilities at fair value through profit or loss – current (Notes 6(2) and (15))	2,136,409	-	7,443	-	1,631	-
Notes and accounts payable	166,350,402	40	158,190,860	38	163,069,607	40
Accounts payable – Related parties (Note 7)	20,223	-	482,670	-	411,543	-
Accrued expenses (Note 7)	21,474,700	5	19,204,565	5	19,261,741	5
Other payables (Note 7)	6,877,289	2	5,765,144	1	10,076,228	3
Current income tax liabilities	2,699,743	1	3,377,651	-	2,772,387	1
Provisions – current (Note 6(16))	544,137	-	450,902	-	336,962	-
Deferred revenue	2,407,992	-	4,707,546	1	3,758,089	1
Bonds payable – current portion (Note 6(15))	7,083,403	1	-	-	-	-
Long-term loans payable – current portion (Note 6(14))	2,103,333	1	9,019,299	2	10,249,848	2
Other current liabilities (Note 7)	11,451,274	3	14,972,328	4	14,012,889	3
	<u>244,130,110</u>	<u>58</u>	<u>239,272,864</u>	<u>57</u>	<u>246,365,091</u>	<u>60</u>
Non-current liabilities:						
Financial liabilities at fair value through profit or loss – noncurrent (Notes 6(2) and (15))	-	-	235,162	-	678,632	-
Bonds payable (Note 6(15))	-	-	8,116,490	2	7,987,774	2
Long-term loans (Note 6(14))	15,334,019	4	20,591,684	5	15,511,340	4
Deferred tax liabilities	3,107,170	1	2,454,452	1	2,077,121	1
Other noncurrent liabilities	1,005,352	-	1,169,693	-	1,103,620	-
	<u>19,446,541</u>	<u>5</u>	<u>32,567,481</u>	<u>8</u>	<u>27,358,487</u>	<u>7</u>
Total Liabilities	<u>263,576,651</u>	<u>63</u>	<u>271,840,345</u>	<u>65</u>	<u>273,723,578</u>	<u>67</u>
Equity Attributable to Owners of the Company (Note 6(20))						
Share capital	<u>23,679,105</u>	<u>6</u>	<u>23,210,775</u>	<u>6</u>	<u>23,193,938</u>	<u>6</u>
Capital surplus:						
Capital surplus, premium on capital stock	63,322,571	15	61,420,285	15	60,998,689	15
Capital surplus, others (Note 6(7))	3,886,272	1	1,755,534	-	2,050,168	-
	<u>67,208,843</u>	<u>16</u>	<u>63,175,819</u>	<u>15</u>	<u>63,048,857</u>	<u>15</u>
Retained earnings:						
Legal reserve	3,413,566	1	2,458,117	-	2,458,117	1
Special reserve	-	-	3,280,485	1	3,280,485	1
Unappropriated retained earnings	20,230,258	5	15,405,350	4	12,007,297	2
	<u>23,643,824</u>	<u>6</u>	<u>21,143,952</u>	<u>5</u>	<u>17,745,899</u>	<u>4</u>
Other equity interest:						
Exchange differences on translation of foreign financial statements	1,009,540	-	(48,637)	-	(1,019,578)	-
Unrealized gains on available-for-sale financial assets	298,440	-	79,871	-	60,161	-
Deferred compensation cost arising from issuance of restricted stock (Note 6(21))	(89,692)	-	(241,370)	-	(317,355)	-
	<u>1,218,288</u>	<u>-</u>	<u>(210,136)</u>	<u>-</u>	<u>(1,276,772)</u>	<u>-</u>
Treasury stock	(6,113)	-	(16,616)	-	(16,616)	-
Equity attributable to owners of the Company	<u>115,743,947</u>	<u>28</u>	<u>107,303,794</u>	<u>26</u>	<u>102,695,366</u>	<u>25</u>
Non-controlling interests	<u>39,620,429</u>	<u>9</u>	<u>36,751,385</u>	<u>9</u>	<u>35,136,390</u>	<u>8</u>
Total Equity	<u>155,364,376</u>	<u>37</u>	<u>144,055,179</u>	<u>35</u>	<u>137,831,756</u>	<u>33</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 418,941,027</u>	<u>100</u>	<u>415,895,524</u>	<u>100</u>	<u>411,555,334</u>	<u>100</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Three Months ended September 30				For the Nine Months ended September 30			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenues (Notes 6(24) and 7)	\$ 237,159,951	100	254,154,607	100	669,688,601	100	685,173,656	100
Less: Sales returns and allowances	456,665	-	177,092	-	1,896,105	-	1,380,798	-
Net sales	236,703,286	100	253,977,515	100	667,792,496	100	683,792,858	100
Cost of sales (Notes 6(4), 6(18) and 7)	221,482,685	94	243,319,116	96	628,271,592	94	651,677,696	95
Gross profit	15,220,601	6	10,658,399	4	39,520,904	6	32,115,162	5
Operating expenses (Notes 6(18) and 7)								
Selling expenses	2,049,126	1	2,363,788	1	5,327,632	1	6,078,121	1
Administrative expenses	2,873,550	1	2,310,945	1	7,528,272	1	6,984,549	1
Research and development expenses	3,229,535	1	3,062,577	1	8,825,847	1	8,585,065	1
	8,152,211	3	7,737,310	3	21,681,751	3	21,647,735	3
Results from operating activities	7,068,390	3	2,921,089	1	17,839,153	3	10,467,427	2
Non-operating income and expenses								
Other income (Note 6(25))	785,312	-	777,413	-	2,349,024	-	1,896,183	-
Other gains and losses (Notes 6(25) and 10)	547,472	-	1,341,392	-	(2,697,815)	-	1,559,992	-
Financial costs (Note 6(25))	(257,931)	-	(280,090)	-	(956,001)	-	(858,322)	-
Share of loss of associates and joint ventures accounted for under equity method (Note 6(6))	(54,281)	-	(10,287)	-	(170,634)	-	(46,673)	-
Other losses	(62,708)	-	(78,698)	-	(203,704)	-	(233,127)	-
	957,864	-	1,749,730	-	(1,679,130)	-	2,318,053	-
Profit before tax	8,026,254	3	4,670,819	1	16,160,023	3	12,785,480	2
Income tax expense (Note 6(19))	1,846,613	1	992,121	-	4,010,445	1	3,141,113	-
Profit for the period	6,179,641	2	3,678,698	1	12,149,578	2	9,644,367	2
Other comprehensive income								
Foreign currency translation differences – foreign operations	1,840,670	1	(976,634)	-	1,221,594	-	2,777,920	-
Unrealized gains (losses) on available-for-sale financial assets	676,197	-	(33,725)	-	960,029	-	(103,942)	-
Income tax relating to components of other comprehensive income	(1,450)	-	1,261	-	(3,045)	-	12,644	-
Other comprehensive income for the period, net of tax	2,518,317	1	(1,011,620)	-	2,184,668	-	2,661,334	-
Total comprehensive income for the period	\$ 8,697,958	3	2,667,078	1	14,334,246	2	12,305,701	2
Profit attributable to								
Owners of the Company	\$ 4,747,657	1	2,477,564	1	8,977,549	2	6,175,790	1
Non-controlling interests	1,431,984	1	1,201,134	-	3,172,029	-	3,468,577	1
	6,179,641	2	3,678,698	1	12,149,578	2	9,644,367	2
Comprehensive income attributable to								
Owners of the Company	\$ 6,280,907	2	1,670,849	1	10,254,295	1	8,526,327	1
Non-controlling interests	2,417,051	1	996,229	-	4,079,951	1	3,779,374	1
	8,697,958	3	2,667,078	1	14,334,246	2	12,305,701	2
Earnings per share, net of tax(Notes 6(23))								
Basic earnings per share	\$ 2.03		1.08		3.86		2.70	
Diluted earnings per share	\$ 1.96		0.53		3.82		2.55	

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG review report dated November 10, 2014.)

(English Translations of Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards.
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in Thousands of New Taiwan Dollars)

	Attributable to Owners of the Company																
	Capital stock				Retained earnings					Other adjustments to equity				Total equity			
	Common stock	Advance receipts for share capital	Share capital to be retired	Total	Capital surplus	Legal reserve	Special reserve	Retained earnings	Total	Foreign currency translation differences	Unrealized gains (losses) on available-for-sale financial assets			Treasury stock	owners of the Company	Non-controlling interests	Total equity
Balance, January 1, 2013	\$ 22,903,049	-	-	22,903,049	61,723,110	1,847,737	734,859	12,422,970	15,005,566	(3,398,256)	88,302	(497,698)	(3,807,652)	(18,794)	95,805,279	31,832,302	127,637,581
Profit for the period	-	-	-	-	-	-	-	6,175,790	6,175,790	-	-	-	-	-	6,175,790	3,468,577	9,644,367
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	2,378,678	(28,141)	-	2,350,537	-	2,350,537	310,797	2,661,334
Total comprehensive income for the period	-	-	-	-	-	-	-	6,175,790	6,175,790	2,378,678	(28,141)	-	2,350,537	-	8,526,327	3,779,374	12,305,701
Appropriation and distribution of retained earnings																	
Legal reserve	-	-	-	-	-	610,380	-	(610,380)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,545,626	(2,545,626)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	-	(3,435,457)	(3,435,457)	-	-	-	-	-	(3,435,457)	-	(3,435,457)
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	-	1,955	-	-	-	-	-	-	-	-	2,178	4,133	-	4,133
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	-	115,743	-	-	-	-	-	-	-	-	-	115,743	(115,743)	-
Changes in ownership interest in subsidiaries	-	-	-	-	579,020	-	-	-	-	-	-	-	-	-	579,020	(579,020)	-
Share-based payments	209,880	37,980	-	247,860	498,987	-	-	-	-	-	-	-	-	-	746,847	-	746,847
Expiration of restricted shares of stock issued to employees	(12,591)	-	(4,940)	(17,531)	17,531	-	-	-	-	-	-	-	-	-	-	-	-
Compensation cost arising from restricted shares of stock	60,620	-	-	60,620	112,511	-	-	-	-	-	-	180,343	180,343	-	353,474	-	353,474
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	219,477	219,477
Balance, September 30, 2013	\$ 23,160,958	37,980	(4,940)	23,193,998	63,048,857	2,458,117	3,280,485	12,007,297	17,745,899	(1,019,578)	60,161	(317,355)	(1,276,772)	(16,616)	102,695,366	35,136,390	137,831,756
Balance, January 1, 2014	\$ 23,204,345	7,210	(780)	23,210,775	63,175,819	2,458,117	3,280,485	15,405,350	21,143,952	(48,637)	79,871	(241,370)	(210,136)	(16,616)	107,303,794	36,751,385	144,055,179
Profit for the period	-	-	-	-	-	-	-	8,977,549	8,977,549	-	-	-	-	-	8,977,549	3,172,029	12,149,578
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	1,058,177	218,569	-	1,276,746	-	1,276,746	907,922	2,184,668
Total comprehensive income for the period	-	-	-	-	-	-	-	8,977,549	8,977,549	1,058,177	218,569	-	1,276,746	-	10,254,295	4,079,951	14,334,246
Appropriation and distribution of retained earnings																	
Legal reserve	-	-	-	-	-	955,449	-	(955,449)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(3,280,485)	3,280,485	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	-	(6,497,217)	(6,497,217)	-	-	-	-	-	(6,497,217)	-	(6,497,217)
Conversion of convertible bonds	-	377,318	-	377,318	1,519,008	-	-	-	-	-	-	-	-	-	1,896,326	-	1,896,326
Disposal of company's share by subsidiaries recognized as treasury share transactions	-	-	-	-	9,629	-	-	-	-	-	-	-	-	10,503	20,132	-	20,132
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	-	2,242,986	-	-	-	-	-	-	-	-	-	2,242,986	(2,242,986)	-
Changes in ownership interest in subsidiaries	-	-	-	-	(4,725)	-	-	-	-	-	-	-	-	-	(4,725)	4,725	-
Share-based payments	84,010	13,670	-	97,680	250,899	-	-	-	-	-	-	-	-	-	348,579	-	348,579
Expiration of restricted shares of stock issued to employees	(7,088)	-	420	(6,668)	6,668	-	-	-	-	-	-	-	-	-	-	-	-
Compensation cost arising from restricted shares of stock	-	-	-	-	8,559	-	-	19,540	19,540	-	-	151,678	151,678	-	179,777	-	179,777
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,027,354	1,027,354
Balance, September 30, 2014	\$ 23,281,267	398,198	(360)	23,679,105	67,208,843	3,413,566	-	20,230,258	23,643,824	1,009,540	298,440	(89,692)	1,218,288	(6,113)	115,743,947	39,620,429	155,364,376

The accompanying notes are an integral part of the condensed interim consolidated financial statements.
(With KPMG review report dated November 10, 2014.)

