

CHENG UEI PRECISION INDUSTRY CO., LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2014 AND 2013

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. These English financial statements were translated from the financial statements originally prepared in Chinese. This English translation is solely for the readers' convenience and these financial statements do not include additional disclosures that are required for Chinese-language reports under the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
TRANSLATED FROM CHINESE-LANGUAGE

PWCR 14000083

To the Board of Directors and Stockholders of Cheng Uei Precision Industry Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cheng Uei Precision Industry Co., Ltd. and its subsidiaries as of September 30, 2014 and 2013, and the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, and of changes in stockholders' equity and of cash flows for the nine-month periods then ended, expressed in thousands of New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these financial statements based on our reviews. We did not review the financial statements of certain consolidated subsidiaries and investments accounted for using equity method, which statements reflect total assets amounting to NT\$5,649,363 thousand and NT\$5,334,860 thousand, representing 8.80% and 8.20% of the consolidated total assets as of September 30, 2014 and 2013, respectively, and total net operating revenue amounting to NT\$1,108,770 thousand, NT\$1,878,100 thousand, NT\$4,425,965 thousand and NT\$8,601,505 thousand, representing 5.31%, 7.65%, 7.12% and 11.99% of the consolidated total operating revenue for the three-month and nine-month periods then ended, respectively. Those financial statements were reviewed by independent accountants whose reports thereon have been furnished to us, and our conclusion expressed herein is based solely on the review reports of the other independent accountants.

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36, "Engagements to Review Financial Statements" in the Republic of China. A review consists principally of inquiries of company personnel 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.

As explained in Notes 4(3) and 6(7), we did not review the financial statements of certain insignificant consolidated subsidiaries and investments accounted for under equity method, which statements reflect total assets (including investments accounted for under equity method) of NT\$12,946,509 thousand and NT\$11,202,364 thousand, constituting 20.17% and 17.22% of the consolidated total assets, and total liabilities of NT\$1,202,387 thousand and NT\$1,787,449 thousand, constituting 3.16% and 4.64% of the consolidated total liabilities as of September 30, 2014 and 2013, respectively, and total comprehensive income (including share of profit (loss) and other comprehensive income (loss) of associates and joint ventures accounted for under equity method) of NT\$107,571 thousand, NT\$17,145 thousand, (NT\$38,168 thousand) and (NT\$58,464 thousand), constituting (10.26%), 2.00%, (2.71%) and (2.08%) of the consolidated total comprehensive income for the three-month and nine-month periods then ended, respectively. These amounts and the information disclosed in Note 13 were based solely on the unreviewed financial statements of these companies as of September 30, 2014 and 2013.

Based on our reviews and the review reports of other independent accountants, except for the effects of the omission of certain additional disclosures relating to the investee companies, as required by Article 13-1 of the Rules Governing the Preparation of Financial Statements by Securities Issuers and unreviewed financial statement adjustments, if any, as might have been determined to be necessary had the financial statements of subsidiaries and investee companies and the related information disclosed in Note 13 been reviewed by independent accountants as stated in the preceding paragraph, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”, IAS 34, ‘Interim Financial Reporting’, and IFRS 1, ‘First-time Adoption of International Financial Reporting Standards’, as endorsed by the Financial Supervisory Commission.

The consolidated financial statements as of and for the nine-month period ended September 30, 2014, expressed in United States (US) dollars are presented solely for the convenience of the readers and were translated from the financial statements expressed in New Taiwan dollars using the exchange rate of US\$1.00:NT\$30.420 at September 30, 2014. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers, Taiwan

November 14, 2014

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(EXPRESSED IN THOUSANDS OF DOLLARS)

(Consolidated balance sheets as of September 30, 2014 and 2013 were reviewed, not audited)

| | September 30, 2014 | | December 31, 2013 | | September 30, 2013 | | September 30, 2014 | |
|---|----------------------|------------|----------------------|------------|----------------------|------------|---------------------|----------|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | New Taiwan Dollars | | | | US Dollars | | | |
| <u>ASSETS</u> | | | | | | | | |
| <u>CURRENT ASSETS</u> | | | | | | | | |
| Cash and cash equivalents (Note 6(1)) | \$ 7,216,328 | 11 | \$ 7,917,337 | 11 | \$ 6,072,342 | 9 | \$ 237,223 | 0 |
| Financial assets at fair value through profit or loss - current (Note 6(2)) | - | - | - | - | 43,576 | - | - | - |
| Notes receivable, net | 108,826 | - | 18,075 | - | 15,625 | - | 3,577 | - |
| Accounts receivable, net (Note 6(5)) | 13,446,285 | 21 | 18,748,352 | 27 | 14,666,248 | 23 | 442,021 | 1 |
| Accounts receivable, net – related parties (Note 7) | 827,754 | 1 | 871,744 | 1 | 882,376 | 2 | 27,211 | 0 |
| Other receivables (Notes 6(5), (7) and 8) | 830,726 | 1 | 690,377 | 1 | 197,860 | - | 27,309 | 0 |
| Other receivables - related parties (Note 7) | 192,466 | - | 182,229 | - | 177,912 | - | 6,327 | - |
| Current income tax assets (Note 6(27)) | 14,732 | - | 3,931 | - | 13,105 | - | 484 | - |
| Inventories, net (Note 6(6)) | 8,736,800 | 14 | 9,833,600 | 14 | 10,583,568 | 16 | 287,206 | 0 |
| Prepayments | 667,648 | 1 | 776,812 | 1 | 664,688 | 1 | 21,948 | 0 |
| Other current assets (Note 8) | 231,400 | 1 | 215,760 | 1 | 390,538 | 1 | 7,607 | 0 |
| | 32,272,965 | 50 | 39,258,217 | 56 | 33,707,838 | 52 | 1,060,913 | 2 |
| <u>NON-CURRENT ASSETS</u> | | | | | | | | |
| Available-for-sale financial assets - non-current (Note 6(3)) | 2,934,150 | 5 | 2,160,581 | 3 | 2,225,931 | 3 | 96,455 | 0 |
| Financial assets carried at cost - non-current (Note 6(4)) | 533,000 | 1 | 33,000 | - | 34,429 | - | 17,521 | 0 |
| Investments accounted for under the equity method (Note 6(7)) | 3,503,571 | 5 | 3,631,463 | 5 | 3,808,798 | 6 | 115,173 | 0 |
| Property, plant and equipment (Note 6(8)) | 19,672,560 | 31 | 19,856,090 | 28 | 20,048,831 | 31 | 646,698 | 1 |
| Investment property, net (Note 6(9)) | 315,163 | 1 | 305,968 | 1 | 309,136 | 1 | 10,360 | 0 |
| Intangible assets (Note 6(10)) | 2,724,196 | 4 | 2,683,526 | 4 | 2,664,977 | 4 | 89,553 | 0 |
| Deferred income tax assets (Note 6(27)) | 232,187 | - | 253,197 | - | 267,180 | - | 7,633 | - |
| Other non-current assets (Notes 6(11) and 8) | 1,984,947 | 3 | 2,036,258 | 3 | 1,845,585 | 3 | 65,251 | 0 |
| | 31,899,774 | 50 | 30,960,083 | 44 | 31,204,867 | 48 | 1,048,644 | 2 |
| <u>TOTAL ASSETS</u> | <u>\$ 64,172,739</u> | <u>100</u> | <u>\$ 70,218,300</u> | <u>100</u> | <u>64,912,705</u> | <u>100</u> | <u>\$ 2,109,557</u> | <u>3</u> |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | | | | | | | |
| <u>CURRENT LIABILITIES</u> | | | | | | | | |
| Short-term borrowings (Note 6(12)) | \$ 9,900,263 | 15 | \$ 9,909,862 | 14 | \$ 12,117,967 | 19 | \$ 325,452 | 1 |
| Financial liabilities at fair value through profit or loss - current (Note 6(2)) | 530 | - | 10,338 | - | - | - | 17 | - |
| Notes payable | 7,517 | - | 726 | - | 40,238 | - | 247 | - |
| Accounts payable | 11,807,815 | 18 | 17,060,049 | 24 | 12,153,906 | 19 | 388,160 | 1 |
| Accounts payable - related parties (Note 7) | 321,707 | 1 | 419,439 | 1 | 292,345 | - | 10,576 | 0 |
| Other payables (Note 6(13)) | 4,682,986 | 7 | 5,615,456 | 8 | 5,404,330 | 8 | 153,944 | 0 |
| Income tax payable (Note 6(27)) | 242,908 | - | 735,320 | 1 | 565,375 | 1 | 7,985 | - |
| Other current liabilities (Notes 6(14) and (15)) | 993,618 | 2 | 1,039,830 | 1 | 820,452 | 1 | 32,663 | 0 |
| | 27,957,344 | 43 | 34,791,020 | 49 | 31,394,613 | 48 | 919,044 | 1 |
| <u>NON-CURRENT LIABILITIES</u> | | | | | | | | |
| Bonds payable (Note 6(14)) | - | - | - | - | 459,243 | 1 | - | - |
| Long-term borrowings (Note 6(15)) | 5,698,663 | 9 | 5,649,804 | 8 | 5,652,349 | 9 | 187,333 | 0 |
| Deferred income tax liabilities (Note 6(27)) | 1,355,583 | 2 | 861,692 | 1 | 432,909 | - | 44,562 | 0 |
| Other non-current liabilities (Notes 6(7) and (16)) | 1,165,716 | 2 | 1,167,995 | 2 | 442,186 | 1 | 38,321 | 0 |
| | 8,219,962 | 13 | 7,679,491 | 11 | 6,986,687 | 11 | 270,216 | 0 |
| <u>TOTAL LIABILITIES</u> | <u>36,177,306</u> | <u>56</u> | <u>42,470,511</u> | <u>60</u> | <u>38,381,300</u> | <u>59</u> | <u>1,189,260</u> | <u>2</u> |
| <u>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</u> | | | | | | | | |
| Common stock (Notes 6(17) and (18)) | 5,092,087 | 8 | 5,020,095 | 7 | 4,950,347 | 8 | 167,393 | 0 |
| Capital reserve (Note 6(19)) | | | | | | | | |
| Capital reserve | 9,299,551 | 14 | 9,049,199 | 13 | 8,820,197 | 13 | 305,705 | 0 |
| Retained earnings (Note 6(20)) | | | | | | | | |
| Legal reserve | 2,186,163 | 4 | 1,978,663 | 3 | 1,978,663 | 3 | 71,866 | 0 |
| Special reserve | 665,206 | 1 | 665,206 | 1 | 665,206 | 1 | 21,867 | 0 |
| Unappropriated earnings (Note 6(27)) | 5,172,015 | 8 | 5,980,533 | 8 | 5,291,866 | 8 | 170,020 | 0 |
| Other equity (Note 6(21)) | | | | | | | | |
| Other equity | 2,485,244 | 4 | 1,997,120 | 3 | 1,833,907 | 3 | 81,698 | 0 |
| Equity attributable to owners of the parent | 24,900,266 | 39 | 24,690,816 | 35 | 23,540,186 | 36 | 818,549 | 1 |
| Minority interest | 3,095,167 | 5 | 3,056,973 | 5 | 2,991,219 | 5 | 101,748 | 0 |
| <u>TOTAL STOCKHOLDERS' EQUITY</u> | <u>27,995,433</u> | <u>44</u> | <u>27,747,789</u> | <u>40</u> | <u>26,531,405</u> | <u>41</u> | <u>920,297</u> | <u>2</u> |
| Significant contingent liabilities and unrecognised contract commitments (Note 9) | | | | | | | | |
| <u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u> | <u>\$ 64,172,739</u> | <u>100</u> | <u>\$ 70,218,300</u> | <u>100</u> | <u>\$ 64,912,705</u> | <u>100</u> | <u>\$ 2,109,557</u> | |

The accompanying notes are an integral part of these consolidated financial statements.

See review report of independent accountants dated November 14, 2014.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNT)
(Unaudited)