(English Translation of Financial Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards.
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2014	2013
Cash flows from operating activities:		
Profit before tax	\$ 16,160,023	12,785,480
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	10,196,862	9,997,836
Amortization	147,951	450,139
(Reversal) allowance for impairment loss of accounts receivable	(63,815)	1,125,853
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	2,498,197	(153,977)
Interest expense	807,819	699,189
Interest income	(1,412,973)	(559,062)
Dividend income	(67,765)	(68,065)
Compensation cost arising from employee stock options	223,113	398,950
Loss on foreign currency exchange of bonds payable	214,458	158,529
Amortization of issuance costs on bonds payable	10,327	9,590
Share of loss of associates and joint ventures accounted for under equity method	170,634	46,673
Loss on foreign currency exchange on long-term loans	263,530	548,053
Loss on disposal of property, plant and equipment	264,508	203,243
Property, plant and equipment charged to expenses	17,697	68,232
Gain on disposal of non-current assets classified as held-for-sale	(61,391)	-
Gain on disposal of investments	(147,661)	(29,057)
Gain on reversal of impairment loss	(88,560)	(187,615)
Loss on redemption of bonds payable	-	6,065
Long-term prepaid rents charged to expenses	61,875	57,479
	<u>13,034,806</u>	<u>12,772,055</u>
Change in operating assets and liabilities		
Change in operating assets		
Decrease in financial assets reported at fair value through profit or loss	1,171,267	1,079,783
(Increase) decrease in notes and accounts receivable	(3,737,001)	9,401,876
Decrease (increase) in other accounts receivable	9,108,049	(4,143,734)
Increase in inventories	(2,353,196)	(15,291,906)
Decrease (increase) in other financial assets	383,850	(1,644,713)
Increase in other current assets	(3,678,879)	(1,174,012)
(Increase) decrease in other noncurrent assets	(44,538)	2,657
Total changes in operating assets	<u>849,552</u>	<u>(11,770,049)</u>
Change in operating liabilities		
(Decrease) increase in financial liabilities reported at fair value through profit or loss	(169,096)	1,533
Increase (Decrease) in notes and accounts payable	7,697,095	(8,899,354)
Decrease in accrued expenses	2,390,238	2,627,218
Increase in other accounts payable	848,450	705,268
(Decrease) increase in deferred revenue	(2,284,600)	1,354,856
Increase in provisions – current	93,235	69,781
(Decrease) increase in other current liabilities	(3,521,054)	5,382,730
(Decrease) increase in other noncurrent liabilities	(179,295)	157,182
Total changes in operating liabilities	<u>4,874,973</u>	<u>1,399,214</u>
Net changes in operating assets and liabilities	<u>5,724,525</u>	<u>(10,370,835)</u>
Total changes in operating assets and liabilities	<u>18,759,331</u>	<u>2,401,220</u>
Cash provided by operating activities	34,919,354	15,186,700
Interest received	1,403,689	547,303
Dividend received	106,355	117,381
Interest paid	(774,970)	(626,995)
Income taxes paid	(4,049,435)	(4,486,284)
Net cash provided by operating activities	<u>31,604,993</u>	<u>10,738,105</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2014	2013
Cash flows from investing activities		
Acquisition of available-for-sale financial assets	-	(146,450)
Proceeds from disposal of available-for-sale financial assets	71,114	216,038
Acquisition of financial assets at cost	(158,461)	-
Proceeds from disposal of financial assets at cost	227,800	-
Proceeds from capital reduction of financial assets at cost	7,497	8,330
Acquisition of investments accounted for using equity method	(30,123)	-
Proceeds from disposal of investments accounted for using equity method	-	9,507
Proceeds from disposal of non-current assets classified as held-for-sale	432,240	-
Acquisition of property, plant and equipment	(5,106,209)	(7,991,707)
Proceeds from disposal of property, plant and equipment	573,411	1,313,548
Acquisition of intangible assets	(53,993)	(62,431)
Proceeds from disposal of intangible assets	-	27
Increase in other financial assets	(10,304)	(165,311)
Increase in prepayments on purchase of equipment	(1,772,891)	(1,871,616)
Increase in long-term prepaid rents	(176,851)	(149,413)
Net cash used in investing activities	(5,996,770)	(8,839,478)
Cash flows from financing activities		
(Decrease) increase in short-term loans	(2,033,273)	2,701,037
Decrease in short-term notes and bills payable	(79,978)	(23)
Repayments of bonds	-	(1,513,281)
Proceeds from long-term loans	15,179,850	4,760,364
Repayments of long-term loans	(27,620,611)	(5,950,638)
Dividends paid	(10,129,957)	(2,300,260)
Employee stock options	351,288	659,703
Proceeds from sale of treasury shares	51,620	10,597
Proceeds from issuance of restricted stock	218,784	-
Disposal of ownership interests in subsidiaries (without losing control)	4,192,863	290,725
Change in non-controlling interests	189,946	2,218,565
Net cash (used in) provided by financing activities	(19,679,468)	876,789
Effect of exchange rate fluctuations on cash held	559,204	250,073
Net increase in cash and cash equivalents	6,487,959	3,025,489
Cash and cash equivalents, beginning of period	74,261,306	59,424,124
Cash and cash equivalents, end of period	\$ 80,749,265	62,449,613

The accompanying notes are an integral part of the condensed interim consolidated financial statements.
(With KPMG review report dated November 10, 2014.)

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(Amounts Expressed in Thousands of New Taiwan Dollars,
Except for Per Share Information and Unless Otherwise Stated)

1. COMPANY HISTORY

Pegatron Corporation (the “Company”) was established on June 27, 2007. The Company’s registered office address is located at 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan. In order to enhance competitiveness and boost productivity, the Company resolved to absorb the OEM business from ASUSTek Computer Inc. on January 1, 2008 as part of the Company’s business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the respective board of directors, the Company merged with Pegatron International Investment Co., Ltd., effective June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company’s shares were listed on TSEC on June 24, 2010.

In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged with its subsidiary, UNIHAN CORPORATION, pursuant to the resolutions of the board of directors in November, 2013.

The consolidated financial statements of the Company as of and for the year ended September 30, 2014 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on November 10, 2014.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

(1) Impact of the 2013 version of the International Financial Reporting Standard (“IFRS”) endorsed by the Financial Supervisory Commissions R.O.C. (“FSC”) but not yet effective

According to the official letter No.1030010325 issued on April 3, 2014 by the FSC, listed, over-the-counter, and emerging stock companies are required to adopt the 2013 version of the IFRS endorsed by the FSC (IFRS 9 Financial instruments is excluded) in preparing financial statements starting 2015.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The new standards and amendments issued by the International Accounting Standards Board (“IASB”) were as follows:

New standards and amendments	Effective date per IASB
• 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>Disclosure — Transfers of Financial Assets</i> ”	July 1, 2011
• Amended IFRS 7 “ <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Investment Entities amendments, effective 1 January 2014.)
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• 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 Group has assessed that the 2013 version of the IFRS may not have significant impact on the consolidated financial statements except for the following:

A. Amendments to IAS 19 “Employee Benefits”

The amendments to IAS 19 require the Group 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 planned assets used in current IAS 19. In addition, the amendments eliminate the accounting treatment of either corridor approach or the immediate recognition of actuarial gains and losses to profit or loss when it incurs, and instead, required 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 incurs and no longer be amortized over the average period before vested on a straight-line basis. In addition, the amendments also require a broader disclosure in defined benefit plans.

The Group is expecting changes on valuation and presentation of accrued pension liabilities, pension cost and actuarial gains or losses and retrospective adjustment to retained earnings if unrecognized past service cost and actuarial gains or losses are recognized immediately.

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. IFRS 10 Consolidated Financial Statements

The standard replaced regulations related to consolidated financial statements in the original IAS 27 *Consolidated and Separate Financial Statements* and renamed IAS 27 as *Separate Financial Statements*. The standard also superseded Standard Interpretations Committee interpretations 12 *Consolidation – Special Purpose Entities* and redefined controlling ability. To have control over an investee, the investor must possess all three elements of control.

The Group is expecting that the adoption of the above standards may change the method of accounting of investees and disclosure for certain subsidiaries and associates.

C. Amendments to IAS 1 Presentation of Financial Statements

The other comprehensive income section is required to present line items which are classified by their nature, and grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to two groups of items of other comprehensive is also required. The Group is expecting to change the presentation of comprehensive income statement in accordance with the standard.

D. IFRS 12 Disclosure of Interests in Other Entities

The standard is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is expecting to increase disclosures on the consolidated and unconsolidated entities in accordance with the standard.

E. IFRS 13 Fair Value Measurement

The standard defines fair value and provides a framework for measuring fair value and requires disclosures on fair value measurement. Based on its assessment, the Group is not expecting the standard to have significant impact on the financial position and the results of operations, but is expecting to increase the disclosures relating to fair value measurement in accordance with the standard.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Impact of IFRS issued by the IASB but not yet endorsed by the FSC

The 2013 version of the IFRS issued by the IASB but not yet endorsed by the FSC were as follows:

New standards and amendments	Effective date per IASB
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amended IAS 28 and IFRS 10 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	January 1, 2016
• Amended IFRS 11 “ <i>Accounting for Acquisitions of Interests in Joint Operations</i> ”	January 1, 2016
• IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
• IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2017
• Amended IAS 16 and IAS 38 “ <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ”	January 1, 2016
• Amended IAS 16 and IAS 41 “ <i>Agriculture : Bearer Plants</i> ”	January 1, 2016
• Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
• Amended IAS 27 “ <i>Equity method in separate financial statements</i> ”	January 1, 2016
• Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
• Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
• Amended IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

As the standards and amendments above have not been endorsed by the FSC, the Group is in the process of assessing the impact on the financial position and the results of operations. Related impact will be disclosed following the completion of its assessments.

4. SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The accompanying consolidated interim financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to the Regulations) and guidelines of IAS 34 “Interim Financial Reporting,” endorsed by FSC. Such consolidated interim financial statements, however, do not include all of the information required for full annual financial statements by International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as “IFRS as endorsed by the FSC”).

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Basis of preparation

A. Basis of measurement

The consolidated financial (interim) statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- (a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- (b) Available-for-sale financial assets are measured at fair value;
- (c) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (d) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

B. Functional and presentation currency

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

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

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

B. Acquisition of non-controlling interests

Acquisition of non-controlling interests is accounted for as an equity transaction with owners. Under the aforesaid transaction, goodwill is not recognized.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

D. Business combination under common control

A business combination under common control is a transaction in which all of the combining entities are ultimately controlled by the same party, both before and after the combination, and the control is not transitory. These combinations often occur in re-organize group activities in which the direct ownership of subsidiaries changes but the ultimate parent remains the same. Business combinations under common control are accounted for in the consolidated accounts prospectively from the date the group obtains the ownership interest. Assets and liabilities are recognized upon consolidation at their carrying amount in the consolidated financial statements of owners of the Company. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognized directly in equity.

E. Loss of control

When the Group loses control of a subsidiary it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

F. List of subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
THE COMPANY	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	- %	- %	100.00%	Note A
THE COMPANY, UNIHAN AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability (TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	11.68%	12.26%	12.30%	Notes A and B
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	100.00%	Note B
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	100.00%	Note B
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	Note B
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	Note B

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	Note B
Ability (TW)	E-PIN OPTICAL INDUSTRY CO., LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	53.01%	Note B
ABILITY	Ability Technology (Dongguan) Co., Ltd.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note B
ABILITY	Jujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note B
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note B
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	100.00%	Note B
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	Note B
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	Note B
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	100.00%	Note B
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	100.00%	Note B
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	73.04%	Note B
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	55.45%	Note B
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	100.00%	Note B
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	72.22%	Note B
THE COMPANY and UNIHAN	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	100.00%	Note A
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00%	100.00%	100.00%	
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	100.00%	
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	100.00%	
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00%	100.00%	100.00%	
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	100.00%	

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	100.00%	
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	100.00%	
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products.	100.00%	- %	- %	Note D
THE COMPANY, UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.08%	38.08%	Notes A and B
AZURE WAVE	EMINENT STAR CO., LTD. (EMINENT)	Investing activities	100.00%	100.00%	100.00%	Note B
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	- %	100.00%	100.00%	Notes B and K
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	- %	100.00%	100.00%	Notes B and K
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	100.00%	Note B
EMINENT · JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	100.00%	Note B
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	100.00%	Note B
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	100.00%	Note B
AZURE WAVE	AZUREWAVE TECHNOLOGY (USA) INC.	Developing market	100.00%	- %	- %	Notes B and I
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	100.00%	Note B

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
THE COMPANY and UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	100.00%	Note A
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	- %	- %	100.00%	Note E
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	100.00%	
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	100.00%	Note M
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	- %	100.00%	100.00%	Note L
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	90.51%	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	100.00%	
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	100.00%	
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH) (previously known as ASUS HOLLAND HOLDING B.V.)	Investing activities	100.00%	100.00%	100.00%	
PHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	100.00%	
PHH	Pegatron Service Holland B.V.	Sales and repair service center in Europe	100.00%	- %	- %	Note F
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	100.00%	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	100.00%	
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	100.00%	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK (H.K.) TRADING LIMITED	Trading activities	100.00%	100.00%	100.00%	
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	100.00%	
ASLINK	PEGAGLOBE (KUNSHAN) CO., LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00%	- %	- %	Note G
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	100.00%	
DIGITEK	DIGITEK (CHONGQING) CO., LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	100.00%	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	100.00%	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	100.00%	
PROTEK	PROTEK (SHANGHAI) CO., LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	100.00%	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	100.00%	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	100.00%	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	58.65%	

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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
ASROCK	ASIA ROCK TECHNOLOGY LIMITED (ASIA ROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	100.00%	
ASIA ROCK	ASROCK EUROPE B.V.	Manufacturing and selling database service and trading electronic components	100.00%	100.00%	100.00%	
ASIA ROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	100.00%	
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	100.00%	
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	100.00%	
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	100.00%	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	70.63%	70.63%	70.63%	
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	39.00%	Note B
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	57.37%	61.52%	68.75%	Note B
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	100.00%	100.00%	Note B
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00%	100.00%	100.00%	Note B
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	100.00%	Note B
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	100.00%	Note B

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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00%	100.00%	100.00%	Note B
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	100.00%	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	60.73%	68.18%	68.18%	Note H
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	100.00%	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	- %	Note C
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	100.00%	
CASETEK CAYMAN	APLUS PRECISION LIMITED (APLUS)	Investing and trading activities	100.00%	100.00%	100.00%	
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	100.00%	
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	100.00%	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	100.00%	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2014.09.30	2013.12.31	2013.09.30	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	100.00%	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	56.52%	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	100.00%	
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	100.00%	
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.	Sales and logistics center in Singapore	100.00%	- %	- %	Note J
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	100.00%	
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	100.00%	

Note A: In November 2013, pursuant to the resolutions of the board of directors, the Company had set December 31, 2013 as the effective date of the statutory merger with Unihan Corporation, with the Company as the surviving entity from the merger. In February 7, 2014, this merger had been approved by the Ministry of Economic Affairs, R.O.C., and the legal procedure for the change in the Company's registration had been completed.