| | For the three-month period ended September 30, 2014 | | For the three-month period ended September 30, 2013 | | For the nine-month period ended September 30, 2014 | | For the nine-month period ended September 30, 2013 | | For the nine-month period ended September 30, 2014 | |
|--|--|-------|--|-------|---|-------|---|-------|---|------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | New Taiwan Dollars | | | | | | US Dollars | | | |
| Operating Revenue (Notes 6(22) and 7) | \$ 20,850,223 | 100 | \$ 24,553,100 | 100 | \$ 62,156,157 | 100 | \$ 71,742,291 | 100 | \$ 2,043,266 | 3 |
| Operating Costs (Notes 6(6), 6(25), 6(26) and 7) | (17,905,829) | (86) | (21,827,432) | (89) | (54,946,257) | (88) | (64,216,351) | (89) | (1,806,254) | (3) |
| Gross profit | 2,944,394 | 14 | 2,725,668 | 11 | 7,209,900 | 12 | 7,525,940 | 11 | 237,012 | - |
| Operating expenses (Notes 6(25) and 6(26)) | | | | | | | | | | |
| Sales and marketing expenses | (622,592) | (3) | (549,898) | (2) | (1,907,308) | (3) | (1,951,310) | (3) | (62,699) | - |
| General and administrative expenses | (1,087,887) | (5) | (1,167,540) | (5) | (2,922,560) | (5) | (3,170,349) | (4) | (96,074) | - |
| Research and development expenses | (516,017) | (2) | (503,152) | (2) | (1,331,435) | (2) | (1,224,591) | (2) | (43,768) | - |
| Total operating expenses | (2,226,496) | (10) | (2,220,590) | (9) | (6,161,303) | (10) | (6,346,250) | (9) | (202,541) | - |
| Operating income | 717,898 | 4 | 505,078 | 2 | 1,048,597 | 2 | 1,179,690 | 2 | 34,471 | - |
| Non-operating income and expenses | | | | | | | | | | |
| Other income (Notes 6(22) and 7) | 114,433 | 1 | 102,550 | 1 | 389,844 | - | 343,601 | 1 | 12,815 | - |
| Other gains and losses (Note 6(23)) | 63,881 | - | 18,651 | - | (47,932) | - | 204,773 | - | (1,576) | - |
| Finance costs (Note 6(24)) | (75,402) | (-) | (74,123) | (-) | (224,507) | (-) | (224,267) | (-) | (7,380) | - |
| Share of profit of associates and joint ventures accounted for under equity method (Note 6(7)) | 92,091 | - | 91,898 | - | 226,925 | - | 229,285 | - | 7,460 | - |
| Total non-operating income and expenses | 195,003 | 1 | 138,976 | 1 | 344,330 | - | 553,392 | 1 | 11,319 | - |
| Income before income tax | 912,901 | 5 | 644,054 | 3 | 1,392,917 | 2 | 1,733,082 | 3 | 45,790 | - |
| Income tax expense (Note 6(27)) | (338,556) | (2) | (116,254) | (1) | (521,068) | (1) | (414,170) | (1) | (17,129) | (0) |
| Net Income | \$ 574,345 | 3 | \$ 527,800 | 2 | \$ 871,849 | 1 | \$ 1,318,912 | 2 | \$ 28,660 | (0) |
| Other comprehensive income, net | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | 578,604 | 3 | (233,900) | (1) | 155,859 | - | 509,756 | 1 | 5,124 | - |
| Unrealised gain on valuation of available-for-sale financial assets (Note 6(3)) | (17,996) | - | 535,879 | 3 | 764,765 | 1 | 1,032,987 | 1 | 25,140 | - |
| Share of other comprehensive income of associates | 32,993 | - | (11,673) | (-) | (2,039) | - | 42,372 | - | (67) | - |
| Income tax benefit (expense) related to components of other comprehensive income (Note 6(27)) | (119,870) | (1) | 41,226 | - | (384,006) | (-) | (93,835) | (-) | (12,623) | - |
| Other comprehensive income for the period, net of tax | 473,731 | 2 | 331,532 | 2 | 534,579 | 1 | 1,491,280 | 2 | 17,573 | - |
| Total comprehensive income for the period | 1,048,076 | 5 | 859,332 | 4 | 1,406,428 | 2 | 2,810,192 | 4 | 46,234 | (0) |
| Net income (loss) attributable to : | | | | | | | | | | |
| Shareholders of the parent | \$ 524,906 | 3 | \$ 591,124 | 2 | \$ 928,592 | 1 | \$ 1,386,174 | 2 | \$ 30,526 | - |
| Non-controlling interests | 49,439 | - | (63,324) | (-) | (56,743) | (-) | (67,262) | (-) | (1,865) | - |
| Total | \$ 574,345 | 3 | \$ 527,800 | 2 | \$ 871,849 | 1 | \$ 1,318,912 | 2 | \$ 28,660 | - |
| Total comprehensive income (loss) attributable to : | | | | | | | | | | |
| Shareholders of the parent | \$ 949,585 | 5 | \$ 966,035 | 4 | \$ 1,416,716 | 2 | \$ 2,901,134 | 4 | \$ 46,572 | - |
| Non-controlling interests | 98,491 | - | (106,703) | (-) | (10,288) | (-) | (90,942) | (-) | (338) | - |
| Total | \$ 1,048,076 | 5 | \$ 859,332 | 4 | \$ 1,406,428 | 2 | \$ 2,810,192 | 4 | \$ 46,234 | - |
| Basic earnings per share (in dollars) (Note 6(28)) | | | | | | | | | | |
| Net income attributable to equity holders of the Company | \$ 1.02 | | \$ 1.20 | | \$ 1.83 | | \$ 2.80 | | \$ 0.06 | |
| Diluted earnings per share (in dollars) | | | | | | | | | | |
| Net income attributable to equity holders of the Company | \$ 1.00 | | \$ 1.17 | | \$ 1.79 | | \$ 2.75 | | \$ 0.06 | |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated November 14, 2014.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF DOLLARS)
(Unaudited)

| | Equity attributable to shareholders of the parent | | | | | | | | | | |
|---|---|---------------------|---------------------|-------------------|-------------------------|--|--|---|---------------------------|----------------------|-----------|
| | Retained earnings | | | | | Exchange differences on translating foreign operations | Unrealised gain or loss from available-for-sale financial assets | Total equity attributable to shareholders of the parent | Non-controlling interests | Total equity | |
| For the nine-month period ended September 30, 2013 (New Taiwan Dollars) | Common stock | Capital reserve | Legal reserve | Special reserve | Unappropriated earnings | | | | | | |
| Balance at January 1, 2013 | \$ 4,936,829 | \$ 8,749,703 | \$ 1,783,262 | \$ 665,206 | \$ 5,888,643 | (\$ 330,227) | \$ 649,174 | \$ 22,342,591 | \$ 3,185,395 | \$ 25,527,986 | |
| Employee stock option (Notes 6(17) and (18)) | 13,518 | 49,376 | - | - | - | - | - | 62,894 | - | 62,894 | |
| Appropriations of 2012 earnings (Note 6(20)) | | | | | | | | | | | |
| Legal reserve | - | - | 195,400 | - (| 195,400) | - | - | - | - | - | |
| Cash dividends | - | - | - | - (| 1,235,415) | - | - (| 1,235,415) | - (| 1,235,415) | |
| Adjustments to share of changes in equity of associates and joint ventures (Note 6(19)) | - | 13,613 | - | - | - | - | - | 13,613 | - | 13,613 | |
| Differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries (Note 6(19)) | - | 7,505 | - | - | - | - | - | 7,505 | - | 7,505 | |
| Change in non-controlling interest | - | - | - | - | - | - | - | - (| 103,234) | (| 103,234) |
| Adjustments arising from changes in percentage of ownership in subsidiaries (Note 6(29)) | - | - | - | - (| 552,136) | - | - (| 552,136) | - (| 552,136) | |
| Other comprehensive income for the period (Note 6(21)) | - | - | - | - | - | 483,728 | 1,031,232 | 1,514,960 | (| 23,680) | 1,491,280 |
| Net income for the period | - | - | - | - | 1,386,174 | - | - | 1,386,174 | (| 67,262) | 1,318,912 |
| Balance at September 30, 2013 | <u>\$ 4,950,347</u> | <u>\$ 8,820,197</u> | <u>\$ 1,978,662</u> | <u>\$ 665,206</u> | <u>\$ 5,291,866</u> | <u>\$ 153,501</u> | <u>\$ 1,680,406</u> | <u>\$ 23,540,186</u> | <u>\$ 2,991,219</u> | <u>\$ 26,531,405</u> | |
| For the nine-month period ended September 30, 2014 (New Taiwan Dollars) | | | | | | | | | | | |
| Balance at January 1, 2014 | \$ 5,020,095 | \$ 9,049,199 | \$ 1,978,663 | \$ 665,206 | \$ 5,980,533 | \$ 431,720 | \$ 1,565,400 | \$ 24,690,816 | \$ 3,056,973 | \$ 27,747,789 | |
| Employee stock option (Notes 6(17) and (18)) | 71,992 | 248,906 | - | - | - | - | - | 320,898 | - | 320,898 | |
| Appropriations of 2013 earnings (Note 6(20)) | | | | | | | | | | | |
| Legal reserve | - | - | 207,500 | - (| 207,500) | - | - | - | - | - | |
| Cash dividends | - | - | - | - (| 1,518,197) | - | (| 1,518,197) | - (| 1,518,197) | |
| Adjustments to share of changes in equity of associates and joint ventures (Note 6(19)) | - | 1,470 | - | - | - | - | - | 1,470 | - | 1,470 | |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | 48,482 | 48,482 | |
| Adjustments arising from changes in percentage of ownership in subsidiaries (Note 6(29)) | - (| 24) | - | - (| 11,413) | - | - (| 11,437) | - (| 11,437) | |
| Other comprehensive income for the period (Note 6(21)) | - | - | - | - | - | 82,135 | 405,989 | 488,124 | 46,455 | 534,579 | |
| Net income for the period | - | - | - | - | 928,592 | - | - | 928,592 | (| 56,743) | 871,849 |
| Balance at September 30, 2014 | <u>\$ 5,092,087</u> | <u>\$ 9,299,551</u> | <u>\$ 2,186,163</u> | <u>\$ 665,206</u> | <u>\$ 5,172,015</u> | <u>\$ 513,855</u> | <u>\$ 1,971,389</u> | <u>\$ 24,900,266</u> | <u>\$ 3,095,167</u> | <u>\$ 27,995,433</u> | |

(Continued)

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF DOLLARS)
(Unaudited)

| | Equity attributable to shareholders of the parent | | | | | | | | | | |
|--|---|-----------------|---------------|-----------------|-------------------------|--|--|---|---------------------------|--------------|--|
| | Retained earnings | | | | | | | | | | |
| | Common stock | Capital reserve | Legal reserve | Special reserve | Unappropriated earnings | Exchange differences on translating foreign operations | Unrealised gain or loss from available-for-sale financial assets | Total equity attributable to shareholders of the parent | Non-controlling interests | Total equity | |
| <u>For the nine-month period ended September 30, 2014 (US Dollars)</u> | | | | | | | | | | | |
| Balance at January 1, 2014 | \$ 165,026 | \$ 297,475 | \$ 65,045 | \$ 21,867 | \$ 196,599 | \$ 14,192 | \$ 51,460 | \$ 811,664 | \$ 100,492 | \$ 912,156 | |
| Employee stock option (Notes 6(17) and (18)) | 2,367 | 8,182 | - | - | - | - | - | 10,549 | - | 10,549 | |
| Appropriations of 2013 earnings (Note 6(20)) | | | | | | | | | | | |
| Legal reserve | - | - | 6,821 | - (| 6,821) | - | - | - | - | - | |
| Cash dividends | - | - | - | - (| 49,908) | - | - (| 49,908) | - (| 49,908) | |
| Adjustments to share of changes in equity of associates and joint ventures (Note 6(19)) | - | 48 | - | - | - | - | - | 48 | - | 48 | |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | 1,594 | 1,594 | |
| Adjustments arising from changes in percentage of ownership in subsidiaries (Note 6(29)) | - (| 1) | - | - (| 375) | - | - (| 376) | - (| 376) | |
| Other comprehensive income for the period (Note 6(21)) | - | - | - | - | - | 2,700 | 13,346 | 16,046 | 1,527 | 17,573 | |
| Net income for the period | - | - | - | - | 30,526 | - | - | 30,526 | (1,865) | 28,660 | |
| Balance at September 30, 2014 | \$ 167,393 | \$ 305,705 | \$ 71,866 | \$ 21,867 | \$ 170,020 | \$ 16,892 | \$ 64,806 | \$ 818,549 | \$ 101,748 | \$ 920,297 | |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated November 14, 2014.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF DOLLARS)
(Unaudited)

| | For the nine-month periods ended September 30, | | |
|---|--|--------------|------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax | \$ 1,392,917 | \$ 1,733,082 | \$ 45,790 |
| Adjustments to reconcile income before income tax to net cash provided by operating activities: | | | |
| Income and expenses having no effect on cash flows | | | |
| Depreciation (including investment property) (Notes 6(8)(9)(25)) | 2,496,482 | 2,722,673 | 82,067 |
| Amortisation (including long-term prepaid rent amortisation) (Notes 6(10)(11)(25)) | 53,458 | 51,592 | 1,757 |
| Write-off of allowance for doubtful accounts recognised as other income (Note 6(5)) | (60,620) | (34,888) | (1,993) |
| Interest expense (Note 6(24)) | 224,507 | 224,267 | 7,380 |
| Interest income (Note 6(22)) | (56,191) | (48,070) | (1,847) |
| Net loss on financial assets at fair value through profit or loss (Note 6(2)) | 530 | (13,576) | 17 |
| Share of profit or loss of associates accounted for using the equity method | (226,925) | (229,285) | (7,460) |
| Loss on disposal of property, plant and equipment (Note 6(23)) | 10,232 | 80,293 | 336 |
| Loss on disposal of investments (Note 6(23)) | (27,463) | (35,400) | (903) |
| (Reversal of) loss on impairment of non-financial assets (Note 6(8)) | (15) | (1,400) | - |
| Changes in assets/liabilities relating to operating activities | | | |
| Net changes in operating assets | | | |
| Notes receivable | (30,751) | (9,116) | (1,011) |
| Accounts receivable | 5,362,687 | 3,465,373 | 176,288 |
| Accounts receivable from related parties | 43,990 | (523,787) | 1,446 |
| Other receivables | (140,349) | 759,334 | (4,614) |
| Other receivables from related parties | (10,237) | 144,231 | (337) |
| Inventories | 1,096,800 | (1,338,551) | 36,055 |
| Prepayments | 109,164 | 8,591 | 3,589 |
| Other current assets | (15,640) | (3,974) | (514) |
| Other non-current assets | 79,846 | 378,350 | 2,625 |
| Net changes in liabilities relating to operating activities | | | |
| Financial liabilities at fair value through profit or loss - current | (10,338) | 8,191 | (340) |
| Notes payable | 6,791 | 39,509 | 223 |
| Accounts payable | (5,252,234) | (1,765,083) | (172,657) |
| Accounts payables to related parties | (97,732) | (75,298) | (3,213) |
| Other payables | (638,052) | 489,430 | (20,975) |
| Other current liabilities | 68,968 | (288,345) | 2,267 |
| Cash generated from operations | 4,379,825 | 5,738,143 | 143,978 |
| Interest received | 56,191 | 48,070 | 1,847 |
| Dividend received | 196,057 | 163,968 | 6,445 |
| Interest paid | (231,235) | (228,139) | (7,601) |
| Income tax paid | (953,755) | (634,924) | (31,353) |
| Net cash provided by operating activities | 3,447,083 | 5,087,118 | 113,316 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisitions of financial assets at fair value through profit or loss | \$ - | (\$ 30,000) | \$ - |
| Proceeds from disposal of financial assets at fair value through profit or loss | - | 800,577 | - |
| Proceeds from disposal of available-for-sale financial assets | (1,240) | 19,378 | (41) |
| Acquisitions of financial assets measured at cost (Note 6(4)) | (500,000) | (3,000) | (16,437) |
| Return of share capital from investees accounted for using equity method (Note 6(7)) | 43,104 | - | 1,417 |
| Disposal of subsidiary company | - | 7,907 | - |
| Acquisitions of property, plant and equipment (Note 6(31)) | (2,678,109) | (3,947,845) | (88,038) |
| Disposal of property, plant and equipment | 199,814 | 342,146 | 6,569 |
| Acquisitions of intangible assets (Note 6(10)) | (36,646) | (18,110) | (1,205) |
| Disposal of intangible assets | 34 | 2,663 | 1 |
| Changes in prepayment for equipment | 42,458 | 162,068 | 1,396 |
| Net cash used in investing activities | (2,930,585) | (2,664,216) | (96,337) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Decrease in short-term borrowings | (9,599) | (2,735,439) | (316) |
| Increase in long-term borrowings | - | 5,525,151 | - |
| Repayment of long-term borrowings | (66,321) | (5,800,000) | (2,180) |
| Proceeds from exercise of employee stock options | 320,898 | 62,894 | 10,549 |
| Acquisitions of equity of subsidiary | (10,440) | (552,136) | (343) |
| Cash dividend distribution | (1,518,197) | (1,235,415) | (49,908) |
| Changes in non-controlling interests | 94,937 | (126,914) | 3,121 |
| Net cash used in financing activities | (1,188,722) | (4,861,859) | (39,077) |
| Effect of change in exchange rates | (28,785) | (68,055) | (946) |
| Net decrease in cash and cash equivalents | (701,009) | (2,507,012) | (23,044) |
| Cash and cash equivalents, beginning of period (Note 6(1)) | 7,917,337 | 8,579,354 | 260,267 |
| Cash and cash equivalents, end of period (Note 6(1)) | \$ 7,216,328 | \$ 6,072,342 | \$ 237,223 |

The accompanying notes are an integral part of these consolidated financial statements.