Note B: As of September 30, 2014, AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Group held 38.08%, 11.68% and 39.00%, respectively, or less than 50% of their total issued shares because the Group has acquired more than 50% of voting shares of each of these entities and has the ability to exercise control over their respective board of directors.

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Note C: In the third quarter of 2013, the Group had established and invested by acquiring the 100% equity ownership in RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD. in Mainland China through RIH LI INTERNATIONAL LTD. On June 25, 2014, this investee company changed its name to the current name from RI PEI TRADING (SHANGHAI) CO., LTD.

Note D: In the first quarter of 2014, the Group had established and invested KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD. in Mainland China through CASTEK HOLDINGS LTD. The Company acquired 100% equity ownership of KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD. for USD 10,000 thousand.

Note E: It was liquidated in July 2013.

Note F: In April 2014, the Group has established and invested EUR 5,000 thousand in exchange for a 100% equity ownership in Pegatron Service Holland B.V. in Netherlands through PHH.

Note G: In the second quarter of 2014, the Group had established and invested in PEGAGLOBE (KUNSHAN) CO., LTD. in Mainland China through ASLINK PRECISION CO., LTD. The Company acquired 100% equity ownership of PEGAGLOBE (KUNSHAN) CO., LTD. for USD 20,000 thousand.

Note H: In the first quarter of 2014, the Group sold 25,291 thousand shares of CASETEK CAYMAN for \$4,192,863 in the open market through ASUSPOWER CORPORATION. The gain on disposal of \$2,220,481 that do not result in a loss of control are accounted in capital surplus, others. The Group's equity ownership of CASETEK CAYMAN through ASUSPOWER CORPORATION has decreased from 68.18% to 60.73%.

Note I: In the first quarter of 2014, AZURE WAVE had established and invested in AZUREWAVE TECHNOLOGY (USA) INC. The Company acquired 100% equity ownership of AZUREWAVE TECHNOLOGY (USA) INC. for USD 250 thousand.

Note J: In April 2014, the Group has established and invested SGD 1,000 thousand to acquire 100% equity ownership in Pegatron Service Singapore Pte. Ltd. in Singapore through ASUSPOWER INVESTMENT.

Note K: It was liquidated in June 2014.

Note L: It was liquidated in April 2014.

Note M: In the process of liquidation.

G. Subsidiaries excluded from consolidation: None.

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(4) Foreign currency

A. Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are remeasured to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments and amortized cost in foreign currencies remeasured at the exchange rates on reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are reported at fair value are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are reported based on historical cost are remeasured using the exchange rate at the date of translation.

Foreign currency differences arising from remeasurement are recognized in profit or loss, except for the following accounts which are recognized in other comprehensive income:

- Available-for-sale equity investment;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent the hedge is effective.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and are presented in the exchange differences on translation of foreign financial statements in equity.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising thereon are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(5) Classification of current and noncurrent assets and liabilities

An asset is classified as current when:

- A. It is expected to be realized the asset, or intended to be sold or consumed, during the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is expected to be realized within twelve months after the reporting period; or
- D. The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when:

- A. It is expected to be settled during the in its normal operating cycle;
- B. It is held 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 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 issuing equity instruments do not affect its classification.

All other liabilities are classified as noncurrent.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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Time deposits with maturity period of over three months are normally accounted under other financial assets. However, time deposits are accounted under cash and cash equivalents if they are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(7) Financial instruments

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

A. Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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

A financial asset is classified in this category if it is held-for-trading or is designated as such on initial recognition. Financial assets classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than those classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- Performance of the financial asset is evaluated on a fair value basis.
- Hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, 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 amortized cost, and are included in financial assets measured at cost.

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(b) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized 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 calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and unrealized gains (losses) on available-for-sale financial assets in equity. When an available-for-sale investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, 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 amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other income of profit or loss.

Interest income from investment in bond security is recognized in profit or loss, under other income.

(c) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. At initial recognition, held-to-maturity financial assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Interest income is recognized into profit or loss, under "other income." A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

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(d) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Interest income is recognized in profit or loss, under other income.

In accordance with Statement of International Accounting Standards No. 39 "Financial instruments Accounting for Transfers of Financial Assets and Extinguishments of Liabilities," a transfer of financial assets or a portion of a financial asset in which the transferor surrenders control over those financial assets is regarded as a sale to the extent that consideration in the transferred assets is received in exchange. The rights to accounts receivable are derecognized after deducting the estimated charges or losses in commercial dispute when all of the following conditions are met.

- i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:
 - An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
 - The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

Accounts receivable which are factored but no receipt yet of cash advances are accounted for as other accounts receivable.

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(e) 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 (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the 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 Group on terms that the Group 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 investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than the one suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Such impairment loss is not reversible in subsequent periods.

The carrying amount of a financial asset is reduced for an impairment loss, except for trade receivables, in which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off against the allowance account. Any subsequent recovery from written off receivable is charged to the allowance account. Changes in the allowance accounts are recognized in profit or loss.

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.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is

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reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment loss was recognized at the reversal date.

Impairment losses recognized on 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 equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then impairment loss is reversed against profit or loss.

Impairment losses and recoveries are recognized in profit or loss, under “other gains and losses, net.”

(f) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is reclassified to profit or loss, under “other gains and losses, net.”

On partial derecognition of a financial assets, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available-for-sale financial assets is reclassified to profit or loss, under “other gains and losses, net.”

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

Debt or equity instruments issued by the Group are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

Equity instruments issued are recognized based on amount of consideration received less the direct issuance cost.

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Compound financial instruments issued by the Group comprise convertible bonds payable that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

At initial recognition, the liability component of a compound financial instrument is recognized at fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially based on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, under non-operating income and expense. On conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

(b) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term. At initial recognition, the Group designates financial liabilities, as at fair value through profit or loss under one of the following situations:

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses thereon on different basis;
- ii. Performance of the financial liabilities is evaluated on a fair value basis;
- iii. Hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which takes into account any interest expense, are recognized in profit or loss, under “non-operating income and expenses.”

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Financial liabilities at fair value through profit or loss is measured at cost if it sells borrowed unquoted equity investment whose fair value cannot be reliably measured and if it is to be delivered to the obligator of the equity investment. This type of financial instrument is classified as financial liabilities measured at cost.

Financial guarantee contract and loan commitments are classified as financial liabilities at fair value through profit or loss, any gains and losses thereon are recognized in profit or loss.

(c) Other financial liabilities

At initial recognition, financial liabilities not classified as held-for-trading, or designated as at fair value through profit or loss, which comprise of loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, under finance cost.

(d) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in “non-operating income and expenses.”

(e) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Group has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(f) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder of a loss it incurs because a specified debtor fails to pay on due date in accordance with the original or modified terms of a debt instrument.

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Company is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative

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amortization recognized in accordance with IAS 18.

C. Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate fluctuation exposures. At initial recognition, derivatives are recognized at fair value; and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, under “non-operating income and expenses.”

When a derivative is designated as a hedging instrument, the timing for recognizing gain or loss is determined based on the nature of the hedging relationship. When the result of the valuation at fair value of a derivative instrument is positive, it is classified as a financial asset; otherwise, it is classified as a financial liability.

Derivatives linked to investments in equity instruments that do not have a quoted market price in an active market and must be settled by delivery of unquoted equity instruments, are classified as financial assets, which are measured at amortized cost. These derivatives are classified as financial liabilities measured at cost.

Embedded derivatives are separated from the host contract and are accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and that the host contract is measured at fair value through profit or loss.

The Group designates its hedging instrument, including derivatives, embedded derivatives, and non-derivative instrument for a hedge of a foreign currency risk, as fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risk of firm commitments are treated as a fair value hedge.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, and whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk.

(a) Fair value hedge

Changes in the fair value of a hedging instruments designated and qualified as fair value hedges are recognized in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Hedged financial instruments using an effective interest rate is amortized to profit or loss when hedge accounting is discontinued over the period to maturity.

(b) Cash flow hedge

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in equity, under effective portion of cash flow hedge gain (loss). Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, under “non-operating income and expenses.”

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and is presented in the same accounting caption with the hedged item recognized in the consolidated statement of comprehensive income.

For a cash flow hedge of a forecasted transaction recognized as a non-financial assets or liabilities, the amount accumulated in other equity – effective portion of cash flow hedge gain (loss) in other comprehensive income is reclassified to the initial cost of the non-financial asset or liability.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The replacement cost of raw material is its net realizable value.

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(9) Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are reclassified as held-for-sale or distribution. Immediately before classification as held-for-sale or distribution, the assets, or components of a disposal group, are re-assessed for impairment in accordance with the Group's accounting policies. Thereafter, generally the assets or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then the remaining balance of impairment loss is apportioned to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which are assessed for impairment in accordance with the Group's accounting policies. Impairment losses on initial classification of noncurrent assets held-for-sale or distribution and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held-for-sale or distribution, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(10) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of investment includes transaction costs. The carrying amount of investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The Group's share of the profit or loss and other comprehensive income of investments accounted for using equity method are included, after adjustments to align the said investees' accounting policies with those of the Group, in the consolidated financial statements from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the

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recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(11) Interests in Joint Ventures

Jointly controlled entity is an entity which is established as a result of a contractual arrangement between the Group and other joint venture partners to jointly control over its financial policy and operating policy. Consensus for all decisions must be obtained from both joint venture partners. The Group uses equity method to account for the interest in jointly controlled entity.

(12) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Depreciation is provided over the estimated economic lives using the straight-line method. Land has an unlimited useful life and therefore is not depreciated. The estimated useful lives for the current and comparative years of significant items of investment properties are as follows:

Buildings	45-60 years
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When the use of an investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(13) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost 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, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property,

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plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined based on the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss, under other gains and losses.

B. Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

C. Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance is expensed as incurred.

D. Depreciation

Depreciation is calculated on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciable amount of an asset is determined based on the cost less its residual value. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period is recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

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Buildings	3-60 years
Plant and equipment	1-20 years
Instrument equipment	1-5 years
Office and other equipment	2-20 years
Miscellaneous equipment	1-25 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectation of useful life differs from the previous estimate, the change is accounted for as a change in an accounting estimate.

(14) Leased assets

A. Lessor

Leased asset under finance lease is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease is added to the net investment of the leased asset. Finance income is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the receivable.

Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

B. Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value and the present of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are accounted for operating leases and the lease assets are not recognized in the Group's consolidated balance sheets.

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Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the periods in which they are incurred.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease, which involves the following two criteria:

- The fulfillment of the arrangement is dependent on the use of a specific asset or assets;
and
- The arrangement contains a right to use the asset.

At inception or on reassessment of the arrangement, if an arrangement contains a lease, that lease is classified as a finance lease or an operating lease. The Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payment reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate. If the Group concludes for an operating lease that it is impracticable to separate the payment reliably, then all payments under the arrangement are treated as lease payments, and the situation is disclosed accordingly.

Prepaid lease payments represent land use rights under operating lease arrangement and are expensed equally over 45 to 50 years.

(15) Intangible assets

A. Goodwill

(a) Recognition

Goodwill arising from the acquisition of subsidiaries is recognized as intangible assets.

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(b) Measurement

Goodwill is measured at its cost less impairment losses. Investments in associates are accounted for using the equity method. The carrying amount of the investment in associates includes goodwill, impairment losses for this kind of investment are recognized as a part of the carrying amount of the investment instead of deduction of goodwill or any other assets.

B. Other Intangible Assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, are recognized in profit or loss as incurred.

D. Amortization

Depreciable amount of intangible asset is calculated based on the cost of an asset less its residual values.

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 indefinite useful life, from the date when they are made available for use. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

Computer software cost	1-5 years
Trademark rights	20 years
Patents	20 years
Customer relationship	3 years
Technology	3 years

The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each financial year-end. Any change thereof is accounted for as a change in accounting estimate.

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(16) Impairment – Non-derivative financial assets

The Group assesses non-derivative financial assets for impairment (except for inventories, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount.

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for 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 is reduced to its recoverable amount. Such is deemed as an impairment loss, which is recognized immediately in profit or loss.

The Group 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 recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset other than goodwill is 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. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing 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, from the acquisition date, is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units.

If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit.

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Reversal of an impairment loss for goodwill is prohibited.

(17) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and an outflow of economic benefits is possibly required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(18) Treasury stock

Repurchased shares are recognized as treasury shares (a contra-equity account) based on its repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares are accounted for as Capital Reserve – Treasury Shares Transactions. Losses on disposal of treasury shares are offset against existing capital reserve arising from similar types of treasury shares. If the capital reserve is insufficient, such losses are charged to retained earnings. The carrying amount of treasury shares is calculated using the weighted-average method for different types of repurchase.

If treasury shares are cancelled, Capital Reserve – Share Premiums and Share Capital are debited proportionately. Gains on cancellation of treasury shares are charged to capital reserves arising from similar types of treasury shares. Losses on cancellation of treasury shares are offset against existing capital reserves arising from similar types of treasury shares. If capital reserve is insufficient such losses are charged to retained earnings.

Company shares that are owned by the Company's subsidiaries are treated as treasury stock.

(19) Revenue

A. Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

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The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

B. Service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(20) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

B. Defined benefit plans

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

C. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(21) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

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For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any change in the fair value of the liability is recognized as personnel expenses in profit or loss.

(22) Income Taxes

Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 “Interim Financial Reporting.”

Income tax expense for the period is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by the management. This should be recognised fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases are measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognised directly in equity or other comprehensive income as tax expense.

(23) Business combination

A. Acquisition after 1 January 2012 (inclusive)

For those business acquisitions after 1 January 2012 (inclusive), goodwill is measured at the consideration transferred less amounts of the identifiable assets acquired and the liabilities assumed (generally at fair value) at the acquisition date. If the amounts of net assets acquired or liabilities assumed exceeds the acquisition price, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain for the excess. If the business combination is achieved in batches, the Group shall measure any non-controlling equity interest at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

In a business combination achieved in batches, the previously held equity interest in the acquiree at its acquisition-date fair value is re-measured and the resulting gain or loss, if any, is recognized in profit or loss.