See review report of independent accountants dated November 14, 2014.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014 AND 2013

(EXPRESSED IN THOUSANDS OF DOLLARS,

EXCEPT AS OTHERWISE INDICATED)

(Unaudited)

1. HISTORY AND ORGANIZATION

Cheng Uei Precision Industry Co., Ltd. (the "Company") was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) on July 14, 1986. The Company engages in the manufacture of cable assemblies, connectors, battery packs, and power modules. Effective September 1999, the shares of the Company were listed on the Taiwan Stock Exchange.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on November 14, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, 'Financial instruments' but including the "Regulations Governing the Preparation of Financial Reports by Securities Issuers " effective January 1, 2015) as endorsed by the FSC in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

| <u>New Standards, Interpretations and Amendments</u> | <u>IASB Effective Date</u> |
|---|---|
| Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1) | July 1, 2010 |
| Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1) | July 1, 2011 |
| Government loans (amendment to IFRS 1) | January 1, 2013 |
| Disclosures — Transfers of financial assets (amendment to IFRS 7) | July 1, 2011 |
| Disclosures — Offsetting financial assets and financial liabilities (amendment to IFRS 7) | January 1, 2013 |
| IFRS 10, ‘Consolidated financial statements’ | January 1, 2013 (Investment entities: January 1, 2014) |
| IFRS 11, ‘Joint arrangements’ | January 1, 2013 |
| IFRS 12, ‘Disclosure of interests in other entities’ | January 1, 2013 |
| IFRS 13, ‘Fair value measurement’ | January 1, 2013 |
| Presentation of items of other comprehensive income (amendment to IAS 1) | July 1, 2012 |
| Deferred tax: recovery of underlying assets (amendment to IAS 12) | January 1, 2012 |
| IAS 19 (revised), ‘Employee benefits’ | January 1, 2013 |
| IAS 27, ‘Separate financial statements’ (as amended in 2011) | January 1, 2013 |
| IAS 28, ‘Investments in associates and joint ventures’ (as amended in 2011) | January 1, 2013 |
| Offsetting financial assets and financial liabilities (amendment to IAS 32) | January 1, 2014 |
| IFRIC 20, ‘Stripping costs in the production phase of a surface mine’ | January 1, 2013 |
| Improvements to IFRSs 2010 | January 1, 2011 |
| Improvements to IFRSs 2009—2011 | January 1, 2013 |

Based on the Group's assessment, the adoption of the 2013 version of IFRS has no significant impact on the consolidated financial statements of the Group, except for the following:

A. IAS 19 (revised), 'Employee benefits'

The revised standard eliminates the corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service cost will be recognised immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expense, is recognised in other comprehensive income. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs. Additional disclosures are required to present how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

B. IFRS 10, 'Consolidated financial statements'

The standard replaces the requirements relating to consolidated financial statements in IAS 27, 'Consolidated and separate financial statements' and IAS 27 therefore is renamed 'Separate financial statements'; the standard also supersedes requirements in SIC-12, 'Consolidation-special purpose entities'. The standard defines the principle of control that an investor controls an investee if and only if the investor has all three elements of control.

C. IFRS 11, 'Joint arrangements'

The standard replaces IAS 31, 'Interests in joint ventures' and eliminates the policy choice of proportionate consolidation for joint ventures. When deciding the types of joint arrangements—joint operations or joint ventures, the entity should assess the contractual rights and obligations instead of the legal form only.

D. IAS 1, 'Presentation of financial statements'

The amendment requires entities to separate items presented in OCI classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Group will adjust its presentation of the statement of comprehensive income.

E. IFRS 12, 'Disclosure of interests in other entities'

The standard integrates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will disclose additional information about its interests in consolidated entities and unconsolidated entities accordingly.

F. IFRS 13, 'Fair value measurement'

The standard defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. Based on the Group's assessment, the adoption of the standard has no significant impact on its consolidated financial statements, and the Group will disclose additional information about fair value measurements accordingly.

G. IAS 28, 'Investments in associates and joint ventures' (as amended in 2011)

As consequential amendments resulting from the issuance of IFRS 11, 'Joint arrangements', IAS 28 (revised) sets out the requirements for the application of the equity method when accounting for investments in joint ventures. A portion of an investment in an associate or a joint venture that meets the criteria to be classified as held for sale shall be measured at fair value less costs to sell. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. When an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

H. Improvements to IFRSs 2009-2011: Amendment to IAS 16, 'Property, plant and equipment'

The amendment clarifies that spare parts, stand-by equipment and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.

I. Disclosures - Transfers of financial assets (amendment to IFRS 7)

The amendment enhances qualitative and quantitative disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in transferred assets, existing at the reporting date.

Based on the Group's assessment, the adoption of the amendment will require the Group to include qualitative and quantitative disclosures for all transferred financial assets.

For the above items, the Group is assessing their impact on the consolidated financial statements and will disclose the affected amounts accordingly.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRS as endorsed by the FSC:

| <u>New Standards, Interpretations and Amendments</u> | <u>IASB Effective Date</u> |
|--|----------------------------|
| IFRS 9, 'Financial instruments' | Not yet been decided |
| Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28) | January 1, 2016 |
| Accounting for acquisition of interests in joint operations (amendments to IFRS 11) | January 1, 2016 |
| IFRS 14, 'Regulatory deferral accounts' | January 1, 2016 |
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2017 |
| Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38) | January 1, 2016 |
| Agriculture: bearer plants (amendments to IAS 16 and IAS 41) | January 1, 2016 |
| Services related contributions from employees or third parties (amendments to IAS 19R) | July 1, 2014 |
| Equity method in separate financial statements (amendments to IAS 27) | January 1, 2016 |
| Recoverable amount disclosures for non-financial assets (amendments to IAS 36) | January 1, 2014 |
| Novation of derivatives and continuation of hedge accounting (amendments to IAS 39) | January 1, 2014 |
| IFRIC 21, 'Levies' | January 1, 2014 |
| Improvements to IFRSs 2010-2012 | July 1, 2014 |
| Improvements to IFRSs 2011-2013 | July 1, 2014 |
| Improvements to IFRSs 2012-2014 | January 1, 2016 |

The Group is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and IAS 34, ‘Interim Financial Reporting’ as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- b) Available-for-sale financial assets measured at fair value.
- c) Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised past service cost and present value of defined benefit obligations.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. In general, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The existence and effect of potential voting rights that are currently exercisable or convertible have been considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
- b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of. Conversely, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be transferred directly to retained earnings, if such gains or losses would be transferred directly to retained earnings when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|-------------|--|--|-----------------------|----------------------|-----------------------|-------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| The Company | CU INTERNATIONAL LTD. (CU) | Manufacture of electronic telecommunication components and holding company | 100 | 100 | 100 | Note 8 |
| The Company | CULINK INTERNATIONAL LTD. (CULINK) | General investments holding | 100 | 100 | 100 | |
| The Company | Foxlink International Investment Ltd. (FII) | Holding company | 100 | 100 | 100 | Note 8 |
| The Company | Fu Uei International Investment Ltd. (FUII) | Holding company | 100 | 100 | 100 | Note 8 |
| The Company | Darts Technologies Corporation (Darts) | Manufacture of electronic telecommunication and wireless components | 97 | 97 | 97 | |
| The Company | Foxlink (Vietnam) Inc. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| The Company | Du Precision Industry Co., Ltd. (Du Precision) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| The Company | Foxlink Technology Ltd. (Foxlink Tech) | Holding company | 100 | 100 | 100 | |
| The Company | SOLTERAS INC. (SOLTERAS) | Manufacture of electronic telecommunication components | 47.77 | 47.77 | 47.77 | |
| The Company | Suntain Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | Note 3 |
| CU | Fu Gang Electronics (Dong Guan) Ltd. (FGEDG) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | Note 8 |

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|----------|--|---|-----------------------|----------------------|-----------------------|-------------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| CU | NEW START INDUSTRIES LTD. (NEW START) | Holding company | 100 | 100 | 100 | |
| CU | Fu Gang Electronics (Kun Shan) Ltd. (FGEKS) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | Note 8 |
| CU | Dong Guan Fu Shi Chang Co., Ltd. (FSC) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| CU | Foxlink Electronics (Dong Guan) Co., Ltd. (FEDG) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| CU | Foxlink Electronics (Tian Jin) Ltd. (FETJ) | Manufacture of electronic telecommunication components | 25 | 25 | 25 | |
| CU | Dong Guan Fu Qiang Electronics Ltd. (DGFQ) | Manufacture of electronic telecommunication components | 88.44 | 100 | 100 | Note 5, Note 8 |
| CU | Neosonic Energy Technology (Tianjin) Ltd. (NE) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| CU | Kunshan Fushijing Electronics Co., Ltd. (KFE) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| CU | FUTURE VICTORY LTD. (FUTURE VICTORY) | Holding company | 100 | 100 | 100 | |
| CU | SOLTERAS LIMITED | General investments holding | 100 | 100 | 100 | |
| CU | Fushineng Electronics (Kun Shan) Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|----------|---|---|-----------------------|----------------------|-----------------------|-------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| CU | Fu Shi Xiang Research & Development Center (Kun Shan) Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| CU | Fu Gang Electronics (Nan Chang) Co., Ltd. (FENC) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| CU | FUGANG ELECTRIC (YANCHENG) CO., LTD. | Manufacture of electronic telecommunication components | 80 | 80 | 80 | |
| CU | FUQIANG ELECTRIC (YANCHENG) CO., LTD. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| CU | FUGANG ELECTRIC (MAANSHAN) CO., LTD. | Manufacture of electronic telecommunication components | 100 | 100 | - | Note 3 |
| CU | Kunshan Fugang Investment Co., Ltd. | General investments holding | 100 | - | - | Note 1 |
| NEW STAR | Fu Gang Electronics (Tian Jin) Ltd. (FGETJ) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| NEW STAR | Foxlink Tianjin Co., Ltd. (Foxlink Tianjin) | Manufacture of electronic telecommunication components | 75 | 75 | 75 | |
| NEW STAR | SOLTERAS INC. (SOLTERAS) | Manufacture of electronic telecommunication components | 26.64 | 26.64 | 26.64 | |
| FGETJ | Shang Hai World Circuit Technology Co., Ltd. (SHWCT) | Manufacture of electronic telecommunication components | 46.93 | 46.93 | 46.93 | |
| CULINK | PACIFIC WEALTH LIMITED (PACIFIC WEALTH) | General investments holding | 100 | 100 | 100 | |

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|-------------------------------------|--|---|-----------------------|----------------------|-----------------------|-----------------------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| PACIFIC WEALTH | FOXLINK INTERNATIONAL INC. (FOXLINK) | Sales agent | 100 | 100 | 100 | Note 8 |
| PACIFIC WEALTH | MICROLINK INTERNATIONAL INC. (MICROLINK) | Sales agent | - | 100 | 100 | Note 2 |
| Kunshan Fugang Investment Co., Ltd. | Dong Guan Fu Qiang Electronics Ltd. (DGFQ) | Manufacture of electronic telecommunication components | 11.56 | - | - | Note 1, Note 5 Note 8 |
| FII | Vegamedia Technology Co., Ltd. (VT) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| FII | World Circuit Technology Co., Ltd. (WCT) | Manufacture of electronic telecommunication components and flexible printed circuit | 69.56 | 69.56 | 69.56 | |
| FII | Proconn Technology Co., Ltd. (PROCONN) | Manufacture of electronic telecommunication components | 50.03 | 50.03 | 50.03 | |
| FII | POWER QUOTIENT INTERNATIONAL CO., LTD. (PQI) | Manufacture of electronic telecommunication components | 9.22 | 9.22 | 9.22 | Note 6, Note 8 |
| WCT | VALUE SUCCESS LIMITED (VALUE SUCCESS) | Holding company | 100 | 100 | 100 | |
| VALUE SUCCESS | CAPITAL GUARDIAN LIMITED (CAPITAL) | Holding company | 100 | 100 | 100 | |
| CAPITAL | Capital Guardian Limited (Capital) | Holding company | 100 | 100 | 100 | |
| WCTHK | Shang Hai World Circuit Technology Co., Ltd. (SHWCT) | Manufacture of electronic telecommunication components | 53.07 | 53.07 | 53.07 | |
| Darts | BENEFIT RIGHT LTD. (BENEFIT) | Holding company | 100 | 100 | 100 | |

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|------------------------------------|---|--|-----------------------|----------------------|-----------------------|----------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| FUTURE VICTORY | Darts Technologies (Shang Hai) Co., Ltd. (DTSH) | Research and development of telecommunication components | 100 | 100 | 100 | |
| Du Precision | CE LINK INTERNATIONAL LTD. (CELINK) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| SOLTERAS LIMITED | SOLTERAS INC. (SOLTERAS) | Manufacture of electronic telecommunication components | 25.59 | 25.59 | 25.59 | |
| FUII | Studio A Inc. (Studio) | Manufacture of electronic telecommunication components | 51 | 51 | 51 | Note 8 |
| FUII | Va Product Inc. | Manufacture of electronic telecommunication components | 63.25 | 51 | 51 | |
| FUII | Proconn Technology Co., Ltd. (PROCONN) | Manufacture of electronic telecommunication components | 1.30 | 1.30 | 1.30 | |
| FUII | Zhi De Investment Co., Ltd. (Zhi De Investment) | General investments holding | 100 | 100 | 100 | Note 8 |
| FUII | Shinfox Corporation Ltd. (Shinfox) | Mechanical installation and piping engineering | 64.16 | 64.16 | 64.16 | |
| Zhi De Investment | POWER QUOTIENT INTERNATIONAL CO., LTD. (PQI) | Manufacture of electronic telecommunication components | 33.34 | 33.34 | 33.34 | Note 6, Note 8 |
| Shinfox Corporation Ltd. (Shinfox) | World Wide Famous Corp. | Energy service management | 100 | 100 | 100 | |
| Shinfox Corporation Ltd. (Shinfox) | FOXWELL ENERGY CORPORATION LTD. | Energy service management | 100 | 100 | 100 | Note 3 |
| Shinfox Corporation Ltd. (Shinfox) | SHINFOX ENERGY INTERNATIONAL INC (SHINFOX | Energy service management | 40 | - | - | Note 1 |