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If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the Group's financial statements. During the measurement period, the provisional amounts recognized are retrospectively adjusted at the acquisition date, or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

All transaction costs relating to business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

B. Acquisition before January 1, 2012

For those business acquisitions occurring prior to January 1, 2012, goodwill is recognized based on the Regulations Governing the Preparation of Financial Reports issued by Financial Supervisory Commission on 10 January 1999 and "financial accounting standards and interpretation issued by the Accounting Research and Development Foundation" (R.O.C. GAAP), which is the former accounting principle.

(24) Earnings per share

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Company. The basic earnings per share is calculated on profit attributable to the ordinary shareholders of the Company divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated on profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible notes and employee stock options.

(25) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. MAJOR SOURCES OF SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the consolidated quarterly financial statements in conformity with IFRSs (in accordance with IAS 34 “Interim financial reporting” and approved by 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.

In preparation of the consolidated quarterly financial statements, the major sources of significant accounting judgments and estimation uncertainty are consistent with those disclosed in Note 5 of the consolidated financial statements for the years ended December 31, 2013 and 2012 prepared under IFRS (endorsed by the FSC).

6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	September 30, 2014	December 31, 2013	September 30, 2013
Cash on hand	\$ 33,237	34,723	33,750
Cash in banks	31,347,540	24,818,649	24,210,961
Time deposits	49,069,810	49,196,726	37,995,604
Cash equivalents-RP Bonds	298,678	211,208	209,298
	<u>\$ 80,749,265</u>	<u>74,261,306</u>	<u>62,449,613</u>

A. The above cash and cash equivalents were not pledged as collateral. Time deposits with maturity period of over three months and pledged time deposits were accounted for under other financial assets. Please refer to Notes 6(11) and 8 for details.

B. Refer to Note 6(27) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Investment in financial assets and liabilities

A. The components of financial assets and liabilities were as follows:

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>	<u>September 30,</u> <u>2013</u>
Financial assets at fair value through profit or loss – current:			
Held-for-trading			
Shares of stock of listed companies	\$ 130,287	131,516	181,092
Beneficiary certificates	5,746,559	6,845,986	6,288,240
Corporate bonds	-	31,154	31,500
Foreign exchange swap contracts	-	5,721	-
Option exchange (long call)	-	3,240	4,446
Forward exchange contracts and others	-	704	12,500
	<u>\$ 5,876,846</u>	<u>7,018,321</u>	<u>6,517,778</u>
Available-for-sale financial assets – current:			
Shares of stock of listed companies	\$ -	11,415	11,670
Shares of stock of overseas listed companies	495,858	420,043	378,378
	<u>\$ 495,858</u>	<u>431,458</u>	<u>390,048</u>
Available-for-sale financial assets – noncurrent:			
Shares of stock of listed companies	\$ 1,830,943	1,010,750	1,079,263
Equity securities – common stock	208,800	145,800	192,250
	<u>\$ 2,039,743</u>	<u>1,156,550</u>	<u>1,271,513</u>
Financial assets carried at cost – noncurrent:			
Equity securities – common stock	\$ 363,131	255,260	265,243
Equity securities – preferred stock	205,632	284,385	224,857
	<u>\$ 568,763</u>	<u>539,645</u>	<u>490,100</u>
Financial liabilities at fair value through profit or loss – current:			
Held-for-trading			
Foreign exchange swap contracts	\$ -	-	14
Option exchange (long call)	24,168		
Forward exchange contracts and others	-	7,443	1,617
	<u>24,168</u>	<u>7,443</u>	<u>1,631</u>
Designated as at fair value through profit or loss			
Foreign convertible bonds – conversion options	755,928	-	-
Valuation adjustments	1,356,313	-	-
	<u>2,112,241</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,136,409</u>	<u>7,443</u>	<u>1,631</u>
Financial liabilities at fair value through profit or loss – noncurrent:			
Foreign convertible bonds – conversion options	\$ -	1,262,770	1,262,770
Valuation adjustments	-	(1,027,608)	(584,138)
	<u>\$ -</u>	<u>235,162</u>	<u>678,632</u>

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (a) For the three and nine months ended September 30, 2014 and 2013, the Group recognized a net gain (loss) on financial assets and liabilities reported at fair value through profit or loss of \$16,872, \$1,142,248, \$(2,498,197) and \$153,977, respectively.
- (b) For the three months and nine months ended September 30, 2014 and 2013, the unrealized gains (losses) on available-for-sale financial assets amounted to \$676,197, \$(33,725), \$960,029 and \$(103,942), respectively.
- (c) The aforementioned investments held by the Group are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, therefore, the Group management determines the fair value cannot be measured reliably. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$130, \$0, \$130, \$0, for the three months and nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, December 31, 2013, and September 30, 2013, the Group had accumulated impairment loss of \$394,725, \$401,088 and \$401,088, respectively.
- (d) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as “Financial liabilities at fair value through profit or loss.” For the three months and nine months ended September 30, 2014 and 2013, the Group recognized gains (losses) on financial liability reported at fair value through profit or loss of \$(24,006), \$1,074,682, \$(2,342,168) and \$90,059, respectively.
- (e) Refer to Note 6(25) for further discussion on gains and losses on disposal of investments.
- (f) Refer to Note 6(27) for the Group’s information on financial instruments risk management.
- (g) As of September 30, 2014, December 31, 2013 and September 30, 2013, the aforesaid financial assets were not pledged as collateral.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Fair value sensitivity analysis

If the equity price changes, and if the analysis is based on the same basis for both periods and assuming that all other variables considered in the analysis remain the same, the impact of equity price change to other comprehensive income will be as follows:

	For the Nine Months Ended September 30			
	2014		2013	
	After-Tax Comprehensive Income	After-Tax Profit (Loss)	After-Tax Comprehensive Income	After-Tax Profit (Loss)
Increase 3%	\$ 76,068	176,305	49,847	195,025
Decrease 3%	\$ (76,068)	(176,305)	(49,847)	(195,025)

C. Foreign equity investments

Significant foreign equity investments at the end of the each period were as follows:

	September 30, 2014			September 30, 2013		
	USD	Exchange Rate	NTD	USD	Exchange Rate	NTD
Foreign equity investments	\$ 26,851	30.420	816,807	24,346	29.570	719,911

D. Derivative not used for hedging

The Group uses derivative financial instruments to hedge certain foreign exchange and interest risk the Group is exposed to, arising from its operating, financing and investing activities. Based on this policy, the Group holds derivative financial instruments for hedging purposes. Transactions that do not qualify for hedge accounting are presented as held-for-trading financial assets and financial liabilities:

Financial Assets

	December 31, 2013	
	Notional Principal (thousands)	Contract Period
Derivative financial instruments not used for hedging		
Foreign exchange swap contracts	USD 19,700	2013.12~2014.01
Option exchange (long call)	USD 6,000	2013.09~2014.12
Forward exchange contract and others	USD 5,000	2013.11~2014.03

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	<u>September 30, 2013</u>	
	<u>Notional Principal (thousands)</u>	<u>Contract Period</u>
Derivative financial instruments not used for hedge		
Option exchange (long call)	USD <u>9,000</u>	2013.07~2014.09
Forward exchange contract and others	USD <u>88,000</u>	2013.07~2013.12

Financial Liabilities

	<u>September 30, 2014</u>	
	<u>Notional Principal (thousands)</u>	<u>Contract Period</u>
Derivative financial instruments not used for hedging		
Option exchange (long call)	USD <u>4,000</u>	2014.11~2015.03

	<u>December 31, 2013</u>	
	<u>Notional Principal (thousands)</u>	<u>Contract Period</u>
Derivative financial instruments not used for hedging		
Forward exchange contract and others	USD <u>33,000</u>	2013.11~2014.01

	<u>September 30, 2013</u>	
	<u>Notional Principal (thousands)</u>	<u>Contract Period</u>
Derivative financial instruments not used for hedge		
Foreign exchange swap contracts	USD <u>7,000</u>	2013.09~2013.10
Forward exchange contract and others	USD <u>22,000</u>	2013.09~2013.10

(3) Notes and accounts receivable and other receivable, net

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Notes receivable	\$ 149,471	246,948	117,922
Accounts receivable	109,713,064	105,882,203	113,872,989
Other receivable	20,122,140	29,215,907	19,785,916
Less: Allowance for impairment	(2,038,867)	(2,109,553)	(1,810,064)
	<u>\$ 127,945,808</u>	<u>133,235,505</u>	<u>131,966,763</u>

- A. Refer to Note 6(27) for the Group's notes receivable, accounts receivable and other receivable exposure to credit risk and currency risk, and the impairment evaluation of accounts receivable.

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As of September 30, 2014, December 31, 2013, and September 30, 2013, the Company sold its accounts receivable without recourse as follows:

September 30, 2014

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	\$ <u>-</u>	USD <u>300,000,000</u>	USD <u>-</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>-</u>
ANZ (Note)	\$ <u>29,597,235</u>	USD <u>1,300,000,000</u>	USD <u>362,000,000</u>	None	"	\$ <u>29,597,235</u>

December 31, 2013

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	\$ <u>7,701,648</u>	USD <u>300,000,000</u>	USD <u>258,401,191</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>7,701,648</u>
ANZ (Note)	\$ <u>38,746,500</u>	USD <u>1,300,000,000</u>	USD <u>523,000,000</u>	None	"	\$ <u>38,746,500</u>

September 30, 2013

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	\$ <u>4,423,255</u>	USD <u>300,000,000</u>	USD <u>149,585,887</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>4,423,255</u>
ANZ (Note)	\$ <u>37,737,474</u>	USD <u>1,300,000,000</u>	USD <u>699,784,876</u>	None	"	\$ <u>37,737,474</u>

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Note: In October 2013, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and the other six banks where each bank will factor on pro-rata basis.

For the three months and nine months ended September 30, 2014 and 2013, the Company recognized a loss of \$34,002, \$57,722, \$134,069 and \$147,230, respectively from the assignment of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of \$18,585,195, \$23,158,485 and \$17,044,835 between the carrying value of factored accounts receivable and the amount advanced was accounted for as other receivable as of September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

B. As of September 30, 2014, December 31, 2013, and September 30, 2013, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

September 30, 2014					
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	\$ <u>639,184</u>	USD <u>30,000</u>	\$ <u>159,361</u>	None	\$ <u>639,184</u>

December 31, 2013					
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	\$ <u>375,933</u>	USD <u>30,000</u>	\$ <u>300</u>	None	\$ <u>375,933</u>

September 30, 2013					
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	\$ <u>570,572</u>	USD <u>30,000</u>	\$ <u>-</u>	None	\$ <u>570,572</u>

(4) Inventories

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Merchandise	\$ 1,542,291	1,163,792	2,250,394
Finished goods	40,675,045	46,093,367	30,178,355
Work in process	28,969,859	18,962,416	28,076,571
Raw materials	40,450,020	43,175,517	52,737,586
Subtotal	111,637,215	109,395,092	113,242,906
Less: Allowance for inventory market decline and obsolescence	(5,685,147)	(5,796,220)	(5,272,916)
Total	\$ <u>105,952,068</u>	<u>103,598,872</u>	<u>107,969,990</u>

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For the three months and nine months ended September 30, 2014 and 2013, the components of cost of goods sold were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Cost of goods sold	\$ 217,073,624	240,855,970	618,006,868	644,890,262
(Reversal of) Provision on inventory market price decline	79,533	(133,526)	(116,896)	(261,929)
Loss on disposal of inventory	4,158,533	2,586,142	9,539,914	6,122,132
Unallocated manufacturing overhead	168,169	12,873	810,962	941,190
Gain (loss) on physical inventory	2,826	(2,343)	30,744	(13,959)
	<u>\$ 221,482,685</u>	<u>243,319,116</u>	<u>628,271,592</u>	<u>651,677,696</u>

For the nine months ended September 30, 2014 and 2013, the conditions that previously caused inventories to be written down below cost had disappeared due to the disposal of related inventories, so that the related allowance for loss on decline in the value of inventories was reversed, which resulted in a reversal gain on inventory valuation allowance.

As of September 30, 2014, December 31, 2013, and September 30, 2013, the aforesaid inventories were not pledged as collateral.

(5) Non-current assets classified as held-for-sale

	December 31, 2013
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	\$ <u>365,243</u>

In January 2014, ASLINK sold its ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. for \$432,240 and recognized a gain on disposal of investments of \$61,391.

(6) Investments accounted for using equity method

A. The Group's financial information for investments accounted for using equity method at reporting date was as follows:

	September 30, 2014	December 31, 2013	September 30, 2013
Associates	\$ <u>992,655</u>	<u>1,187,753</u>	<u>1,553,742</u>

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B. As of September 30, 2014 and 2013, the Group's share of loss of the associates were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
The Group's share of the net loss of the associates	\$ (54,281)	(10,287)	(170,634)	(46,673)

C. As of September 30, 2014, December 31, 2013, and September 30, 2013, the aforesaid investments accounted for using equity method were not pledged as collateral.

(7) Disposal of investments without losing control

In March, 2014 and January, 2013, the Group sold 7.45% and 1.03% equity ownership of CASETEK CAYMAN for \$4,192,863 and \$290,725, respectively.