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|------------------------------------|---|--|-----------------------|----------------------|-----------------------|-------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| | | ENERGY). | | | | |
| Shinfox Corporation Ltd. (Shinfox) | KINMEN GAS CO., LTD. | Energy service management | 100 | - | - | Note 1 |
| WORLD WIDE | Kunshan Xing Wei Installation Engineering Co., Ltd. | Mechanical installation and piping engineering | 100 | - | - | Note 1 |
| PROCONN | Advance Electronic Ltd. (Advance Electronic) | General investments holding | 100 | 100 | 100 | |
| PROCONN | BYFORD INTERNATIONAL LTD. (BYFORD) | General international trade | 100 | 100 | 100 | |
| PROCONN | MEDIA UNIVERSE INC. (MEDIA UNIVERSE) | General international trade | 100 | 100 | 100 | |
| ADVANCE ELECTRONIC | PROCONN TECHNOLOGY CO., LTD. (PROCONN) | General investments holding | 100 | 100 | 100 | |
| ADVANCE ELECTRONIC | SMART TECHNOLOGY INTERNATIONAL LTD. (SMART) | General investments holding | 100 | 100 | 100 | |
| PROCONN | Proconn Technology (Shenzhen) Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| SMART | Proconn Technology (Suzhou) Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| Studio A Inc. | Jing Sheng Technology Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| Studio A Inc. | Studio A Inc. (Hong Kong) | Manufacture of electronic telecommunication components | 51 | 51 | 51 | Note 8 |

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|--|---|---|-----------------------|----------------------|-----------------------|-------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| Studio A Inc. | Ashop Co., Ltd. (ASHOP) | Manufacture of electronic telecommunication components | 51 | 51 | 51 | |
| Studio A Inc. | Jing Jing Technology Co., Ltd. (Jing Jing) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| Studio A Inc. (Hong Kong) | Studio A Macau Limited | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| FGEKS | Kunshan Fugang Electronics Trading Co., Ltd. | Manufacture of electronic telecommunication components | 51 | 51 | 51 | |
| FGEKS | Kunshan Fugang Investment Management Co., Ltd. | Holding Company | 100 | 100 | 100 | Note 3 |
| Kunshan Fugang Electronics Trading Co.,Ltd | Shanghai Fugang Electric Trading Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| Kunshan Fugang Electronics Trading Co., Ltd. | Kunshan Fu Shi Yu Trading Co., Ltd. | Manufacture of electronic telecommunication components | 100 | 100 | 100 | Note 7 |
| PQI | POWER QUOTIENT INTERNATIONAL (H.K.) CO., LTD. (PQI H.K.) | Sale of electronic telecommunication components | 100 | 100 | 100 | |
| PQI | PQI JAPAN CO., LTD. (PQI JAPAN) | Sale of electronic telecommunication components | 100 | 93.87 | 93.87 | Note 1 |
| PQI | SYSCOM DEVELOPMENT CO., LTD. (SYSCOM) | Specialized investments holding | 100 | 100 | 100 | |
| PQI | APIX LIMITED (APIX) | Specialized investments holding | 100 | 100 | 100 | |
| PQI | PQI MOBILITY INC. (PQI MOBILITY) | Specialized investments holding | 100 | 100 | 100 | |

| Investor | Subsidiary | Main activity | % of shares held | | | Description |
|--------------------------|--|--|-----------------------|----------------------|-----------------------|-------------|
| | | | September 30, 2014 | December 31, 2013 | September 30, 2013 | |
| PQI | SIMTECH CO., LTD. (SIMTECH) | Manufacture of electronic telecommunication components | - | 100 | 100 | Note 2 |
| SYSCOM | POWER QUOTIENT INTERNATIONAL (SHANGHAI) CO., LTD. (PQI SHANGHAI) | Re-export business of international trade | 100 | 100 | 100 | |
| SYSCOM | PQI CORPORATION (PQI USA) | Sale of electronic telecommunication components | 100 | 100 | 100 | |
| PQI MOBILITY | POWER QUOTIENT TECHNOLOGY (SUZHOU) CO., LTD. (PQI SUZHOU) | Manufacture of electronic telecommunication components | 100 | 100 | 100 | |
| APIX Limited | SINOCITY INDUSTRIES LTD. | Sale of electronic telecommunication components | 100 | 100 | 100 | Note 4 |
| APIX Limited | Perennial Ace Limited | Sale of electronic telecommunication components | 100 | 100 | 100 | |
| SINOCITY INDUSTRIES LTD. | Sinocity Co., Ltd. | Sale of 3C products | 100 | 100 | 100 | Note 4 |

Note 1: Investment or incorporation began in 2014.

Note 2: Dissolved or liquidated in 2014.

Note 3: Investment or incorporation began in 2013.

Note 4: Sinocity Industries Ltd. and Sinocity Co., Ltd. are subsidiaries of Power Quotient International Co., Ltd. in Hong Kong and Macao, respectively, with balance sheet date of March 31. For the preparation of consolidated financial statements, Power Quotient International Co., Ltd. had required Sinocity Industries Ltd. and Sinocity Co., Ltd. as consolidated entities to prepare financial statements with balance sheet date on December 31 to conform to the balance sheet date of the consolidated financial statements.

- Note 5: Kunshan Fugang Investment Management Co., Ltd. has participated in Dong Guan Fu Qiang Electronics Ltd.'s capital increase by purchasing 11.56% of shares in Dong Guan Fu Qiang Electronics Ltd. on September 17, 2014. Kunshan Fugang Investment Management Co., Ltd. along with CU hold 100% of shares in Dong Guan Fu Qiang Electronics Ltd.
- Note 6: The Group holds 42.56% of shares in Power Quotient International Co., Ltd., however, the Group has obtained more than half of the seats on the Board of Directors, so the Group is substantively determined as having control over Power Quotient International Co., Ltd..
- Note 7: To strengthen the Group's management and financial planning, the Board of Directors of Kunshan Fugang Electronics Trading Co., Ltd. made a resolution on September 3, 2013 to buy 100% ownership in Kunshan Fu Shi Yu Trading Co., Ltd. by FGEKS.
- Note 8: For the nine-month periods ended September 30, 2014 and 2013, except for financial statements of CU, FII, FUII, Zhi De Investment, Studio A Inc., Studio A Inc. (Hong Kong), Fu Gang Electronics (Dong Guan) Ltd., Fu Gang Electronics (Kun Shan) Ltd., Dong Guan Fu Qiang Electronics Ltd., and FOXLINK which were reviewed by independent accountants, and financial statements of PQI which were reviewed by other independent accountants, the financial statements of other subsidiaries were not reviewed because they did not meet the definition of significant subsidiaries.

C. Subsidiaries not included in the consolidated financial statements:

| Investor | Subsidiary | Main activity | % of shares held | | Description |
|---|--|---|-----------------------|----------------------|-------------|
| | | | September 30, 2014 | December 31, 2013 | |
| Foxlink International Investment Ltd. (FII) | World Circuit Technology Co., Ltd. (WCT) | Manufacture of electronic telecommunication components and electronic machinery equipment | 75.00 | 75.00 | Note 1 |
| Studio A Inc. | Tayih Digital Technology Co., Ltd. (TAYIH) | Manufacture of electronic telecommunication components | 60.00 | 60.00 | Note 2 |

| Investor | Subsidiary | Main activity | % of shares held | |
|--|--|---|--------------------|-------------|
| | | | September 30, 2013 | Description |
| oxlink International Investment Ltd. (FII) | World Circuit Technology Co., Ltd. (WCT) | Manufacture of electronic telecommunication components and electronic machinery equipment | 75.00 | Note 1 |
| Studio A Inc. | Tayih Digital Technology Co., Ltd. (TAYIH) | Manufacture of electronic telecommunication components | 60.00 | Note 2 |

Note 1: The ratio of total assets to the Company's total assets was insignificant, and it was approved by the Ministry of Economic Affairs on October 5, 2004 to be dissolved and is currently undergoing liquidation procedures. Thus, this subsidiary was not included in the consolidated financial statements.

Note 2: The ratio of total assets to the Company's total assets was insignificant, and it was approved by the Ministry of Economic Affairs on July 7, 2010 to be dissolved and is currently undergoing liquidation procedures. Thus, this subsidiary was not included in the consolidated financial statements.

D. Adjustments for subsidiaries with different balance sheet dates:

Sinocity Industries Ltd. and Sinocity Co., Ltd. are subsidiaries of Power Quotient International Co., Ltd. in Hong Kong and Macao, respectively, with balance sheet date on March 31. For the preparation of consolidated financial statements, Power Quotient International Co., Ltd. had required Sinocity Industries Ltd. and Sinocity Co., Ltd. as consolidated entities to prepare financial statements with balance sheet date of December 31 to conform with the balance sheet date of the Group.

E. The restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

- b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- a) The operating results and financial position of all the group entities associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- c) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - b) Assets held mainly for trading purposes;
 - c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- a) Liabilities that are expected to be paid off within the normal operating cycle;
 - b) Liabilities arising mainly from trading activities;
 - c) Liabilities that are to be paid off within twelve months from the balance sheet date;
 - d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash equivalents refer to short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. Time deposits that meet the above criteria and are held for the purpose of meeting short-term cash commitment in operations are classified as cash equivalents.

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

- A. Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as financial assets held for trading unless they are designated as hedges.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.

- C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) Loans and receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
- a) Significant financial difficulty of the issuer or debtor;
 - b) A breach of contract, such as a default or delinquency in interest or principal payments;

- c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - e) The disappearance of an active market for that financial asset because of financial difficulties;
 - f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
 - h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
- a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset directly.

c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset directly.

(11) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows from the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated fixed production overheads based on actual capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for under the equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity are not recognised in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.

- G. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- H. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss. If it retains significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each component of property, plant and equipment is significant, it is depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| | |
|-------------------------|-------------|
| Buildings | 20~50 years |
| Machinery and equipment | 1~5 years |
| Office equipment | 3 years |
| Other equipment | 3~8 years |

(15) Leased assets/ leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(16) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 20 ~ 50 years.

(17) Intangible assets

A. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 years.

B. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

C. Trademark right (indefinite useful life)

Trademark right is stated at cost and regarded as having an indefinite useful life as it was assessed to generate continuous net cash inflow in the foreseeable future. Trademark right is not amortised, but is tested annually for impairment.

(18) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognised in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognised.
- B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use shall be evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. Goodwill for impairment testing purpose is allocated to cash generating units. This allocation is identified based on operating segments. Goodwill is allocated to a cash generating unit or a group of cash generating units that expects to benefit from business combination that will produce goodwill.

(19) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, for short-term accounts payable without bearing interest, as the effect of discounting is insignificant, they are measured subsequently at original invoice amount.

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

- A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(22) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(23) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(24) Financial liabilities and equity instruments

Bonds payable

Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument ('capital surplus—stock warrants') in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. Convertible corporate bonds are accounted for as follows:

- a) Call options and put options embedded in convertible corporate bonds are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

- b) Bonds payable of convertible corporate bonds is initially recognised at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.
- c) Conversion options embedded in convertible corporate bonds issued by the Group, which meet the definition of an equity instrument, are initially recognised in 'capital surplus—stock warrants' at the residual amount of total issue price less amounts of 'financial assets or financial liabilities at fair value through profit or loss' and 'bonds payable—net' as stated above. Conversion options are not subsequently remeasured.
- d) Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.
- e) When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable' and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of capital surplus - stock warrants.

(25) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognised in profit or loss.

(26) Employee benefits

A. Pensions

a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

b) Defined benefit plans

- i. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (at the balance sheet date).
- ii. Actuarial gains and losses arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise.
- iii. Past service costs are recognised immediately in profit or loss if vested immediately; if not, the past service costs are amortised on a straight-line basis over the vesting period.
- iv. 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 the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

B. Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognised based on the accounting for changes in estimates. The Group calculates the number of shares of employees' stock bonus based on the fair value per share at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(27) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(28) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax charge is calculated on the basis of the tax laws at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures, employees' training costs and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.
- G. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(29) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's equity holders.

(30) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(31) Revenue recognition

- A. The Group manufactures and sells electronic telecommunication component products. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- B. The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised. The volume discounts are estimated based on the anticipated annual sale quantities.

(32) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants related to property, plant and equipment are recognised as non-current liabilities and are amortised to profit or loss over the estimated useful lives of the related assets using the straight-line method.

(33) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in

the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised directly in profit or loss on the acquisition date.

(34) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

Revenue recognition on a net/gross basis

The determination of whether the Group is acting as principal or agent in a transaction is based on an evaluation of the Group's exposure to the significant risks and rewards associated with the sale of goods or the rendering of service in accordance with the business model and substance of the transaction. Where the Group acts as a principal, the amount received or receivable from the customer is recognised as revenue on a gross basis. Where the Group acts as an agent, net revenue is recognised representing commissions earned. The revenue is recognised on a gross basis based on the following characteristics:

- a. The Group has primary responsibilities for the goods or services it provides;
- b. The Group bears inventory risk;
- c. The Group has the latitude in establishing prices for the goods or services, either directly or indirectly; and
- d. The Group bears credit risk of customers.

(2) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A. Revenue recognition

In principle, sales revenues are recognised when the earning process is completed. The Group estimates discounts and returns based on historical results and other known factors. Provisions for such liabilities are recorded as a deduction item to sales revenues when the sales are recognised. The Group reassesses the reasonableness of estimates of discounts and returns periodically.

B. Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Group's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units. Please refer to Note 6(10) for the information of goodwill impairment.