Changes in equity of in subsidiaries attributed to changes in equity of the parent company were as follows:

	September 30,	January ,
	2014	2014
Received from non-controlling interests	\$ 4,192,863	290,725
Carrying amount of subsidiaries disposed	1,972,382	173,984
Capital surplus — difference between consideration and carrying amount of subsidiaries disposed	\$ 2,220,481	116,741

(8) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group as of September 30, 2014 and 2013 were as follows:

	Land	Buildings	Machinery	Instrument equipment	Other facilities	Construction in progress	Total
			and equipment				
Cost or deemed cost:							
Balance on January 1, 2014	\$ 5,233,683	39,286,047	57,553,035	1,630,519	25,400,015	598,580	129,701,879
Additions	134,429	583,636	621,407	70,383	1,500,103	2,440,914	5,350,872
Disposals and obsolescence	-	(190,637)	(3,138,083)	(81,786)	(1,041,402)	-	(4,451,908)
Reclassifications	120,308	160,151	1,638,414	5,249	1,035,676	(1,132,557)	1,827,241
Effect of movements in exchange rates	(900)	313,885	527,398	14,764	230,167	3,976	1,089,290
Balance on September 30, 2014	\$ 5,487,520	40,153,082	57,202,171	1,639,129	27,124,559	1,910,913	133,517,374

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	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Balance on 1 January 2013	\$ 4,456,971	33,340,181	58,606,847	2,003,597	22,651,012	2,651,923	123,710,531
Additions	-	1,852,131	1,048,875	158,212	2,753,905	2,896,143	8,709,266
Disposals and obsolescence	-	(400,514)	(5,153,266)	(550,753)	(2,092,206)	-	(8,196,739)
Reclassifications	684,640	1,494,584	2,627,686	(1,592)	1,110,686	(4,754,532)	1,161,472
Interest expense capitalizing	-	-	-	-	-	2,135	2,135
Effect of movements in exchange rates	688	1,133,913	1,834,266	65,655	684,636	102,722	3,821,880
Balance on September 30, 2013	<u>\$ 5,142,299</u>	<u>37,420,295</u>	<u>58,964,408</u>	<u>1,675,119</u>	<u>25,108,033</u>	<u>898,391</u>	<u>129,208,545</u>
Depreciation and impairment loss :							
Balance on January 1, 2014	\$ 50,054	9,377,785	30,038,405	793,144	15,525,837	-	55,785,225
Depreciation for the period	-	1,932,896	4,739,534	235,361	3,281,287	-	10,189,078
Reversal of impairment loss	-	(40)	(91,525)	(347)	3,222	-	(88,690)
Disposals and obsolescence	-	(137,879)	(2,473,307)	(77,577)	(925,226)	-	(3,613,989)
Reclassifications	-	-	(97,658)	-	97,523	-	(135)
Effect of movements in exchange rates	-	68,805	308,531	8,481	157,086	-	542,903
Balance on September 30, 2014	<u>\$ 50,054</u>	<u>11,241,567</u>	<u>32,423,980</u>	<u>959,062</u>	<u>18,139,729</u>	<u>-</u>	<u>62,814,392</u>
Balance on January 1, 2013	\$ 50,054	7,312,711	29,252,786	995,922	12,919,939	-	50,531,412
Depreciation for the period	-	1,555,281	4,802,769	241,763	3,390,238	-	9,990,051
Reversal of impairment loss	-	(25)	(171,073)	(553)	(15,964)	-	(187,615)
Disposals and obsolescence	-	(350,591)	(4,019,264)	(498,976)	(1,811,117)	-	(6,679,948)
Reclassification	-	(208)	14,263	-	(26,337)	-	(12,282)
Effect of movements in exchange rates	-	242,223	815,670	33,064	398,228	-	1,489,185
Balance on September 30, 2013	<u>\$ 50,054</u>	<u>8,759,391</u>	<u>30,695,151</u>	<u>771,220</u>	<u>14,854,987</u>	<u>-</u>	<u>55,130,803</u>
Carrying amounts :							
Balance on January 1, 2014	<u>\$ 5,183,629</u>	<u>29,908,262</u>	<u>27,514,630</u>	<u>837,375</u>	<u>9,874,178</u>	<u>598,580</u>	<u>73,916,654</u>
Balance on September 30, 2014	<u>\$ 5,437,466</u>	<u>28,911,515</u>	<u>24,778,191</u>	<u>680,067</u>	<u>8,984,830</u>	<u>1,910,913</u>	<u>70,702,982</u>
Balance on January 1, 2013	<u>\$ 4,406,917</u>	<u>26,027,470</u>	<u>29,354,061</u>	<u>1,007,675</u>	<u>9,731,073</u>	<u>2,651,923</u>	<u>73,179,119</u>
Balance on September 30, 2013	<u>\$ 5,092,245</u>	<u>28,660,904</u>	<u>28,269,257</u>	<u>903,899</u>	<u>10,253,046</u>	<u>898,391</u>	<u>74,077,742</u>

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- A. Based on the results of its evaluation of the recoverability of property, plant and equipment, the Group recognized impairment reversal gain as follows:

	For the Three Months		For the Nine Months Ended	
	Ended September 30		September 30	
	2014	2013	2014	2013
Net of reversal gain	\$ 52,420	42,160	88,690	187,615

- B. KINSUS INTERCONNECT TECHNOLOGY CORP. (“KINSUS”) completed a series of farm land purchases in the name of KINSUS’s chairman instead of KINSUS, due to the restriction imposed by the local government.
- C. Please refer to Note 6(25) for details of the capitalization of interest expenses and gain or loss on disposal of property, plant and equipment.
- D. Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.
- (9) Investment property

	Land	Buildings	Total
Carrying amount :			
Balance as of January 1, 2014	\$ 272,328	386,803	659,131
Balance as of September 30, 2014	\$ 272,328	379,019	651,347
Balance as of January 1, 2013	\$ 272,328	397,183	669,511
Balance as of September 30, 2013	\$ 272,328	389,398	661,726

- A. Rental revenues and direct expenses of investment property:

	For the Three Months		For the Nine Months Ended	
	Ended September 30		September 30	
	2014	2013	2014	2013
Rental revenues from investment property	\$ 7,472	6,339	21,662	19,017

Please refer to Note 12 for details of depreciation expenses related to rental revenues generated by investment property.

- B. For the nine months ended September 30, 2014 and 2013, there was no significant purchase, disposal, impairment loss, or reversal gain on investment property. Please refer to Note 12 for the details of depreciation on investment property and refer to Note 6(8) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

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C. As of September 30, 2014, December 31, 2013, and September 30, 2013, the fair value of investment property of the Group was \$971,939, \$888,531 and \$895,282, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm's length terms.

D. As of September 30, 2014, December 31, 2013, and September 30, 2013, the aforesaid investment properties were not pledged as collateral.

(10) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the nine months ended September 30, 2014 and 2013 were as follows:

	<u>Goodwill</u>	<u>Customer relationship</u>	<u>Technology</u>	<u>Others</u>	<u>Total</u>
Costs:					
Balance on January 1, 2014	\$ 1,882,028	358,013	766,522	1,191,013	4,197,576
Additions	-	-	-	53,993	53,993
Disposals	(2,926)	-	-	(378,186)	(381,112)
Reclassifications	-	-	-	1,233	1,233
Effect of movement in exchange rate	21,478	7,387	15,817	12,825	57,507
Balance on September 30, 2014	<u>\$ 1,900,580</u>	<u>365,400</u>	<u>782,339</u>	<u>880,878</u>	<u>3,929,197</u>
Balance on January 1, 2013	\$ 1,855,246	348,824	746,848	1,095,816	4,046,734
Additions	-	-	-	62,431	62,431
Disposals	-	-	-	(7,181)	(7,181)
Reclassifications	-	-	-	9,219	9,219
Effect of movement in exchange rates	18,562	6,366	13,631	12,467	51,026
Balance on September 30, 2013	<u>\$ 1,873,808</u>	<u>355,190</u>	<u>760,479</u>	<u>1,172,752</u>	<u>4,162,229</u>
Amortization and Impairment Loss:					
Balance on January 1, 2014	\$ 342,154	358,013	766,522	761,055	2,227,744
Amortization for the period	-	-	-	147,951	147,951
Disposals	(2,926)	-	-	(378,186)	(381,112)
Effect of movement in exchange rates	-	7,387	15,817	7,841	31,045
Balance on September 30, 2014	<u>\$ 339,228</u>	<u>365,400</u>	<u>782,339</u>	<u>538,661</u>	<u>2,025,628</u>
Balance on January 1, 2013	\$ -	232,549	497,899	545,741	1,276,189
Amortization for the period	-	89,321	191,241	169,577	450,139
Disposals	-	-	-	(7,154)	(7,154)
Effect of movement in exchange rates	-	3,721	7,966	6,942	18,629
Balance on September 30, 2013	<u>\$ -</u>	<u>325,591</u>	<u>697,106</u>	<u>715,106</u>	<u>1,737,803</u>

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	<u>Goodwill</u>	<u>Customer relationship</u>	<u>Technology</u>	<u>Others</u>	<u>Total</u>
Carrying value:					
Balance on January 1, 2014	\$ 1,539,874	-	-	429,958	1,969,832
Balance on September 30, 2014	\$ 1,561,352	-	-	342,217	1,903,569
Balance on January 1, 2013	\$ 1,855,246	116,275	248,949	550,075	2,770,545
Balance on September 30, 2013	\$ 1,873,808	29,599	63,373	457,646	2,424,426

A. Goodwill impairment

For the purpose of impairment testing, goodwill was allocated to the Group's cash-generating units, such as facilities, consumer electronic and others, as follows:

	<u>December 31, 2013</u>
Mechanical equipment	\$ 999,462
Consumer electronic	538,890
Others	1,522
	<u>\$ 1,539,874</u>

For the nine months ended September 30, 2014 and 2013, there was no significant addition, disposal, impairment loss, or reversal gain on goodwill. Please refer to Note 6(9) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

B. Impairment

For the nine months ended September 30, 2014 and 2013, there was no significant addition, disposal, impairment loss, or reversal gain on intangible assets other than goodwill. Please refer to Note 12 for the details of impairment and refer to Note 6(9) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

(11) Other financial assets and other assets

Other current assets noncurrent assets were as follows:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Other financial assets — current	\$ 1,453,087	1,836,937	2,491,536
Other financial assets — noncurrent	1,246,392	1,236,088	472,307
Other current assets	9,918,688	6,187,337	10,145,576
Other noncurrent assets	110,985	66,447	96,729
	<u>\$ 12,729,152</u>	<u>9,326,809</u>	<u>13,206,148</u>

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- A. Other financial assets consisted of time deposits with maturity period of over three months, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.
- B. Other current assets consisted of temporary payments, current tax asset and others.
- C. Other noncurrent assets consisted of long-term prepaid expenses and others.

(12) Short-term loans

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>	<u>September 30,</u> <u>2013</u>
Unsecured bank loans	\$ 20,972,079	22,984,673	21,730,349
Secured bank loans	9,126	29,805	583,847
Total	<u>\$ 20,981,205</u>	<u>23,014,478</u>	<u>22,314,196</u>
Unused credit line	<u>\$ 49,138,757</u>	<u>55,887,659</u>	<u>39,703,471</u>
Interest rate	<u>0.68%~5.08%</u>	<u>0.65%~5.08%</u>	<u>0.67%~5.38%</u>

A. Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group repaid and borrowed its short-term loans by \$2,033,273 and \$2,701,037 for the nine months ended September 30, 2014 and 2013, respectively. Please refer to Note 6(25) for the details of interest expenses and refer to Note 6(11) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

B. Securities for bank loans

Please refer to Note 8 for details of the related assets pledged as collateral.

(13) Short-term notes and bills payable

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>	<u>September 30,</u> <u>2013</u>
Commercial paper payable	\$ -	<u>79,978</u>	<u>99,970</u>

For the nine months ended September 30, 2014 and 2013, there was no significant borrowing, repurchase, or repayment for short-term notes and bills payable. Please refer to Note 6(25) for the details of interest expenses and refer to Note 6(12) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

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(14) Long-term loans

	September 30, 2014	December 31, 2013	September 30, 2013
Unsecured bank loans	\$ 16,659,777	28,770,526	24,901,712
Secured bank loans	796,375	862,857	859,476
	<u>17,456,152</u>	<u>29,633,383</u>	<u>25,761,188</u>
Less: current portion	(2,103,333)	(9,019,299)	(10,249,848)
Less: fees	(18,800)	(22,400)	-
Total	<u>\$ 15,334,019</u>	<u>20,591,684</u>	<u>15,511,340</u>
Unused credit line	<u>\$ 6,279,000</u>	<u>10,112,575</u>	<u>17,847,404</u>
Interest rate	<u>0.71%~2.25%</u>	<u>0.74%~2.54%</u>	<u>0.79%~2.25%</u>

A. Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group repaid the long-term loans of \$27,620,611 and \$5,950,638 for the nine months ended September 30, 2014 and 2013. In addition, the Group obtained new long-term loans of \$15,179,850 and \$4,760,364 for the nine months ended September 30, 2014 and 2013, respectively. Please refer to Note 6(25) for interest expenses and refer to Note 6(13) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

B. Securities for bank loans

The Group's promissory notes were pledged as a guarantee for the Group's credit loan facility. Please refer to Note 8 for details of the related assets pledged as collateral.

C. Loan covenants

According to the Group's credit loan facility agreements with the banks, during the loan repayment periods, the Group must comply with certain financial covenants, such as current ratio, debt ratio, interest coverage ratio and tangible net assets, based on its audited annual consolidated financial statements (December 31), reviewed semi-annual consolidated financial statements (June 30), and reviewed quarterly financial statements (March 31 and September 30). If the aforesaid covenants are breached, the syndicated banks have the rights to demand an immediate repayment. As of September 30, 2014, the Group was in compliance with the above financial covenants. Please refer to Note 6(13) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

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(15) Bonds payable

A. The Company's overseas unsecured convertible bonds were as follows:

	September 30, 2014	December 31, 2013	September 30, 2013
Convertible bonds issued	\$ 8,874,000	8,874,000	8,874,000
Unamortized discounted on bonds payable	(533,017)	(824,809)	(883,235)
Accumulated amount of converted bonds	(1,496,696)	-	-
Bonds payable, end of the period	6,844,287	8,049,191	7,990,765
Foreign currency valuation, end of the period	239,116	67,299	(2,991)
Bonds payable, net	7,083,403	8,116,490	7,987,774
Less: current portion of bonds payable	(7,083,403)	-	-
	\$ -	8,116,490	7,987,774

Embedded derivative –conversion options
(accounted under financial liabilities at fair
value through profit or loss)

\$ 2,112,241	235,162	678,632
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For the Three Months Ended September 30		For the Nine Months Ended September 30	
2014	2013	2014	2013

Embedded derivative –conversion
options (accounted under other
gains and losses)

\$ 24,006	(1,074,682)	2,342,168	(90,059)
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Interest expense

\$ 35,160	96,548	231,836	285,585
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For the nine months ended September 30, 2014 and 2013, there was no significant issuance, repurchase, or repayment of bonds payable. Please refer to Note 6(14) of the consolidated financial statements for the year ended December 31, 2013 for related information on issuance of convertible bonds in 2012.