C. Impairment assessment of investments accounted for under the equity method

The Group assesses the impairment of an investment accounted for under the equity method as soon as there is any indication that it might have been impaired and its carrying amount cannot be recoverable. The Group assesses the recoverable amounts of an investment accounted for under the equity method based on the present value of the Group's share of expected future cash flows of the investee, and analyses the reasonableness of related assumptions.

D. Realisability of deferred income tax assets

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred income tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industry environment, and laws and regulations might cause material adjustments to deferred income tax assets.

E. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

F. Calculation of accrued pension obligations

When calculating the present value of defined pension obligations, the Group must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and expected rate of return on plan assets. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|---------------------------------------|---------------------------|--------------------------|---------------------------|---------------------------|
| | <u>New Taiwan Dollars</u> | | | <u>US Dollars</u> |
| Cash on hand and petty cash | \$ 105,178 | \$ 15,215 | \$ 31,576 | \$ 3,458 |
| Checking accounts and demand deposits | 3,853,875 | 3,432,454 | 4,406,002 | 126,689 |
| Time deposits | | | | - |
| Cash equivalents | 3,185,329 | 2,469,668 | 1,634,764 | 104,712 |
| Short-term bills | <u>71,946</u> | <u>-</u> | <u>-</u> | <u>2,365</u> |
| Total | <u>\$ 7,216,328</u> | <u>\$ 7,917,337</u> | <u>\$ 6,072,342</u> | <u>\$ 237,223</u> |

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. The Group has no cash and cash equivalents pledged to others.

(2) Financial assets and liabilities at fair value through profit or loss

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|--|---------------------------|--------------------------|---------------------------|---------------------------|
| Items | New Taiwan Dollars | | | US Dollars |
| Current items: | | | | |
| Financial assets held for trading | | | | |
| Beneficiary certificates - fund | \$ - | \$ - | \$ 30,000 | \$ - |
| Non-hedging derivatives | - | - | 13,576 | - |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,576</u> | <u>\$ -</u> |
| Financial liabilities held for trading | | | | |
| Non-hedging derivatives | <u>\$ 530</u> | <u>\$ 10,338</u> | <u>\$ -</u> | <u>\$ 17</u> |

A. The Group recognised net gain (loss) of (\$18,951), \$47,197, (\$7,613) and (\$16,612) on financial assets held for trading for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively.

B. The non-hedging derivative instrument transactions and contract information are as follows:

| <u>Derivative Instruments</u> | <u>(Notional Principal)</u> | <u>Contract Period</u> | <u>(Notional Principal)</u> | <u>Contract Period</u> |
|-------------------------------|-----------------------------|------------------------|-----------------------------|------------------------|
| Current items: | | | | |
| Forward exchange contracts | USD 1,000 | 2014/08~ 2014/10 | USD 22,000 | 2013/10~ 2014/02 |

| <u>Derivative Instruments</u> | <u>(Notional Principal)</u> | <u>Contract Period</u> |
|-------------------------------|-----------------------------|------------------------|
| Current items: | | |
| Forward exchange contracts | USD 81,000 | 2013/10~ 2013/12 |

(1) Forward exchange contracts

The Group entered into forward foreign exchange contracts to sell USD and buy NTD to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|---|---------------------------|--------------------------|---------------------------|---------------------------|
| Items | New Taiwan Dollars | | US Dollars | |
| Non-current items | | | | |
| Listed stocks | \$ 234,860 | \$ 234,418 | \$ 529,320 | \$ 7,721 |
| Emerging stocks | <u>1,101</u> | <u>4,216</u> | <u>4,213</u> | <u>36</u> |
| | 235,961 | 238,634 | 533,533 | 7,757 |
| Valuation adjustment of available -for-sale financial assets | <u>2,698,189</u> | <u>1,921,947</u> | <u>1,692,395</u> | <u>90,346</u> |
| | <u>\$ 2,934,150</u> | <u>\$ 2,160,581</u> | <u>\$ 2,225,928</u> | <u>\$ 98,103</u> |

A. The Group recognised (\$17,996), \$535,879, \$764,765 and \$1,032,987 in other comprehensive income for fair value change for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively.

B. As of September 30, 2014, December 31, 2013, and September 30, 2013, no available-for-sale financial assets were pledged to others.

(4) Financial assets measured at cost

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|-----------------------------|---------------------------|--------------------------|---------------------------|---------------------------|
| Items | New Taiwan Dollars | | US Dollars | |
| Non-current item | | | | |
| Non-publicly traded company | <u>\$ 533,000</u> | <u>\$ 33,000</u> | <u>\$ 34,429</u> | <u>\$ 17,521</u> |

A. Based on the Group's intention, its investment in stocks should be classified as 'available-for-sale financial assets'. However, as the above company stocks are not traded in an active market, and sufficient industry information of companies similar to the above company or the above company's financial information cannot be obtained, the fair value of the investment in stocks cannot be measured reliably. The Group classified those stocks as "financial assets measured at cost".

B. As of September 30, 2014, December 31, 2013 and September 30, 2013, no financial assets measured at cost held by the Group were pledged to others.

(5) Accounts receivable

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|--|---------------------------|--------------------------|---------------------------|---------------------------|
| | New Taiwan Dollars | | US Dollars | |
| Accounts receivable | \$ 13,607,933 | \$ 18,970,620 | \$ 14,909,301 | \$ 447,335 |
| Less: allowance for sales returns and discounts | (53,707) | (64,353) | (48,828) | (1,766) |
| Less: allowance for bad debts | (107,941) | (157,915) | (194,225) | (3,548) |
| | <u>\$ 13,446,285</u> | <u>\$ 18,748,352</u> | <u>\$ 14,666,248</u> | <u>\$ 442,021</u> |

A. The quality information of accounts receivable is based on customers' credit ranking and recoverable period of receivables in order to calculate the accrual of impairment. The Group's internal credit ranking policy is that the Group's business and management segment assesses periodically or otherwise whether the credit ranking of existing customers are appropriate and adjusts to obtain the latest information when necessary. Customers' credit ranking assessment is based on industrial operating scale, profitability and ranking assessed by financial insurance institutions.

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|----------------|---------------------------|--------------------------|---------------------------|---------------------------|
| | New Taiwan Dollars | | US Dollars | |
| Up to 30 days | \$ 675,265 | \$ 742,164 | \$ 434,077 | \$ 22,198 |
| 31 to 120 days | <u>87,055</u> | <u>251,896</u> | <u>20,096</u> | <u>2,862</u> |
| | <u>\$ 762,320</u> | <u>\$ 994,060</u> | <u>\$ 454,173</u> | <u>\$ 25,060</u> |

The ageing analysis is based on the days past due.

C. Movement analysis of financial assets that were impaired is as follows:

- a) As of September 30, 2014, December 31, 2013, and September 30, 2013, the Group's accounts receivable that were impaired amounted to \$107,941, \$157,915 and \$194,225, respectively.
- b) Movements on the Group's provision for impairment of accounts receivable are as follows:

| | <u>For the nine-month period ended September 30, 2014</u> | | |
|------------------------|---|------------------------|-------------------|
| | <u>Individual provision</u> | <u>Group provision</u> | <u>Total</u> |
| January 1, 2014 | \$ - | \$ 157,915 | \$ 157,915 |
| Reversal of impairment | - | (49,974) | (49,974) |
| September 30, 2014 | <u>\$ -</u> | <u>\$ 107,941</u> | <u>\$ 107,941</u> |

| | <u>For the nine-month period ended September 30, 2013</u> | | |
|------------------------|---|------------------------|-------------------|
| | <u>Individual provision</u> | <u>Group provision</u> | <u>Total</u> |
| January 1, 2013 | \$ - | \$ 202,185 | \$ 202,185 |
| Reversal of impairment | - | (7,960) | (7,960) |
| September 30, 2014 | <u>\$ -</u> | <u>\$ 194,225</u> | <u>\$ 194,225</u> |

D. The maximum exposure to credit risk at September 30, 2014, December 31, 2013, and September 30, 2013 was the carrying amount of each class of accounts receivable.

E. The Group does not hold any collateral as security.

F. The Company entered into an agreement with Mega International Commercial Bank to sell its accounts receivable on April 27, 2013. Under the agreement, the Company is not required to bear uncollectible risk of the underlying accounts receivable, but is liable for the losses incurred on any business dispute. The Company issued a promissory note to Mega International Commercial Bank according to the agreement as a security for the Company's failure in fulfilment of the agreement when any business dispute arises. These accounts receivable meet the derecognition criteria for financial assets.

G. As of September 30, 2014, December 31, 2013 and September 30, 2013, the outstanding accounts receivable sold to Mega International Commercial Bank were as follows:

September 30, 2014

| Purchaser of accounts receivable | Accounts receivable sold | Amount derecognised | Limit | Amount advanced | Interest rate | Collateral |
|--|--------------------------|---------------------|-------------|-----------------|---------------|------------|
| Mega International Commercial Bank Co., Ltd. | \$600,251 | \$600,251 | \$1,064,700 | \$540,226 | 1.09% | None |
| | (USD19,732) | (USD19,732) | (USD35,000) | (USD17,759) | | |

December 31, 2013

| Purchaser of accounts receivable | Accounts receivable sold | Amount derecognised | Limit | Amount advanced | Interest rate | Collateral |
|--|--------------------------|---------------------|-------------|-----------------|---------------|------------|
| Mega International Commercial Bank Co., Ltd. | \$648,717 | \$6,480,717 | \$1,043,175 | \$579,718 | 1.46%~1.82% | None |
| | (USD21,765) | (USD21,765) | (USD35,000) | (USD19,450) | | |

September 30, 2013

| Purchaser of accounts receivable | Accounts receivable sold | Amount derecognised | Limit | Amount advanced | Interest rate | Collateral |
|--|--------------------------|---------------------|-------------|-----------------|---------------|------------|
| Mega International Commercial Bank Co., Ltd. | \$780,510 | \$780,510 | \$1,050,000 | \$699,510 | 1.25%~1.49% | None |
| | (USD19,732) | (USD19,732) | (USD35,000) | (USD23,317) | | |

(6) Inventories

| September 30, 2014 | | | |
|----------------------|---------------------|---------------------------------|---------------------|
| | Cost | Allowance for valuation loss | Book value |
| New Taiwan Dollars | | | |
| Raw materials | \$ 4,352,092 | (\$ 142,167) | \$ 4,209,925 |
| Work in process | 1,233,381 | (24,605) | 1,208,776 |
| Finished goods | 3,626,156 | (311,053) | 3,315,103 |
| Inventory in transit | 2,996 | - | 2,996 |
| | <u>\$ 9,214,625</u> | <u>(\$ 477,825)</u> | <u>\$ 8,736,800</u> |

| September 30, 2014 | | | |
|----------------------|-------------------|---------------------------------|-------------------|
| | Cost | Allowance for valuation loss | Book value |
| US Dollars | | | |
| Raw materials | \$ 143,067 | (\$ 4,673) | \$ 138,393 |
| Work in process | 40,545 | (809) | 39,736 |
| Finished goods | 119,203 | (10,225) | 108,978 |
| Inventory in transit | 98 | - | 98 |
| | <u>\$ 302,913</u> | <u>(\$ 15,708)</u> | <u>\$ 287,206</u> |

| December 31, 2013 | | | |
|----------------------|----------------------|---------------------------------|---------------------|
| | Cost | Allowance for valuation loss | Book value |
| New Taiwan Dollars | | | |
| Raw materials | \$ 4,999,718 | (\$ 192,422) | \$ 4,807,296 |
| Work in process | 744,415 | (18,966) | 725,449 |
| Finished goods | 4,623,377 | (344,238) | 4,279,139 |
| Inventory in transit | 21,716 | - | 21,716 |
| | <u>\$ 10,389,226</u> | <u>(\$ 555,626)</u> | <u>\$ 9,833,600</u> |

| September 30, 2013 | | | |
|----------------------|----------------------|---------------------------------|----------------------|
| | Cost | Allowance for valuation loss | Book value |
| New Taiwan Dollars | | | |
| Raw materials | \$ 4,575,809 | (\$ 274,378) | \$ 4,301,431 |
| Work in process | 1,421,226 | (24,987) | 1,396,239 |
| Finished goods | 5,109,099 | (336,460) | 4,772,639 |
| Inventory in transit | 113,259 | - | 113,259 |
| | <u>\$ 11,219,393</u> | <u>(\$ 635,825)</u> | <u>\$ 10,583,568</u> |

Expenses and losses incurred on inventories during the three-month and nine-month periods ended September 30, 2014 and 2013 were as follows:

| | For the three-month periods ended September 30 | | |
|--|--|----------------------|-------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Cost of inventories sold | \$ 17,849,418 | \$ 21,977,478 | \$ 586,766 |
| (Gain from price recovery) provision for decline in market value | 77,678 (| 139,651) | 2,554 |
| Others (revenue from sale of scraps) | (21,267) | (10,395) | (699) |
| | <u>\$ 17,905,829</u> | <u>\$ 18,159,111</u> | <u>\$ 588,620</u> |

| | For the nine-month periods ended September 30 | | |
|--|---|----------------------|---------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Cost of inventories sold | \$ 55,068,434 | \$ 64,371,861 | \$ 1,810,271 |
| Gain from price recovery for decline in market value | (77,801) | (102,072) | (2,558) |
| Others (revenue from sale of scraps) | (44,376) | (53,438) | (1,459) |
| | <u>\$ 54,946,257</u> | <u>\$ 64,216,351</u> | <u>\$ 1,806,254</u> |

The Group sold certain inventories during the nine-month periods ended September 30, 2014 and 2013 that were previously provided with allowance. Accordingly, a gain from price recovery of inventory was recognised.

(7) Investments accounted for under the equity method

| Investee | September 30, 2014 | | Ownership percentage (%) |
|---|---------------------|-------------------|--------------------------|
| | New Taiwan Dollars | US Dollars | |
| Well shin Technology Co., Ltd. | \$ 987,591 | \$ 32,465 | 19.61% |
| Foxlink Image Technology Co., Ltd. | 863,394 | 28,382 | 30.47% |
| Xie Xun Electronics (Ji An) Ltd. | 609,177 | 20,026 | 25.00% |
| Glory Science Co., Ltd. | 534,926 | 17,585 | 35.50% |
| Castles Technology Co., Ltd. | 197,554 | 6,494 | 22.75% |
| CMPC Cultural & Creative Co., Ltd. | 145,300 | 4,776 | 42.86% |
| Sharetronic Precision Industry (Shen Zhen) Co., Ltd. | 123,566 | 4,062 | 25.00% |
| Kleine Developments Ltd. | 42,063 | 1,383 | 33.33% |
| Sharetronic Digital Electronic (Shen Zhen) Co., Ltd. | - | - | - |
| Smart Vision Co., Ltd. | - | - | - |
| Core Solid Storage Corp | - | - | - |
| Microlink Communications Inc. | (22,071) | (726) | 21.43% |
| | 3,481,500 | 114,448 | |
| Add : Credit balance of long-term equity investments reclassified to 'other liabilities – others' | <u>22,071</u> | <u>726</u> | |
| Total | <u>\$ 3,503,571</u> | <u>\$ 115,173</u> | |

| Investee | December 31, 2013 | |
|---|---------------------|--------------------------|
| | New Taiwan Dollars | Ownership percentage (%) |
| Well Shin Technology Co., Ltd. | \$ 988,945 | 19.61% |
| Foxlink Image Technology Co., Ltd. | 885,630 | 30.48% |
| Xie Xun Electronics (Ji An) Ltd. | 533,674 | 25.00% |
| Glory Science Co., Ltd. | 512,227 | 35.59% |
| Castles Technology Co., Ltd. | 192,603 | 22.87% |
| CMPC Cultural & Creative Co., Ltd. | 144,638 | 42.86% |
| Sharetronic Precision Industry (Shen Zhen) Co., Ltd. | 120,650 | 25.00% |
| Kleine Developments Ltd. | 84,586 | 33.33% |
| Sharetronic Digital Electronic (Shen Zhen) Co., Ltd. | - | - |
| Smart Vision Co., Ltd. | 125,406 | 31.25% |
| Core Solid Storage Corp | 43,104 | 36.04% |
| Microlink Communications Inc. | (20,289) | 21.43% |
| | 3,611,174 | |
| Add : Credit balance of long-term equity investments reclassified to 'other liabilities-others' | 20,289 | |
| Total | <u>\$ 3,631,463</u> | |

| Investee | September 30, 2013 | |
|---|---------------------|--------------------------|
| | New Taiwan Dollars | Ownership percentage (%) |
| Well Shin Technology Co., Ltd. | \$ 980,247 | 20.03% |
| Foxlink Image Technology Co., Ltd. | 830,675 | 30.48% |
| Xie Xun Electronics (Ji An) Ltd | 487,811 | 25.00% |
| Glory Science Co., Ltd. | 490,529 | 35.82% |
| Castles Technology Co., Ltd. | 179,638 | 22.87% |
| CMPC Cultural & Creative Co., Ltd. | 146,215 | 42.86% |
| Sharetronic Precision Industry (Shen Zhen) Co., Ltd. | 118,112 | 25.00% |
| Kleine Developments Ltd | 81,301 | 33.33% |
| Sharetronic Digital Electronic (Shen Zhen) Co., Ltd. | 318,781 | 27.00% |
| Smart Vision Co., Ltd. | 132,385 | 31.25% |
| Core Solid Storage Corp | 43,104 | 36.04% |
| Microlink Communications Inc. | (18,873) | 21.43% |
| | 3,789,925 | |
| Add : Credit balance of long-term equity investments reclassified to 'other liabilities-others' | 18,873 | |
| Total | <u>\$ 3,808,798</u> | |

- A. For the three-month and nine-month periods ended September 30, 2014 and 2013, except for Well Shin Technology Co., Ltd., Foxlink Image Technology Co., Ltd. and Glory Science Co., Ltd. which were recognised based on their financial statements reviewed by independent accountants, share of profit or loss of other associates and joint ventures which were not reviewed by independent accountants was \$74,680, \$65,002, \$180,711 and \$170,555, respectively.

B.The financial information of the Group's principal associates is summarized below:

| | Assets | Liabilities | Revenue | Profit/(Loss) | % interest held |
|------------------------------------|----------------------|---------------------|----------------------|---------------------|-----------------|
| | New Taiwan Dollars | | | | |
| <u>September 30, 2014</u> | | | | | |
| Well Shin Technology Co., Ltd. | \$ 6,292,974 | \$ 1,449,418 | \$ 3,844,922 | \$ 293,617 | 19.61% |
| Foxlink Image Technology Co., Ltd. | 4,545,123 | 1,711,552 | 4,035,533 | 241,957 | 30.47% |
| Glory Science Co., Ltd. | <u>62,621,836</u> | <u>1,376,248</u> | <u>1,044,886</u> | <u>135,605</u> | 35.50% |
| | <u>\$ 73,459,933</u> | <u>\$ 4,537,218</u> | <u>\$ 8,925,341</u> | <u>\$ 671,179</u> | |
| | Assets | Liabilities | Revenue | Profit/(Loss) | % interest held |
| | US Dollars | | | | |
| <u>September 30, 2014</u> | | | | | |
| Well Shin Technology Co., Ltd. | \$ 206,870 | \$ 47,647 | \$ 126,395 | \$ 9,652 | 19.61% |
| Foxlink Image Technology Co., Ltd. | 149,412 | 56,264 | 132,661 | 7,954 | 30.47% |
| Glory Science Co., Ltd. | <u>2,058,574</u> | <u>45,242</u> | <u>34,349</u> | <u>4,458</u> | 35.50% |
| | <u>\$ 2,414,856</u> | <u>\$ 149,152</u> | <u>\$ 293,404</u> | <u>\$ 22,064</u> | |
| | Assets | Liabilities | Revenue | Profit/(Loss) | % interest held |
| | New Taiwan Dollars | | | | |
| <u>December 31, 2013</u> | | | | | |
| Well Shin Technology Co., Ltd. | \$ 6,025,376 | \$ 1,172,802 | \$ 5,277,177 | \$ 475,793 | 19.61% |
| Foxlink Image Technology Co., Ltd. | 5,484,460 | 2,509,265 | 7,286,757 | 424,479 | 30.48% |
| Glory Science Co., Ltd. | <u>1,950,565</u> | <u>771,930</u> | <u>1,122,201</u> | <u>116,641</u> | 35.59% |
| | <u>\$ 13,460,401</u> | <u>\$ 4,453,997</u> | <u>\$ 13,686,135</u> | <u>\$ 1,016,913</u> | |
| | Assets | Liabilities | Revenue | Profit/(Loss) | % interest held |
| | New Taiwan Dollars | | | | |
| <u>September 30, 2013</u> | | | | | |
| Well Shin Technology Co., Ltd. | \$ 6,118,626 | \$ 1,411,227 | \$ 4,002,168 | \$ 386,503 | 20.03% |
| Foxlink Image Technology Co., Ltd. | 5,430,152 | 2,660,251 | 5,227,340 | 224,283 | 30.48% |
| Glory Science Co., Ltd. | <u>1,724,236</u> | <u>613,342</u> | <u>785,768</u> | <u>62,258</u> | 35.82% |
| | <u>\$ 13,273,014</u> | <u>\$ 4,684,820</u> | <u>\$ 10,015,276</u> | <u>\$ 673,044</u> | |

C. The fair value of the Group's associates which have quoted market price was as follows:

| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 |
|------------------------------------|---------------------|---------------------|---------------------|--------------------|
| | New Taiwan Dollars | | | US Dollars |
| Well Shin Technology Co., Ltd. | \$ 1,131,947 | \$ 1,091,839 | \$ 1,174,284 | \$ 37,211 |
| Foxlink Image Technology Co., Ltd. | 1,001,286 | 975,546 | 949,806 | 32,915 |
| Glory Science Co., Ltd. | 1,343,841 | 836,284 | 758,705 | 44,176 |
| | <u>\$ 3,477,074</u> | <u>\$ 2,903,669</u> | <u>\$ 2,882,795</u> | <u>\$ 114,302</u> |

D. The Group has signed a stock purchase agreement with Sharetronic Group Limited ("Sharetronic") on December 31, 2013. Sharetronic agreed to pay US\$7,710 thousand for acquisition of all the Company's share in Sharetronic Digital Electronic (Shen Zhen) Co. Ltd. As of September 30, 2014, the uncollected amount was \$234,538 thousand (recorded as '1200 other receivables').

E. The Group has signed a stock purchase agreement with CMPC Cultural & Creative Co., Ltd. ("CMPC") on December 31, 2013. CMPC agreed to pay \$150 million for acquisition of all the Company's shares in CMPC. As of September 30, 2014, the uncollected amount was \$150 million (recorded as '1150 notes receivable' and '1900 other non-current assets').

F. Well Shin Technology Co., Ltd.'s stockholding ratio continued to decrease because of Well Shin Technology Co., Ltd.'s issuance of employee stock options. The Group has assessed that the change did not impact the Group's significant influence.

G. The shareholders of Core Solid Storage Corp. have approved the liquidation to be effective on October 31, 2012 and investment of \$80 million to be remitted back on May 28, 2013. The liquidation process was completed on February 6, 2014 and dividends of \$43,104 thousand were distributed on February 24, 2014.

(8) Property, plant and equipment

| | Land | Buildings | Machinery | Office equipment | Others | Total |
|---|--------------------|----------------------|---------------------|-------------------|---------------------|----------------------|
| | New Taiwan Dollars | | | | | |
| <u>At January 1, 2014</u> | | | | | | |
| Cost | \$ 416,391 | \$ 12,596,514 | \$ 8,576,135 | \$ 475,083 | \$ 6,077,260 | \$ 28,141,383 |
| Accumulated depreciation and impairment | - (1,585,793) | (3,972,841) | (244,080) | (2,482,579) | (8,285,293) | |
| | <u>\$ 416,391</u> | <u>\$ 11,010,721</u> | <u>\$ 4,603,294</u> | <u>\$ 231,003</u> | <u>\$ 3,594,681</u> | <u>\$ 19,856,090</u> |
| <u>Nine-month period ended September 30, 2014</u> | | | | | | |
| Opening net book amount | \$ 416,391 | \$ 11,010,721 | \$ 4,603,294 | \$ 231,003 | \$ 3,594,681 | \$ 19,856,090 |
| Additions | - | 579,138 | 1,199,821 | 91,991 | 519,469 | 2,390,419 |
| Disposals | - | - (85,129) | (3,569) | (121,348) | (210,046) | |
| Reclassifications | - (23,063) | - | - | - (23,063) | | |
| Depreciation charge | - (229,307) | (1,506,415) | (89,648) | (654,448) | (2,479,818) | |
| Impairment loss | - | - | - | 15 | - | 15 |
| Net exchange differences | - | 16,810 | 109,404 | 200 | 12,549 | 138,963 |
| Closing net book amount | \$ 416,391 | \$ 11,354,299 | \$ 4,320,975 | \$ 229,992 | \$ 3,350,903 | \$ 19,672,560 |

| | Land | Buildings | Machinery | Office equipment | Others | Total |
|---|--------------------|----------------------|---------------------|-------------------|---------------------|----------------------|
| | New Taiwan Dollars | | | | | |
| <u>At September 30, 2014</u> | | | | | | |
| Cost | \$ 416,391 | \$ 13,163,605 | \$ 8,655,067 | \$ 527,657 | \$ 6,437,220 | \$ 29,199,940 |
| Accumulated depreciation and impairment | - (1,809,306) | (4,334,092) | (297,665) | (3,086,317) | (9,527,380) | |
| | <u>\$ 416,391</u> | <u>\$ 11,354,299</u> | <u>\$ 4,320,975</u> | <u>\$ 229,992</u> | <u>\$ 3,350,903</u> | <u>\$ 19,672,560</u> |
| | US Dollars | | | | | |
| <u>At September 30, 2014</u> | | | | | | |
| Cost | \$ 13,688 | \$ 432,729 | \$ 284,519 | \$ 17,346 | \$ 211,611 | \$ 959,893 |
| Accumulated depreciation and impairment | - (59,478) | (142,475) | (9,785) | (101,457) | (313,195) | |
| | <u>\$ 13,688</u> | <u>\$ 373,251</u> | <u>\$ 142,044</u> | <u>\$ 7,561</u> | <u>\$ 110,155</u> | <u>\$ 646,698</u> |
| | Land | Buildings | Machinery | Office equipment | Others | Total |
| | New Taiwan Dollars | | | | | |
| <u>At January 1, 2013</u> | | | | | | |
| Cost | \$ 412,428 | \$ 11,496,255 | \$ 9,910,348 | \$ 420,378 | \$ 5,713,494 | \$ 27,952,903 |
| Accumulated depreciation and impairment | - (1,261,847) | (4,408,346) | (216,188) | (2,336,090) | (8,222,471) | |
| | <u>\$ 412,428</u> | <u>\$ 10,234,408</u> | <u>\$ 5,502,002</u> | <u>\$ 204,190</u> | <u>\$ 3,377,404</u> | <u>\$ 19,730,432</u> |
| <u>Nine-month period ended September 30, 2013</u> | | | | | | |
| Opening net book amount | \$ 412,428 | \$ 10,234,408 | \$ 5,502,002 | \$ 204,190 | \$ 3,377,404 | \$ 19,730,432 |
| Additions | - | 180,117 | 1,788,608 | 142,970 | 993,219 | 3,104,914 |
| Disposals | - (227,711) | (149,054) | (15,424) | (30,250) | (422,439) | |
| Reclassifications | - | 8,312 | - | - | - | 8,312 |
| Depreciation charge | - (183,251) | (184,262) | (124,612) | (524,505) | (1,016,630) | |
| Reversal of impairment loss | - | - | - | 15 | 1,385 | 1,400 |
| Net exchange differences | - | 233,772 | 215,354 | 5,973 | (122,257) | 332,842 |
| Closing net book amount | <u>\$ 412,428</u> | <u>\$ 10,245,647</u> | <u>\$ 7,172,648</u> | <u>\$ 213,112</u> | <u>\$ 3,694,996</u> | <u>\$ 21,738,831</u> |
| | Land | Buildings | Machinery | Office equipment | Others | Total |
| | New Taiwan Dollars | | | | | |
| <u>At September 30, 2013</u> | | | | | | |
| Cost | \$ 412,428 | \$ 11,698,824 | \$ 9,714,328 | \$ 503,741 | \$ 6,233,543 | \$ 28,562,864 |
| Accumulated depreciation and impairment | - (1,453,177) | (4,231,680) | (290,629) | (2,538,547) | (8,514,033) | |
| | <u>\$ 412,428</u> | <u>\$ 10,245,647</u> | <u>\$ 5,482,648</u> | <u>\$ 213,112</u> | <u>\$ 3,694,996</u> | <u>\$ 20,048,831</u> |