The put option of the bonds payable is exercisable at three years after the first day of issue. Bonds payable of \$7,083,403 as of September 30, 2014, was classified as current liabilities for those convertible bonds whose holders bear the right to require for bond redemption within a year. Those bonds payable which are not expected to be settled within twelve months after the redemption period were reclassified as noncurrent liabilities.

As of September 30, 2014, the convertible bonds with face value of USD 49,600 had been converted into 37,732 thousand shares, but the legal procedure for the issuance of common stock had not yet been completed.

B. In February and March of 2013, Ability (TW) have redeemed all convertible bonds with face value of \$1,500 million and recognized a redemption loss of \$6,065. Please refer to Note 6(14) of the consolidated financial statements for the year ended December 31, 2013 for other

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related information.

(16) Provisions

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>	<u>September 30,</u> <u>2013</u>
Warranties	\$ 234,361	232,666	209,951
Allowance for sales returns and discounts	309,776	218,236	127,011
	<u>\$ 544,137</u>	<u>450,902</u>	<u>336,962</u>

For the nine months ended September 30, 2014 and 2013, there were no significant changes in provisions. Please refer to Note 6(15) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

(17) Operating leases

A. Leases

For the nine months ended September 30, 2014 and 2013, there were no significant new lease contracts. Please refer to Note 6(16) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

B. Long-term prepaid rents

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>	<u>September 30,</u> <u>2013</u>
Long-term prepaid rents	\$ <u>3,802,890</u>	<u>3,645,795</u>	<u>3,607,657</u>

(a) Long-term prepaid rents represent payment for land use rights under operating lease arrangement which is amortized and expensed using straight-line method over 45 to 50 years.

(b) Please refer to Note 8 for details of the aforesaid land use rights pledged as collateral.

(18) Employee benefits

A. Defined benefit plans

Management believes that there was no material market volatility, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying interim consolidated financial statements was measured and disclosed according to the actuarial report as of December 31, 2013 and 2012.

The Group's pension expenses recognized in profit or loss for the three months and nine months ended September 30, 2014 and 2013 were as follows:

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	For the Three Months		For the Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Cost of sales	\$ 329	297	1,008	933
Operating expense	2,609	1,750	7,705	5,462
	<u>\$ 2,938</u>	<u>2,047</u>	<u>8,713</u>	<u>6,395</u>

B. Defined contribution plans

The contributions of the Group to the Bureau of the Labor Insurance and China Labor and Social Security Bureau for the employees' pension benefits were as follows:

	For the Three Months		For the Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Cost of sales	\$ 940,235	557,554	2,201,837	1,512,287
Operating expense	167,250	239,484	476,118	546,046
	<u>\$ 1,107,485</u>	<u>797,038</u>	<u>2,677,955</u>	<u>2,058,333</u>

(19) Income Tax

- A. Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting."
- B. The components of income tax expense for the three months and nine months ended September 30, 2014 and 2013 were as follows:

Income tax expense, excluding tax on sale of discontinued operation	For the Three Months		For the Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Current income tax	\$ 1,873,831	952,450	4,110,413	3,269,561
Prior years income tax adjustment	(27,218)	39,671	(99,968)	(128,448)
Total	<u>\$ 1,846,613</u>	<u>992,121</u>	<u>4,010,445</u>	<u>3,141,113</u>

C. Income Tax

- (a) The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.
- (b) The Group's income tax returns approved by the Tax Authority were as follows:

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<u>Years of Approval</u>	<u>Company Name</u>
2012	UNIHAN, ASUSPOWER INVESTMENT , ASUSTEK INVESTMENT, ASUS INVESTMENT, STARLINK, AMA PRECISION, ASFLY TRAVEL SERVICE LIMITED, HUA-YUAN INVESTMENT LIMITED, PEGA INTERNATIONAL LIMITED, RIH KUAN, LUMENS OPTICS , ABILITY INVESTMENT, AZURE LIGHTING TECHNOLOGIES, INC. and KINSUS INVESTMENT.
2011	KINSUS, Ability (TW), ASROCK, PEGAVISION, E-PIN OPTICAL INDUSTRY CO., LTD., AZURE WAVE and EZWAVE Technologies, Inc.

Stockholders' imputation tax credit account and tax rate:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Stockholders' imputation tax credit account \$	<u>1,043,895</u>	<u>1,310,701</u>	<u>557,353</u>

	<u>2013 (Actual)</u>	<u>2012 (Actual)</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>9.29%</u>	<u>4.49%</u>

All of the Company's earnings generated for the period up to December 31, 1997 have been appropriated.

The aforesaid imputation tax related information was prepared in accordance with Decree No.10204562810 issued by Taxation Administration, Ministry of Finance, R.O.C. on October 17, 2013.

(20) Capital and reserves

Except for the following, there were no significant changes in capital and reserves. Please refer to Note 6(19) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

A. Nominal ordinary shares

For the nine months ended September 30, 2014 and 2013, the Company had retired 709 and 1,259 thousand shares of restricted Company shares of stock to employees, respectively. For the nine months ended September 30, 2014, new common shares of stock totaling 9,768 and 37,732 thousand shares were issued from the exercise of employee stock options and the conversion of convertible bonds, of which 2,088 and 37,732 thousand shares were accounted under advance receipts instead of share capital as the registration procedures were yet to be completed. As of September 30, 2014 and 2013, the authorized capital of the Company both consisted of 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,328,127 thousand common shares of stock and 2,316,096 thousand common shares of stock, respectively.

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As of September 30, 2014 and 2013, the restricted Company shares of stock issued to employees have expired and of which 36 and 494 thousand shares have not been retired, respectively.

B. Global depositary receipts

As of September 30, 2014, the Company has listed, in total, 6,526 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed 32,632 thousand common shares of stock of the Company.

C. Capital surplus

The components of the capital surplus were as follows:

	September 30, 2014	December 31, 2013	September 30, 2013
From issuance of share capital	\$ 61,803,563	61,420,285	60,998,689
From conversion of convertible bonds	1,519,008	-	-
From treasury stock-transactions	96,553	86,924	86,924
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,364,598	121,612	116,741
Changes in ownership interest in subsidiaries	703,535	708,260	705,698
Employee share options	20,664	119,265	122,480
Restricted stock to employees	291,005	309,556	608,408
Other	409,917	409,917	409,917
	<u>\$ 67,208,843</u>	<u>63,175,819</u>	<u>63,048,857</u>

D. Retained earnings

The Company's Articles of Incorporation require that after-tax earnings shall first be offset against any deficit, and 10% of the balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Aside from the aforesaid legal reserve, the Company may, under its Articles of Incorporation or as required by the government, appropriate for special reserve. The remaining balance of the earnings, if any, is distributed as follows:

(a) Legal reserve

No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio are decided by the Board of Directors.

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- (b) Up to 1% as remuneration to directors and supervisors.
- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

Pursuant to the Regulations of Securities and Futures Bureau Commission, a special reserve is set aside from the current year's net income after tax and prior year's unappropriated earnings at an amount equal to the debit balance of contra accounts in the shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the debit balance of any of these contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed.

In order to bring about stability in the payment of dividends, the Company distributes dividends depending on the level of earnings of each year. The Company is facing a rapidly changing industrial environment. In consideration of the Company's long-term operating plan and funding needs, the Company adopts a stable dividends policy. Therefore, the Company distributes cash dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

(a) Legal reserve

In accordance with the Amended Companies Act 2012, 10 percent of net income should be set aside as legal reserve, until it is equal to share capital. If the Company incurred profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, of up to 25 percent of the actual share capital.

(b) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on 6 April 2012, a special reserve equal to the contra account of other shareholders' equity is appropriated from current and prior period earnings. When the debit balance of any of the contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

(c) Earnings Distribution

For the three months and nine months ended September 30, 2014 and 2013, employee bonuses of \$427,000, \$232,000, \$808,000 and \$566,000, and directors' and supervisors' remuneration of \$42,000, \$22,000, \$80,000 and \$55,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the nine months ended September 30, 2014 and 2013, and were determined

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according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the nine months ended September 30, 2014 and 2013. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

On June 18, 2014 and June 19, 2013, the shareholders' meetings resolved to distribute the 2013 and 2012 earnings, respectively. These earnings were appropriated or distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2013</u>	<u>2012</u>
Common stock dividends per share (dollars)		
— Cash	<u>\$ 2.80</u>	<u>1.50</u>
Employee bonus — cash	\$ 870,000	299,000
Remuneration to directors and supervisors	<u>85,000</u>	<u>29,000</u>
Total	<u>\$ 955,000</u>	<u>328,000</u>

There was no difference between the 2013 and 2012 earnings approved for distribution and those accrued in the financial statements for the years ended December 31, 2013 and 2012.

Related information can be accessed from the Market Observation Post System on the web site.

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of September 30, 2014, December 31, 2013 and September 30, 2013, the Company's shares held by its subsidiaries were 553, 1,503 and 1,503 thousand shares amounting to \$30,968, \$57,715 and \$63,427 at fair value, respectively.

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F. Other equity accounts

	Exchange differences on translation of foreign financial statements	Available-for-sale investments	Deferred compensation arising from issuance of restricted stock
Balance, January 1, 2014	\$ (48,637)	79,871	(241,370)
Exchange differences on translation of foreign financial statements , net of tax :			
— Group	1,095,603	-	-
— Associates	(37,426)	-	-
Unrealized gains (losses) on available-for-sale financial assets :			
—Group	-	218,569	-
Other equity			
—Group	-	-	151,678
Balance, September 30, 2014	\$ 1,009,540	298,440	(89,692)

	Exchange differences on translation of foreign financial statements	Available-for-sale investments	Deferred compensation arising from issuance of restricted stock
Balance, January 1, 2013	\$ (3,398,256)	88,302	(497,698)
Exchange differences on translation of foreign financial statements , net of tax :			
—Group	2,353,909	-	-
— Associates	24,769	-	-
Unrealized gains (losses) on available-for-sale financial assets :			
—Group	-	(28,141)	-
Other equity			
—Group	-	-	180,343
Balance, September 30, 2013	\$ (1,019,578)	60,161	(317,355)

(21) Share-based payment

For the nine months ended September 30, 2014 and 2013, there were no significant changes in share-based payment. Please refer to Note 6(20) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

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A. Restricted stock to employee

For the nine months ended September 30, 2014 and 2013, 667 and 1,753 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$6,668 and \$17,531, respectively. As of September 30, 2014 and 2013, the Company has deferred compensation cost arising from issuance of restricted stock of \$89,692 and \$317,355, respectively.

On June 18, 2014, pursuant to the resolutions of its shareholders' meetings, the Company is planning to issue 40,000 thousand shares of restricted shares of stock to employees with par value of \$10 per share. Vesting conditions are in accordance with the offering information.

B. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the nine months ended September 30, 2014

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	6,501	\$ 42.67
Granted	-	-
Exercised	4,762	42.67
Forfeited	166	40.80
Expired	158	-
Balance, end of the period	<u>1,415</u>	40.80
Exercisable, end of the period	<u>1,399</u>	
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>40.80</u>	
Weighted-average remaining contractual life	<u>0.50</u>	
Expenses incurred on share-based payment transactions	<u>8,779</u>	

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	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	5,050	\$ 27.06
Granted	-	-
Exercised	4,840	27.06
Forfeited	66	-
Expired	144	-
Balance, end of the period	-	-
Exercisable, end of the period	-	-
Weighted-average fair value of options granted	7.9	
Exercise price of share option outstanding, end of the period	-	
Weighted-average remaining contractual life	-	
Expenses incurred on share-based payment transactions	(1,138)	

(b) For the nine months ended September 30, 2013

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	7,389	\$ 44.33
Granted	-	-
Exercised	-	-
Forfeited	493	-
Expired	-	-
Balance, end of the period	6,896	44.33
Exercisable, end of the period	-	
Weighted-average fair value of options granted	13.8	
Exercise price of share option outstanding, end of the period	44.33	
Weighted-average remaining contractual life	0.50	
Expenses incurred on share-based payment transactions	24,033	

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	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	32,909	\$ 28.11
Granted	-	-
Exercised	24,786	-
Forfeited	1,226	-
Expired	-	-
Balance, end of the period	<u>6,897</u>	28.11
Exercisable, end of the period	<u>6,290</u>	
Weighted-average fair value of options granted	<u>7.9</u>	
Exercise price of share option outstanding, end of the period	<u>28.11</u>	
Weighted-average remaining contractual life	-	
Expenses incurred on share-based payment transactions	<u>43,796</u>	

C. Expenses and liabilities resulting from share-based payments

The Group incurred expenses from share-based payments transactions as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
Expenses resulting from issuance of restricted stock \$ to employees	70,789	112,549	179,777	307,822
Expenses arising from granting of employee share options (including granted by the Company to subsidiaries)	(69)	7,099	7,641	89,354
Total	<u>\$ 70,720</u>	<u>119,648</u>	<u>187,418</u>	<u>397,176</u>

(22) Subsidiary's share-based payments

For the nine months ended September 30, 2014 and 2013, there were no significant changes in share-based payment except for the following. Please refer to Note 6(21) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

- A. On June 22, 2012, pursuant to the resolutions of its shareholders' meetings, Ability (TW) will issue restricted shares of stock to employees with par value of \$10 per share, effective May 21, 2014. Unless the three years service vesting conditions have lapsed, the restricted shares of

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stock may not be transferred. Holders of retired shares of stock are entitled to rights as the Company's existing common shareholders except for the vesting conditions.