A. There was no impairment loss on property, plant and equipment.

B. The property, plant and equipment were not pledged to others as collateral.

(9) Investment property

| | Land | Buildings | Total |
|---|--------------------|-------------------|-------------------|
| | New Taiwan Dollars | | |
| <u>At January 1, 2014</u> | | | |
| Cost | \$ 65,923 | \$ 491,335 | \$ 557,258 |
| Accumulated depreciation and impairment | - | (251,290) | (251,290) |
| | <u>\$ 65,923</u> | <u>\$ 240,045</u> | <u>\$ 305,968</u> |
| <u>Nine-month period ended September 30, 2014</u> | | | |
| Opening net book amount | \$ 65,923 | \$ 240,045 | \$ 305,968 |
| Reclassifications | - | 23,063 | 23,063 |
| Depreciation charge | - | (16,664) | (16,664) |
| Net exchange differences | - | 2,796 | 2,796 |
| Closing net book amount | <u>\$ 65,923</u> | <u>\$ 249,240</u> | <u>\$ 315,163</u> |
| <u>At September 30, 2014</u> | | | |
| Cost | \$ 65,923 | \$ 526,194 | \$ 592,117 |
| Accumulated depreciation and impairment | - | (276,954) | (276,954) |
| | <u>\$ 65,923</u> | <u>\$ 249,240</u> | <u>\$ 315,163</u> |
| US Dollars | | | |
| <u>At September 30, 2014</u> | | | |
| Cost | \$ 2,167 | \$ 17,298 | \$ 19,465 |
| Accumulated depreciation and impairment | - | (9,104) | (9,104) |
| | <u>\$ 2,167</u> | <u>\$ 8,193</u> | <u>\$ 10,360</u> |
| | Land | Buildings | Total |
| | New Taiwan Dollars | | |
| <u>At January 1, 2013</u> | | | |
| Cost | \$ 65,923 | \$ 490,213 | \$ 556,136 |
| Accumulated depreciation and impairment | - | (225,622) | (225,622) |
| | <u>\$ 65,923</u> | <u>\$ 264,591</u> | <u>\$ 330,514</u> |
| <u>Nine-month period ended September 30, 2013</u> | | | |
| Opening net book amount | \$ 65,923 | \$ 264,591 | \$ 330,514 |
| Reclassifications | - | (8,312) | (8,312) |
| Depreciation charge | - | (16,043) | (16,043) |
| Net exchange differences | - | 2,977 | 2,977 |
| Closing net book amount | <u>\$ 65,923</u> | <u>\$ 243,213</u> | <u>\$ 309,136</u> |
| <u>At September 30, 2013</u> | | | |
| Cost | \$ 65,923 | \$ 487,162 | \$ 553,085 |
| Accumulated depreciation and impairment | - | (243,949) | (243,949) |
| | <u>\$ 65,923</u> | <u>\$ 243,213</u> | <u>\$ 309,136</u> |

A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

| | For the three-month periods ended September 30 | | |
|---|--|----------|------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Rental revenue from the lease of the investment property | \$ 6,670 | \$ 6,224 | \$ 219 |
| Direct operating expenses arising from the investment property that generated rental income in the period | \$ 5,604 | \$ 5,813 | \$ 184 |

| | For the nine-month periods ended September 30 | | |
|---|---|-----------|------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Rental revenue from the lease of the investment property | \$ 20,894 | \$ 18,624 | \$ 687 |
| Direct operating expenses arising from the investment property that generated rental income in the period | \$ 16,664 | \$ 16,043 | \$ 548 |

B. Investment property is stated initially at its cost and is depreciated on a straight-line basis over its estimated useful life. The fair value of the investment property held by the Group as at September 30, 2014, December 31, 2013 and September 30, 2013 was \$756,604, \$510,414 and \$506,416, respectively, which was evaluated based on the market prices of similar real estate in the areas nearby. Market prices on September 30, 2014, December 31, 2013 and September 30, 2013 did not change significantly.

C. There was no impairment loss on investment property.

D. The investment property was not pledged to others as collateral.

(10) Intangible assets

| | Trademark Rights | Goodwill | Others | Total |
|---|--------------------|---------------------|------------------|---------------------|
| | New Taiwan Dollars | | | |
| <u>At January 1, 2014</u> | | | | |
| Cost | \$ 49,277 | \$ 2,573,540 | \$ 135,871 | \$ 2,758,688 |
| Accumulated depreciation and impairment | - | - | (75,162) | (75,162) |
| | <u>\$ 49,277</u> | <u>\$ 2,573,540</u> | <u>\$ 60,709</u> | <u>\$ 2,683,526</u> |
| <u>Nine-month period ended September 30, 2014</u> | | | | |
| Opening net book amount | \$ 49,277 | \$ 2,573,540 | \$ 60,709 | \$ 2,683,526 |
| Additions | - | - | 36,646 | 36,646 |
| Disposal | - | - | (34) | (34) |
| Depreciation charge | - | - | (38,512) | (38,512) |
| Net exchange differences | 1,017 | 41,547 | 6 | 42,570 |
| Closing net book amount | <u>\$ 50,294</u> | <u>\$ 2,615,087</u> | <u>\$ 58,815</u> | <u>\$ 2,724,196</u> |
| <u>At September 30, 2014</u> | | | | |
| Cost | \$ 50,294 | \$ 2,615,087 | \$ 159,424 | \$ 2,824,805 |
| Accumulated depreciation and impairment | - | - | (100,609) | (100,609) |
| | <u>\$ 50,294</u> | <u>\$ 2,615,087</u> | <u>\$ 58,815</u> | <u>\$ 2,724,196</u> |
| US Dollars | | | | |
| <u>At September 30, 2014</u> | | | | |
| Cost | \$ 1,653 | \$ 85,966 | \$ 5,241 | \$ 92,860 |
| Accumulated depreciation and impairment | - | - | (3,307) | (3,307) |
| | <u>\$ 1,653</u> | <u>\$ 85,966</u> | <u>\$ 1,933</u> | <u>\$ 89,553</u> |

| | Trademark Rights | Goodwill | Others | Total |
|---|--------------------|---------------------|------------------|---------------------|
| | New Taiwan Dollars | | | |
| <u>At January 1, 2013</u> | | | | |
| Cost | \$ 48,012 | \$ 2,521,861 | \$ 397,402 | \$ 2,967,275 |
| Accumulated depreciation and impairment | - | - | (320,110) | (320,110) |
| | <u>\$ 48,012</u> | <u>\$ 2,521,861</u> | <u>\$ 77,292</u> | <u>\$ 2,647,165</u> |
| <u>Nine-month period ended September 30, 2013</u> | | | | |
| Opening net book amount | \$ 48,012 | \$ 2,521,861 | \$ 77,292 | \$ 2,647,165 |
| Additions | - | - | 18,110 | 18,110 |
| Disposal | - | - | (2,663) | (2,663) |
| Depreciation charge | - | - | (37,629) | (37,629) |
| Net exchange differences | 876 | 35,803 | 3,315 | 39,994 |
| Closing net book amount | <u>\$ 48,888</u> | <u>\$ 2,557,664</u> | <u>\$ 58,425</u> | <u>\$ 2,664,977</u> |
| <u>At September 1, 2013</u> | | | | |
| Cost | \$ 48,888 | \$ 2,557,664 | \$ 153,613 | \$ 2,760,165 |
| Accumulated depreciation and impairment | - | - | (95,188) | (95,188) |
| | <u>\$ 48,888</u> | <u>\$ 2,557,664</u> | <u>\$ 58,425</u> | <u>\$ 2,664,977</u> |

A. Goodwill is allocated to the Group's cash-generating units identified according to operating segments as follows:

| | September 30, 2014 | | | December 31, 2013 | | |
|--------------------|--|-------------------|------------------|--|-------------------|------------------|
| | Retail of computer, communication and consumer electronics | Memory module | Others | Retail of computer, communication and consumer electronics | Memory module | Others |
| | New Taiwan Dollars | | | | | |
| NTD | \$ - | \$ 419,858 | \$ - | \$ - | \$ 419,858 | \$ - |
| HKD | 2,055,036 | - | - | 2,013,489 | - | - |
| All other segments | 128,585 | - | 11,608 | 128,585 | - | 11,608 |
| | <u>\$ 2,183,621</u> | <u>\$ 419,858</u> | <u>\$ 11,608</u> | <u>\$ 2,142,074</u> | <u>\$ 419,858</u> | <u>\$ 11,608</u> |
| | September 30, 2013 | | | September 30, 2014 | | |
| | Retail of computer, communication and consumer electronics | Memory module | Others | Retail of computer, communication and consumer electronics | Memory module | Others |
| | New Taiwan Dollars | | | US Dollars | | |
| NTD | \$ - | \$ 419,858 | \$ - | \$ - | \$ 13,802 | \$ - |
| HKD | 1,977,613 | - | - | 68,811 | - | - |
| All other segments | 128,585 | - | 11,608 | 4,306 | - | 382 |
| | <u>\$ 2,106,198</u> | <u>\$ 419,858</u> | <u>\$ 11,608</u> | <u>\$ 73,116</u> | <u>\$ 13,802</u> | <u>\$ 382</u> |

B. Goodwill and trademarks with uncertain useful life are allocated to the POWER QUOTIENT INTERNATIONAL CO., LTD. (PQI)'s cash-generating units identified. The recoverable amount of all cash-generating units has been determined based on value-in-use and fair value calculations. These calculations use pre-tax cash flow projections and decisions assisted by independent valuation institutions based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The recoverable amount based on value-in-use calculation is greater than the carrying amount, thus, goodwill and goodwill with indefinite useful life are not impaired. The calculation of value-in-use is mainly based on gross profit margin, growth rate and discount rate. Management determines profit margin based on prior performance and expectation to the market development. Weighted average growth rate adopted is the same as the expectation stated in the industry report. Discount rate adopted is pre-tax ratio and reflects specific risk of related operating segments. Management believes that any reasonable adjustment of key assumptions used to estimate recoverable amounts of each cash generating unit would not result in carrying value exceeding the recoverable amount. Comparing the calculation of recoverable amount in accordance with the aforementioned assumption with PQI's assets available for operation and carrying value of goodwill at assessment date, there was no impairment to assets for the nine-month periods ended September 30, 2014 and 2013.

C. The Group assesses recoverable amount based on the net fair value for impairment assessment on recoverable amount of memory module. The fair value is assessed to be higher than the carrying amount, thus, goodwill is not impaired.

D. The intangible assets were not pledged to others as collateral.

(11) Long-term prepaid rents (Shown in other non-current assets)

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|----------------|---------------------------|--------------------------|---------------------------|---------------------------|
| | <u>New Taiwan Dollars</u> | | <u>US Dollars</u> | |
| Land use right | <u>\$ 836,319</u> | <u>\$ 849,407</u> | <u>\$ 838,789</u> | <u>\$ 27,492</u> |

Mainly consisting of land access right, the Group signed land access rights contracts for the use of land in China. All rentals had been paid on the contract date. The Group recognised rental expenses of \$4,964, \$4,938, \$14,946 and \$13,963 for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively.

(12) Short-term borrowings

| Type of borrowings | September 30, 2014 | | Interest rate range | Collateral |
|--------------------|--------------------|------------|---------------------|------------|
| | New Taiwan Dollars | US Dollars | | |
| Bank borrowings | | | | |
| Credit borrowings | \$ 9,900,263 | \$ 325,452 | 0.9%~6% | - |

| Type of borrowings | December 31, 2013 | Interest rate range | Collateral |
|--------------------|-------------------|---------------------|------------|
| Bank borrowings | | | |
| Credit borrowings | \$ 9,909,862 | 0.96%~5.6% | - |

| Type of borrowings | September 30, 2013 | Interest rate range | Collateral |
|--------------------|--------------------|---------------------|------------|
| Bank borrowings | | | |
| Credit borrowings | \$ 12,117,967 | 1.07%~4.78% | - |

(13) Other payables

| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 |
|------------------------------|---------------------|---------------------|---------------------|--------------------|
| | New Taiwan Dollars | | | US Dollars |
| Payables on conversion fee | \$ 143,418 | \$ 89,729 | \$ 59,081 | \$ 4,715 |
| Payables on salary and bonus | 1,309,039 | 1,804,638 | 1,395,429 | 43,032 |
| Payables on sales commission | 456,472 | 279,003 | 321,896 | 15,006 |
| Payables on equipment | 580,135 | 867,825 | 909,879 | 19,071 |
| Others | 2,193,922 | 2,574,261 | 2,718,045 | 72,121 |
| | <u>\$ 4,682,986</u> | <u>\$ 5,615,456</u> | <u>\$ 5,404,330</u> | <u>\$ 153,944</u> |

(14) Bonds payable

| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 |
|---------------------------------|--------------------|-------------------|--------------------|--------------------|
| | New Taiwan Dollars | | | US Dollars |
| Unsecured convertible bonds | \$ 475,000 | \$ 475,000 | \$ 475,000 | \$ 15,615 |
| Less: Discount on bonds payable | (1,643) | (12,282) | (15,757) | (54) |
| Less: Current portion | (473,357) | (462,718) | - | (15,561) |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 459,243</u> | <u>\$ -</u> |

On November 12, 2009, Power Quotient International Co., Ltd. issued five-year unsecured convertible bonds in the amount of \$475,000 (November 12, 2009 to November 12, 2014). The initial conversion price at issuance of the bonds was \$15.7 (in dollars) per share. Under the terms of the bonds, the bonds are convertible into the common shares of Power Quotient International Co., Ltd. from 30 days after issuance of the bonds through 10 days before maturity of the bonds. The conversion price was adjusted to \$15.3 (in dollars) per share on October 4, 2010. Power Quotient International Co., Ltd. made capital reduction on December 11, 2012 to cover its accumulated deficit. The capital reduction rate was 40%. According to the terms of the first domestic unsecured private placement convertible bonds issued by Power Quotient International Co., Ltd., conversion price of the bonds was adjusted to \$25.5. The conversion price of the bonds was adjusted to \$22.7 after the private placement common shares were settled on January 23, 2013. The fair value of convertible option embedded in bonds payable was separated from bonds payable, and was recognised in equity and liabilities, respectively, in accordance with IAS 32. As of September 30, 2014, December 31, 2013 and September 30, 2013, the bondholders exercised put options, and the amount that was reclassified from “capital reserve from stock warrants” to “capital reserve - additional paid-in capital in excess of par - common stock” was all \$65,491.