B. Information on share-based payment transactions were as follows:

(a) For the nine months ended September 30, 2014

	Issued in 2008	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	1,268	\$ 15.0
Granted	-	-
Exercised	(690)	15.0
Expired	-	-
Balance, end of the period	578	13.6
Exercisable, end of the period	578	13.6

	Issued in 2007	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	5,079	\$ 29.9
Granted	-	-
Exercised	-	-
Expired	-	-
Balance, end of the period	5,079	27.1
Exercisable, end of the period	5,079	27.1

(b) For the nine months ended September 30, 2013

	Issued in 2008	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	2,992	\$ 16.4
Granted	-	-
Exercised	(157)	16.4
Exercised	(64)	15.0
Expired	(86)	-
Balance, end of the period	2,685	15.0
Exercisable, end of the period	785	15.0

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	Issued in 2007	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	5,079	\$ 32.6
Granted	-	-
Exercised	-	-
Expired	-	-
Balance, end of the period	<u>5,079</u>	29.9
Exercisable, end of the period	<u>5,079</u>	29.9

C. For the nine months ended September 30, 2014 and 2013, the weighted-average exercise price of stock option on the date of exercise amounted to \$20.21 and \$25.96 per share, respectively.

D. The expenses resulting from the share-based payment transactions were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
	Equity-settled	\$ <u>24,711</u>	<u>87</u>	<u>40,149</u>

(23) Earnings per share

The basic earnings per share and diluted earnings per shares were calculated as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
	Basic earnings per share			
Profit attributable to ordinary shareholders	\$ <u>4,747,657</u>	<u>2,477,564</u>	<u>8,977,549</u>	<u>6,175,790</u>
Weighted-average number of ordinary shares	<u>2,336,004</u>	<u>2,292,801</u>	<u>2,325,249</u>	<u>2,289,667</u>
	\$ <u>2.03</u>	<u>1.08</u>	<u>3.86</u>	<u>2.70</u>

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	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
Diluted earnings per share				
Net profit or loss for the period	\$ 4,747,657	2,477,564	8,977,549	6,175,790
Effect of potentially dilutive ordinary shares				
Effect of convertible bonds	256,308	(1,127,192)	-	294,330
Profit attributable to ordinary shareholders (diluted)	<u>\$ 5,003,965</u>	<u>1,350,372</u>	<u>8,977,549</u>	<u>6,470,120</u>
Weighted-average number of ordinary shares	2,336,004	2,292,801	2,325,249	2,289,667
Effect of potentially dilutive ordinary shares				
Effect of employee stock bonus	14,429	13,412	24,384	16,986
Effect of employee stock option	1,458	10,572	981	11,594
Effect of convertible bonds	205,664	214,726	-	214,726
Weighted-average number of ordinary shares (diluted)	<u>2,557,555</u>	<u>2,531,511</u>	<u>2,350,614</u>	<u>2,532,973</u>
	<u>\$ 1.96</u>	<u>0.53</u>	<u>3.82</u>	<u>2.55</u>

For the nine months ended September 30, 2014, convertible bonds of \$2,734,002 were not included in the calculation of weighted-average number of shares (diluted) as they were not dilutive.

(24) Revenue

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
Sale of goods	\$ 230,700,186	250,472,713	651,828,064	676,989,998
Others	6,003,100	3,504,802	15,964,432	6,802,860
	<u>\$ 236,703,286</u>	<u>253,977,515</u>	<u>667,792,496</u>	<u>683,792,858</u>

(25) Non-operating income and expenses

A. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
Interest income	\$ 442,325	195,117	1,412,973	559,062
Subsidy income	148,563	285,725	379,424	507,264
Rental income	84,547	72,685	195,163	187,521
Technical service income	66,071	104,818	200,915	367,047
Other income	43,806	119,068	160,549	275,289
	<u>\$ 785,312</u>	<u>777,413</u>	<u>2,349,024</u>	<u>1,896,183</u>

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B. Other gains and losses

	For the Three Months		For the Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Gains on reversal of uncollectable account	\$ 13,507	(27,183)	19,317	14,203
Losses on disposal of property, plant and equipment	(109,671)	(52,010)	(233,697)	(185,430)
Gains (losses) on disposals of investments	107,482	(13,044)	209,052	29,057
Foreign exchange gains (losses)	466,992	249,221	(282,850)	1,360,570
Reversal of impairment loss recognized in profit or loss	52,290	42,160	88,560	187,615
Net gains (losses) on evaluation of financial assets (liabilities) measured at fair value through profit or loss	16,872	1,142,248	(2,498,197)	153,977
	<u>\$ 547,472</u>	<u>1,341,392</u>	<u>(2,697,815)</u>	<u>1,559,992</u>

C. Finance costs

	For the Three Months		For the Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Interest expenses	\$ 219,077	219,314	807,819	701,324
Interest expense capitalization	-	-	-	(2,135)
Finance expense – bank fees	38,854	60,776	148,182	159,133
	<u>\$ 257,931</u>	<u>280,090</u>	<u>956,001</u>	<u>858,322</u>
Capitalization rate	<u>-</u>	<u>-</u>	<u>-</u>	<u>2.198%</u>

(26) Adjustments to other comprehensive income

	For the Three Months		For the Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Net fair value change in available-for-sale financial assets recognized in:				
Other comprehensive income	\$ 669,042	(46,763)	918,256	(72,716)
Profit or loss	7,155	13,038	41,773	(31,226)
Net fair value change recognized in other comprehensive income	<u>\$ 676,197</u>	<u>(33,725)</u>	<u>960,029</u>	<u>(103,942)</u>

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(27) Financial instruments

For the nine months ended September 30, 2014 and 2013, there were no significant changes in fair value of financial instrument and exposures to credit risk, liquidity risk and market risk, except for the following. Please refer to Note 6(26) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

A. Credit risk

(a) Exposure to credit risk

As of September 30, 2014, December 31, 2013, and September 30, 2013, the Group's credit exposure arose from accounts receivable from its top three customers, which amounted to \$53,894,964, \$98,762,845 and \$104,606,580, respectively.

(b) Impairment losses

Aging analysis of notes and accounts receivable and the receivables on the balance sheet date were as follows:

	September 30, 2014	December 31, 2013	September 30, 2013
Current (not past due)	\$ 124,532,098	127,662,246	126,943,185
Past due 0 - 30 days	2,997,574	5,321,893	4,116,847
Past due 31 - 120 days	522,870	316,448	1,425,537
Past due 121 - 365 days	97,709	1,704,750	817,493
Past due more than 1 year	1,834,424	339,721	473,765
	<u>\$ 129,984,675</u>	<u>135,345,058</u>	<u>133,776,827</u>

The movements in the allowance for impairment with respect to the receivables during the period were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2014	\$ 71,096	2,038,457	2,109,553
(Reversal of) impairment loss	3	(63,818)	(63,815)
Written off unrecoverable amount	(4,650)	-	(4,650)
Foreign exchange loss	2,489	33,501	35,990
Others	-	(38,211)	(38,211)
Balance on September 30, 2014	<u>\$ 68,938</u>	<u>1,969,929</u>	<u>2,038,867</u>

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	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2013	\$ 66,928	619,163	686,091
(Reversal of) impairment loss	(15,088)	1,140,941	1,125,853
Foreign exchange loss (gain)	946	(2,826)	(1,880)
Balance on September 30, 2013	\$ 52,786	1,757,278	1,810,064

B. Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payment and the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
September 30, 2014					
Non-derivative financial liabilities					
Secured bank loans	\$ 805,501	805,501	244,837	162,534	398,130
Unsecured bank loans	37,631,856	37,631,856	22,839,701	1,404,431	13,387,724
Unsecured convertible bonds	7,083,403	7,083,403	7,083,403	-	-
Non-interest bearing liabilities	197,422,357	197,422,357	197,422,357	-	-
Derivative financial liabilities					
Overseas convertible bonds — conversion options	2,112,241	2,112,241	2,112,241	-	-
Forward exchange contract —outflow	24,168	24,168	24,168	-	-
	\$ 245,079,526	245,079,526	229,726,707	1,566,965	13,785,854
December 31, 2013					
Non-derivative financial liabilities					
Secured bank loans	\$ 892,662	892,662	282,490	198,983	411,189
Unsecured bank loans	51,755,199	51,755,199	31,751,287	6,765,613	13,238,299
Unsecured convertible bonds	8,116,490	8,116,490	-	8,116,490	-
Non-interest bearing liabilities	187,100,868	187,100,868	187,100,868	-	-
Derivative financial liabilities					
Overseas convertible bonds — conversion options	235,162	235,162	-	235,162	-
Forward exchange contracts and others — outflow	7,443	7,443	7,443	-	-
	\$ 248,107,824	248,107,824	219,142,088	15,316,248	13,649,488

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
September 30, 2013					
Non-derivative financial liabilities					
Secured bank loans	\$ 1,443,323	1,443,323	972,077	304,598	166,648
Unsecured bank loans	46,632,061	46,632,061	31,591,967	6,816,874	8,223,220
Unsecured convertible bonds	7,987,774	7,987,774	-	7,987,774	-
Non-interest bearing liabilities	195,691,476	195,691,476	195,691,476	-	-
Derivative financial liabilities					
Overseas convertible bonds —					
conversion options	678,632	678,632	-	678,632	-
Forward exchange					
contract —outflow	1,631	1,631	1,631	-	-
	<u>\$ 252,434,897</u>	<u>252,434,897</u>	<u>228,257,151</u>	<u>15,787,878</u>	<u>8,389,868</u>

The cash outflow of the aforesaid bank loans does not include interest expense. The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

C. Currency risk

(a) Currency risk exposure

The Group's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

		(Unit: Foreign currency/NTD in Thousands)					
		<u>September 30, 2014</u>			<u>September 30, 2013</u>		
		<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	\$	8,399,952	30.420	255,526,540	9,396,878	29.57	277,865,682
USD:CNY		5,196,960	6.1525	158,091,523	5,100,468	6.1480	150,820,839
CNY:NTD		527,260	4.9443	2,606,932	558,499	4.833	2,699,226
		<u>September 30, 2014</u>			<u>September 30, 2013</u>		
		<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:NTD		7,909,339	30.420	240,602,092	8,880,101	29.57	262,584,587
USD:CNY		7,484,892	6.1525	227,690,415	7,960,929	6.1480	235,404,671
JPY: CNY		1,173,695	0.0562	326,287	5,950,519	0.0628	1,797,652
CNY:NTD		174,177	4.9443	861,183	167,938	4.833	811,644

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	(Unit: Foreign currency/NTD in Thousands)		
	December 31, 2013		
	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	8,165,674	29.805	243,377,914
USD:CNY	5,361,939	6.0969	159,812,592
CNY: NTD	1,675,816	4.8885	8,192,227
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	8,405,776	29.805	250,534,154
USD:CNY	7,461,939	6.0969	222,403,092
JPY: CNY	837	0.058	238
CNY:NTD	151,764	4.8885	741,898

(b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, available-for-sale financial assets, loans, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of September 30, 2014 and 2013 would have decreased the after-tax net income by \$523,988 and \$673,644, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for both periods.

D. Interest rate analysis

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date.

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Group's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$53,999 and \$93,046 for the nine months ended September 30, 2014 and 2013, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable borrowing rate.

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E. Fair value of financial instruments

(a) Fair value and carrying amount

The Group considers the carrying amounts of its financial assets and financial liabilities measured at amortized cost as a reasonable approximation of fair value.

(b) Valuation techniques and assumptions used in fair value determination

The Group uses the following methods in determining the fair value of its financial assets and liabilities:

- The fair value of financial assets and liabilities traded in active markets is based on quoted market prices. These include corporate bonds from listed entities, agency bonds, listed stocks and government bonds.
- The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value of non-option derivative is determined based on the discounted cash flow analysis calculated based on the applicable yield curve through the expected life of the derivative instruments. The fair value of option derivatives is determined using option pricing models.
- The fair value of stock of unlisted company is determined using market method, under which market price is extrapolated from similar stock of a listed company.
- For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis of expected future cash flows.

(c) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows:

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

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2014				
Financial assets designated as at fair value through profit or loss				
Held-for-trading non-derivative financial assets	\$ 5,876,846	-	-	5,876,846
Available-for-sale financial assets				
Stock of listed companies	1,830,943	-	-	1,830,943
Equity investment – common share	-	208,800	-	208,800
Stock of overseas listed companies	-	495,858	-	495,858
	<u>\$ 7,707,789</u>	<u>704,658</u>	<u>-</u>	<u>8,412,447</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial liabilities	\$ -	24,168	-	24,168
Overseas convertible bonds	-	2,112,241	-	2,112,241
	<u>\$ -</u>	<u>2,136,409</u>	<u>-</u>	<u>2,136,409</u>
December 31, 2013				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	\$ -	9,665	-	9,665
Held-for-trading non-derivative financial assets	7,008,656	-	-	7,008,656
Available-for-sale financial assets				
Stock of listed companies	1,022,165	-	-	1,022,165
Equity investment – common share	-	145,800	-	145,800
Stock of overseas listed companies	-	420,043	-	420,043
	<u>\$ 8,030,821</u>	<u>575,508</u>	<u>-</u>	<u>8,606,329</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial liabilities	\$ -	7,443	-	7,443
Overseas convertible bonds	-	235,162	-	235,162
	<u>\$ -</u>	<u>242,605</u>	<u>-</u>	<u>242,605</u>
September 30, 2013				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	\$ -	16,946	-	16,946
Held-for-trading non-derivative financial assets	6,500,832	-	-	6,500,832
Available-for-sale financial assets				
Stock of listed companies	1,090,933	-	-	1,090,933
Equity investment – common share	-	192,250	-	192,250
Stock of overseas listed companies	-	378,378	-	378,378
	<u>\$ 7,591,765</u>	<u>587,574</u>	<u>-</u>	<u>8,179,339</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial liabilities	\$ -	1,631	-	1,631
Overseas convertible bonds	-	678,632	-	678,632
	<u>\$ -</u>	<u>680,263</u>	<u>-</u>	<u>680,263</u>

There have been no transfers from each level for the nine months ended September 30, 2014 and 2013.

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(28) Financial risk management

A. Overview

The nature and the extent of the Group's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Group's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes of the notes to the financial statements.

B. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has deputized managements of core business departments for developing and monitoring the Group's risk management policies. Management reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Internal Audit Department oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures and exception management, the results of which are reported to the Board of Directors.

C. Credit risk

Credit risk means the potential loss of the Group if the counterparty involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management believes that there is no significant credit risk from these transactions.

The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Group deposits cash in different financial institutions. The Group manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

The Group transacted only with the approved third parties with good financial conditions and

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reputation. For those customers with poor financial situation, the Group would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Group believes that there is no significant credit risk.

(a) Accounts receivables and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances.

Under its customer credibility evaluation policies, the Group evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant uncollectible accounts.

The major customers of the Group are concentrated in the high-tech computer industry. As the customers of the Group have good credits and profit records, the Group evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Group also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

The Group establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposure and collective loss component which the loss was incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

(b) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. As the Group deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, management believes that the Group does not have compliance issues and no significant credit risk.

(c) Guarantee

The Group's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies.

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D. Liquidity risk

Liquidity risk is a risk that the Group is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as much as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The capital and working funds of the Group are sufficient to meet its entire contractual obligations and non-hedging forward exchange contracts; therefore, management is not expecting any significant issue on liquidity risk.

The funds and marketable securities investments held by the Group have publicly quoted prices and could be sold at approximate market price. In the case of foreign currency swap contracts, management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

Equity investments recorded as financial assets carried at cost do not have reliable market prices and are expected to have liquidity risk.

E. Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group'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 acceptable parameters, while optimizing the return.

(a) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (NTD), US Dollars (USD) and Chinese Yuan (CNY). The currencies used in these transactions are denominated in NTD, EUR, USD, and CNY.

The Group's foreign currency denominated purchases and sales are denominated mainly in US dollars. This exposes the Group to the current and future foreign exchange fluctuation risk that arises from cash flows of foreign currency assets and liabilities. However, the risks may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by the foreign currency gain from purchases. In addition, the Group conducts foreign exchange activities on spot market in order to manage its foreign exchange risks.

The interest is denominated in the same currency as borrowings. Generally, borrowings

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are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without derivatives being entered into, and therefore, hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(b) Interest rate risk

The Group's interest rate risk arises from short-term and long-term loans bearing floating interest rates. Future cash flow will be affected by a change in market interest rate.

(c) Price floating risk on equity instruments

The equity securities held by the Group are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Group is exposed to the market price fluctuation risk in the equity securities market.

The Group's investment portfolios of equity instruments are reviewed regularly by management, and significant investment decision is approved by the Board of Directors.

(29) Capital management

Management believes that there were no changes in the Group's approach to the targets, policies and procedures in capital management as disclosed in the consolidated financial statements for the year ended December 31, 2013. Also, they believe that for the nine months ended September 30, 2014, there were also no changes in the Group's capital management information. Please refer to Note 6(28) of the consolidated financial statements for the year ended December 31, 2013 for other related information.

7. RELATED PARTY TRANSACTIONS

(1) The ultimate parent company

A. On April 29, 2013, the entity ("A Company") in which the Group has significant influence has disposed a portion its share holding in the Company which resulted in losing its significant influence over the Company. Therefore, A Company has become non-related parties as of the said date.

B. The Company is the ultimate parent company of the Group.

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(2) Other Related Party Transactions

A. Sale of Goods and Services to Related Parties

The amounts of significant sales transactions and outstanding balances between the Group and related parties were as follows:

	Sales			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
A Company	\$ -	-	-	21,942,101
Others	-	124	-	172,691
	<u>\$ -</u>	<u>124</u>	<u>-</u>	<u>22,114,792</u>
Receivables from Related Parties				
	September 30,	December 31,	September 30,	
	2014	2013	2013	
A Company	\$ -	-	-	-
Others	-	198	-	579
	<u>\$ -</u>	<u>198</u>	<u>-</u>	<u>579</u>

Prices charged for sales transactions with entity with A Company and its associates were not significantly different from those of non-related parties. The average sales term for notes and accounts receivables pertaining to such sales transactions ranged from one to three months. In addition, accounts receivables and accounts payables resulted from sales and purchase transactions between the Group and the A Company, who has the legal right to set-off, are offset and presented as a net amount on the balance sheet dates according to the agreements. Receivables from related parties were not secured with collaterals, and did not require provisions for bad debt expenses.

B. Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Group and related parties were as follows:

	Purchase			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
A Company	\$ -	-	-	17,046,948
Others	15,689	393,473	436,326	1,288,685
	<u>\$ 15,689</u>	<u>393,473</u>	<u>436,326</u>	<u>18,335,633</u>

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	Payables from Related Parties		
	September 30, 2014	December 31, 2013	September 30, 2013
A Company	\$ -	-	-
Others	20,223	482,670	411,543
	<u>\$ 20,223</u>	<u>482,670</u>	<u>411,543</u>

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors. The average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to four months, which is similar to that of other normal vendors.

C. Warranty repair expense paid to Related Parties

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
Others	\$ -	-	-	13,414

D. Other income and expenses from Related Parties

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
A Company	\$ -	-	-	(60,661)
Others	-	(1,989)	-	1,987
	<u>\$ -</u>	<u>(1,989)</u>	<u>-</u>	<u>(58,674)</u>

E. Rental revenue

For the three months and nine months ended September 30, 2013, the Group incurred other related party transactions of \$0 and \$5,590, respectively, which were accounted for as rental revenue. There were no significant differences between the terms of rental with related parties and those carried out with non-related parties.

F. Other related party transactions recorded as expenses

For the three months and nine months ended September 30, 2013, the Group incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$0 and \$4,813, respectively.

G. Other related party transactions accounted for as assets and liabilities in the balance sheet

	September 30, 2014	December 31, 2013	September 30, 2013
	Other receivable		
Others	\$ -	234	1
Accrued Expenses			
Others	\$ -	-	169
Other financial liabilities — current			
Others	\$ 80	1,794	183

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(3) Key management personnel compensation:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
Short-term employee benefits	\$ 144,064	199,849	396,800	447,881
Post-employment benefits	1,210	1,247	3,599	3,848
Share-based payments	10,918	17,606	27,344	48,736
	<u>\$ 156,192</u>	<u>218,702</u>	<u>427,743</u>	<u>500,465</u>

Please refer to Notes 6(21) and 6(22) for further explanations related to share-based payment transactions.

8. Pledged Assets

As of September 30, 2014, December 31, 2013 and September 30, 2013, pledged assets were as follows:

Asset	Purpose of pledge	September 30, 2014	December 31, 2013	September 30, 2013
Other financial asset	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.	\$ 44,325	75,151	74,777
Property, plant and equipment	Bank loans	2,150,325	1,980,948	1,897,864
Long-term prepaid rentals	Bank loans	11,865	11,957	-
Refundable deposits	Customs duty guarantee, custom deposits, batch declaration guarantee, and deposits for performance guarantee	48,019	35,705	33,929
		<u>\$ 2,254,534</u>	<u>2,103,761</u>	<u>2,006,570</u>

9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	September 30, 2014	December 31, 2013	September 30, 2013
EUR	\$ 2,680	2,558	2,577
JPY	3,624,112	1,569,171	4,518,612
USD	34,836	15,417	17,493

B. Promissory notes and certificates of deposit obtained for business purpose were as follows:

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	September 30, 2014	December 31, 2013	September 30, 2013
NTD	\$ 17,544	20,105	20,105

- C. As of September 30, 2014, December 31, 2013, and September 30, 2013, the significant contracts for purchase of properties by the Group amounted to \$6,175,514, \$4,393,035 and \$2,690,984 of which \$4,367,905, \$1,950,522 and \$465,867, respectively, were unpaid.
- D. As of September 30, 2014, December 31, 2013, and September 30, 2013, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$16,872,040, \$24,353,209 and \$23,021,594, respectively.
- E. As of September 30, 2014, the Group issued a tariff guarantee of \$160,883 to the bank for the purpose of importing goods.

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS:

The Anti-Chinese riots in Binh Duong Province, Vietnam on May 13, 2014 caused damaged to the Group's inventory stored in Vietnam. An estimated loss of \$141,877 was incurred and has been claimed for insurance compensation. The Group has recognized such loss under inventory loss. The Group's management is expecting to recognize the revenue after the insurance compensation claim is approved.

11. SUBSEQUENT EVENTS:

The board of directors of CASETEK HOLDINGS LIMITED approved the capital expenditures budget for purchasing equipments, buildings construction, and obtaining land use right on November 7, 2014.

12. OTHER

(1) The nature of operating costs and expenses were as follows:

By item	For the three months Ended September 30, 2014			For the three months Ended September 30, 2013		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 9,984,744	3,730,924	13,715,668	9,304,322	3,723,929	13,028,251
Health and labor insurance	891,278	194,125	1,085,403	901,427	207,109	1,108,536
Pension	940,564	169,859	1,110,423	557,851	241,234	799,085
Others	458,828	170,524	629,352	552,451	208,586	761,037
Depreciation	2,816,981	543,396	3,360,377	2,552,181	787,889	3,340,070
Amortization	6,753	42,382	49,135	73,228	70,593	143,821

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By item	For the Nine months Ended September 30, 2014			For the Nine months Ended September 30, 2013		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 25,494,341	9,524,766	35,019,107	24,296,273	9,644,717	33,940,990
Health and labor insurance	2,112,567	599,034	2,711,601	2,075,866	557,207	2,633,073
Pension	2,202,845	483,823	2,686,668	1,513,220	551,508	2,064,728
Others	1,254,392	463,372	1,717,764	1,619,231	494,071	2,113,302
Depreciation	8,651,254	1,537,824	10,189,078	8,273,410	1,716,641	9,990,051
Amortization	21,946	126,005	147,951	237,043	213,096	450,139

Above depreciations did not include depreciation in investment property which was accounted under non-operating expense as follows:

	For the Three Months ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
	Depreciation— investment property	\$ <u>2,595</u>	<u>2,595</u>	<u>7,784</u>

- (2) Seasonality of activities: The Group's operation is neither affected by seasonality nor periodicity.
- (3) Certain accounts in the consolidated financial statements as of and for the periods ended December 31, 2013 and September 30, 2013, were reclassified to conform to the presentation adopted in the consolidated financial statements as of and for the nine months ended September 30, 2014.

13. SEGMENT INFORMATION

The Group identifies the entity's operating segments based on the decision of the chief operating decision maker and perform quantitative threshold testing in accordance with IFRS 8 "Operating Segments."

For the three months and nine months ended September 30, 2014 and 2013, the Group's operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Group assesses performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

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The Group's operating segment information and reconciliation were as follows:

For the Three Months Ended September 30, 2014	DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue :				
Revenue from external customers	\$ 211,999,588	24,703,698	-	236,703,286
Intersegment revenues	434,482	4,291,069	(4,725,551)	-
Total revenue	<u>\$ 212,434,070</u>	<u>28,994,767</u>	<u>(4,725,551)</u>	<u>236,703,286</u>
Reportable segment profit or loss	<u>\$ 5,667,997</u>	<u>5,785,923</u>	<u>(3,427,666)</u>	<u>8,026,254</u>

For the Three Months Ended September 30, 2013				
Revenue :				
Revenue from external customers	\$ 231,101,204	22,876,311	-	253,977,515
Intersegment revenues	78,755	4,457,560	(4,536,315)	-
Total revenue	<u>\$ 231,179,959</u>	<u>27,333,871</u>	<u>(4,536,315)</u>	<u>253,977,515</u>
Reportable segment profit or loss	<u>\$ 2,760,693</u>	<u>4,680,104</u>	<u>(2,769,978)</u>	<u>4,670,819</u>

For the Nine Months Ended September 30, 2014				
Revenue :				
Revenue from external customers	\$ 598,120,403	69,672,093	-	667,792,496
Intersegment revenues	891,774	10,413,764	(11,305,538)	-
Total revenue	<u>\$ 599,012,177</u>	<u>80,085,857</u>	<u>(11,305,538)</u>	<u>667,792,496</u>
Reportable segment profit or loss	<u>\$ 10,961,398</u>	<u>16,334,556</u>	<u>(11,135,931)</u>	<u>16,160,023</u>

For the Nine Months Ended September 30, 2013				
Revenue :				
Revenue from external customers	\$ 616,320,593	67,472,265	-	683,792,858
Intersegment revenues	206,357	14,707,622	(14,913,979)	-
Total revenue	<u>\$ 616,526,950</u>	<u>82,179,887</u>	<u>(14,913,979)</u>	<u>683,792,858</u>
Reportable segment profit or loss	<u>\$ 6,785,745</u>	<u>15,264,160</u>	<u>(9,264,425)</u>	<u>12,785,480</u>

Reportable segment assets

Balance as of September 30, 2014	<u>\$ 340,532,742</u>	<u>204,070,410</u>	<u>(125,662,125)</u>	<u>418,941,027</u>
Balance as of December 31, 2013	<u>\$ 342,465,112</u>	<u>186,307,238</u>	<u>(112,876,826)</u>	<u>415,895,524</u>
Balance as of September 30, 2013	<u>\$ 340,381,883</u>	<u>181,911,027</u>	<u>(110,737,576)</u>	<u>411,555,334</u>