(15) Long-term borrowings

| Type of borrowings | Borrowing period and repayment term | Interest rate range | Unused credit line | September 30, 2014 | Unused credit line | September 30, 2014 |
|--|---|---------------------|--------------------|---------------------|--------------------|--------------------|
| | | | | New Taiwan dollars | | US dollars |
| Long-term loan borrowings | | | | | | |
| Bank credit borrowing | The amount of NTD 146,665 thousand is payable in installments starting from January 2013 to November 2019. | 0.44%~2.8% | \$ - | \$ 146,665 | \$ - | \$ 4,821 |
| Medium-term and long-term syndicated loans | The payable of NTD 5,600,000 thousand from March 2013 to March 2016. The company may issue a drawing application before the maturity date of borrowing to directly repay the borrowing principal that originally expired. | 1.61% | 2,400,000 | 5,600,000 | 80,362 | 184,089 |
| | | | | 5,746,665 | 80,362 | 188,911 |
| Less: Current portion | | | | (48,002) | - | (1,578) |
| | | | | <u>\$ 5,698,663</u> | <u>\$ 80,362</u> | <u>\$ 187,333</u> |

| Type of borrowings | Borrowing period and repayment term | Interest rate range | Unused credit line | December 31, 2013 |
|--|---|---------------------|--------------------|---------------------|
| New Taiwan dollars | | | | |
| Long-term loan borrowings | | | | |
| Bank credit borrowing | The amount of NTD 56,212 thousand is payable in installments of USD 5,260 thousand starting from September 2011 to November 2019. | 0.46%~2.3% | \$ - | \$ 212,986 |
| Medium-term and long-term syndicated loans | The payable of NTD 5,600,000 thousand from March 2013 to March 2016. The company may issue a drawing application before the maturity date of borrowing to directly repay the borrowing principal that originally expired. | 1.6% | 2,400,000 | <u>5,600,000</u> |
| | | | | 5,812,986 |
| Less: Current portion | | | | (163,182) |
| | | | | <u>\$ 5,649,804</u> |

| Type of borrowings | Borrowing period and repayment term | Interest rate range | Unused credit line | September 30, 2013 |
|--|---|---------------------|--------------------|---------------------|
| New Taiwan dollars | | | | |
| Long-term loan borrowings | | | | |
| Bank credit borrowing | NTD 53,062 thousand and USD 7,930 thousand in installments starting from September 2011 to November 2019. | 0.475%~2.3% | \$ 8,159 | \$ 288,049 |
| Medium-term and long-term syndicated loans | The payable of NTD 5,600,000 thousand from March 2013 to March 2016. The company may issue a drawing application before the maturity date of borrowing to directly repay the borrowing principal that originally expired. | 1.64% | 2,400,000 | <u>5,600,000</u> |
| | | | | 5,888,049 |
| Less: Current portion | | | | (235,700) |
| | | | | <u>\$ 5,652,349</u> |

A. In March 2013, the Company signed a medium-term syndicated revolving NTD credit facility agreement with the consortium – Mega International Commercial Bank as the lead bank. The terms of agreement are summarized below:

- Duration of loan: The loan period of the agreement was 3 years from the agreement signing date.
- Credit line and drawdown: The credit line was \$8,000, which can be drawn down in installments of at least \$100,000 per drawdown.
- Principal repayment: The duration of each loan drawn down is either 90 days or 180 days at the Company's option. The Company, if without any default, may submit an application to the banks to draw down a new loan with principal equal to the old one before its maturity, and the new loan is directly used to repay the original loan. The banks and the Company are not required to make remittances for such drawdown and repayment, which is viewed that the Company has received the new loan on the maturity of original loan.

- d) Commitment: The Company should maintain the following financial ratios during the contract duration for annual non-consolidated and consolidated financial statements and quarterly non-consolidated financial statements:
- i. Current assets to current liabilities ratio of at least 1:1;
 - ii. Liabilities not exceeding 200% of tangible net equity;
 - iii. Interest coverage of at least 400%; and
 - iv. Tangible net equity of at least NT\$15,000,000.
- e) The loan period is decided by the borrower. The borrower may choose to early repay the loans during the contract period according to the syndicated loan contract.

(16) Pensions

A.

- a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.
- b) The Group recognised pension expense of \$2,475, \$2,273, \$7,426 and \$6,819 in profit or loss for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively.

Details of costs and expenses recognised in statements of comprehensive income are as follows:

| | For the three-month period ended September 30, 2014 | For the three-month period ended September 30, 2013 |
|-------------------------------------|---|---|
| General and administrative expenses | \$ <u>2,475</u> | \$ <u>2,273</u> |
| | For the nine-month period ended September 30, 2014 | For the nine-month period ended September 30, 2013 |
| General and administrative expenses | \$ <u>7,426</u> | \$ <u>6,819</u> |

- c) Expected contributions to the defined benefit pension plans of the Group within one year from September 30, 2014 amounts to \$13,000.

B.

- a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- b) The Company’s mainland subsidiaries and foreign subsidiaries have a funded defined contribution plan. Monthly contributions are based on the employees’ monthly salaries and wages (the contribution ratio for the nine-month periods ended September 30, 2014 and 2013 is between 11%~20%) to an independent fund administered by the government in accordance with the pension regulations. Other than the monthly contributions, the Group has no further obligations. The pension costs under the defined contribution pension plan for the three-month and nine-month periods ended September 30, 2014 and 2013 were \$17,861, \$16,482, \$55,342 and \$54,998, respectively.

(17) Share-based payment

- A. As of September 30, 2014 and 2013, the Group’s share-based payment arrangements were as follows:

| Type of arrangement | Grant date | Quantity granted | Contract period | Vesting Conditions | Actual resignation rate in the current period | Estimated future resignation rate |
|------------------------|------------|------------------|-----------------|--|---|-----------------------------------|
| Employee stock options | 2007.12.28 | 40,000,000 | 7 years | The stock options may be exercised in installments after two years of issuance of stock options. | 0% | 0% |

B. Details of the share-based payment arrangements are as follows:

| | For the nine-month period ended September 30, 2014 | | | For the nine-month period ended September 30, 2013 | |
|--|--|--|----------------|--|--|
| | No. of options | Weighted-average exercise price (in dollars) | | No. of options | Weighted-average exercise price (in dollars) |
| | | New Taiwan Dollars | US Dollars | | New Taiwan Dollars |
| Options outstanding at beginning of the period | 13,558 | \$ 43.10 | \$ 1.42 | 21,926 | \$ 45.40 |
| Options exercised | (7,199) | 43.10 | 1.42 | (1,352) | 45.40 |
| Options forfeited | - | - | - | (41) | 47.40 |
| Options outstanding at end of the period | 6,359 | <u>\$ 45.40</u> | <u>\$ 1.49</u> | 20,533 | \$ 47.40 |
| Options exercisable at end of the period | 6,539 | | | 20,533 | |

(Note): Under the stock-based employee compensation plan, the weighted-average exercise price of the outstanding shares at beginning of the period is subject to adjustments due to changes in the number of common shares.

C. As of September 30, 2014, December 31, 2013 and September 30, 2013, the range of exercise prices of stock options outstanding was \$43.1, \$45.4, \$45.4 (in dollars), respectively; the weighted-average remaining contractual period was 0.25 year, 1 year and 1.25 years, respectively.

D. For the stock options granted with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model. The weighted average parameters used in the estimation of the fair value are as follows:

| | |
|---------------------------|------------|
| Grant date | 2007.12.28 |
| Dividend rate | 0% |
| Expected price volatility | 39.98% |
| Risk-free interest rate | 2.44% |
| Expected vesting period | 5.05 years |
| Exercise price per share | \$68.8 |
| Fair value per unit | \$26.66 |

(18) Share capital

A. As of September 30, 2014, the Company's authorized common stock was \$7,000,000 (US\$234,388) (including 50,000,000 shares reserved for the issuance of employees' warrants), and the issued and outstanding shares were 509,208,740 shares, with a par value of \$10 (in dollars) per share.

| | 2014 | 2013 | 2014 |
|----------------------------------|-----------------------|-----------------------|----------------------|
| | New Taiwans Dollars | | US Dollars |
| At January 1 | \$ 502,009,540 | \$ 493,682,940 | \$ 16,502,615 |
| Employee stock options exercised | 7,199,200 | 1,351,800 | 236,660 |
| B. At September 30 | <u>\$ 509,208,740</u> | <u>\$ 495,034,740</u> | <u>\$ 16,739,275</u> |

The common shares issued through the exercise of employee stock option on July 18, 2014 had been registered on a quarterly basis in accordance with relevant regulations.

C. The rules on issuance of limited employee share rights resolved by the Board of Directors on May 15, 2014 were in accordance with “Regulations Governing the Offering and Issuance of Securities by Securities Issuers” Article 60-3-2, and were approved to be effective on September 9, 2014 by the Financial Supervisory Commission, Securities and Futures Bureau. However, as of the date of the report, the Company has not yet issued such employee share rights.

(19) Capital surplus

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | Share premium | Treasury share transaction | Difference between proceeds from disposal of subsidiary and book value | Change in net equity of associates and joint ventures accounted for under the equity method | Total |
|--|---------------------|----------------------------|--|---|-------------------|
| At January 1, 2014 | \$ 8,985,731 | \$ 3,065 | \$ 10,185 | \$ 50,218 | \$ 9,049,199 |
| Employee stock options exercised | 248,906 | - | - | - | 248,906 |
| Change in net equity of associates accounted for under the equity method | - | - | - | 1,470 | 1,470 |
| Adjustment to non-proportional recognizing | - | - | (24) | - | (24) |
| At September 30, 2014 (New Taiwan Dollar) | <u>\$ 9,234,637</u> | <u>\$ 3,065</u> | <u>\$ 10,161</u> | <u>\$ 51,688</u> | <u>9,299,551</u> |
| At September 30, 2014 (US Dollars) | <u>\$ 303,571</u> | <u>\$ 101</u> | <u>\$ 334</u> | <u>\$ 1,699</u> | <u>\$ 305,705</u> |

| | Share premium | Treasury share transaction | Difference between proceeds from disposal of subsidiary and book value | Change in net equity of associates and joint ventures accounted for under the equity method | Total |
|--|---------------------|----------------------------|--|---|---------------------|
| At January 1, 2013 | \$ 8,689,447 | \$ 3,065 | \$ 2,691 | \$ 54,500 | \$ 8,749,703 |
| Employee stock options exercised | 49,376 | - | - | - | 49,376 |
| Change in net equity of associates accounted for under the equity method | - | - | - | 13,613 | 13,613 |
| Difference between proceeds from disposal of subsidiary and book value | - | - | 7,505 | - | 7,505 |
| At September 30, 2013 | <u>\$ 8,738,823</u> | <u>\$ 3,065</u> | <u>\$ 10,196</u> | <u>\$ 68,113</u> | <u>\$ 8,820,197</u> |

(20) Retained earnings

- A. Based on the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder shall be appropriated as (a) 0.1% as remuneration to directors and supervisors; (b) at least 8% as bonus to employees, and (c) as dividends to stockholders.
- B. According to the Company's Articles of Incorporation, no more than 90% of the distributable retained earnings shall be distributed as stockholders' bonus, of which a major portion is payable by shares and the balance by cash, which will be defined and approved during the stockholders' meeting. In general, cash dividends distributed in any calendar year shall be at least 20% of the total distributable earnings in that year.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.
- D.
- a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
 - b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. For the nine-month periods ended September 30, 2014 and 2013, the estimated amounts of employees' bonus and directors' and supervisors' remuneration were \$169,545 and \$100,000, respectively, and were recognised as operating costs or operating expenses. The basis of estimates is based on a certain percentage (as prescribed by the Company's Articles of Incorporation) of net income for the year, after taking into account the legal reserve and other factors. Employees' bonus of \$268,212 and directors' and supervisors' remuneration of \$1,788 for 2013 approved at the stockholders' meeting were in agreement with the amounts recognised in the 2013 financial statements.

Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as proposed by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. The Company recognised dividends distributed to owners amounting to \$1,518,197 (\$3.0 (in dollars) per share) and \$1,235,415 (\$2.5 (in dollars) per share) for 2014 and 2013, respectively. On September 12, 2014 and September 11, 2013, the stockholders resolved the appropriation of net income of 2013 and 2012 as follows:

| | For the year ended December 31, 2013 | | For the year ended December 31, 2012 | |
|----------------|---|-----------------------------|---|-----------------------------|
| | Amount | Dividend per share (NTD) | Amount | Dividend per share (NTD) |
| Legal reserve | \$ 207,500 | \$ - | \$ 195,400 | \$ - |
| Cash dividends | <u>1,518,197</u> | <u>3.00</u> | <u>1,235,415</u> | <u>2.50</u> |
| Total | <u>\$ 1,725,697</u> | <u>\$ 3.00</u> | <u>\$ 1,430,815</u> | <u>\$ 2.50</u> |

(21) Other equity items

| | Available-for-sale investments | Currency translation differences | Total |
|---|-----------------------------------|-------------------------------------|---------------------|
| At January 1, 2014 | \$ 1,565,400 | \$ 431,720 | \$ 1,997,120 |
| Valuation adjustment of available-for-sale investments | 405,989 | - | 405,989 |
| Currency translation differences: | | | |
| Group | - | 84,174 | 84,174 |
| Associates | - | (2,039) | (2,039) |
| At September 30, 2014 (New Taiwan Dollars) | <u>\$ 1,971,389</u> | <u>\$ 513,855</u> | <u>\$ 2,485,244</u> |
| At September 30, 2014 (US Dollars) | <u>\$ 64,806</u> | <u>\$ 16,892</u> | <u>\$ 81,698</u> |

| | Available-for-sale investments | Currency translation differences | Total |
|---|-----------------------------------|-------------------------------------|---------------------|
| At January 1, 2013 | \$ 649,174 | (\$ 330,227) | \$ 318,947 |
| Valuation adjustment of available-for-sale investments | 1,031,232 | - | 1,031,232 |
| Currency translation differences: | | | |
| Group | - | 441,356 | 441,356 |
| Associates | - | 42,372 | 42,372 |
| At September 30, 2013 (New Taiwan dollars) | <u>\$ 1,680,406</u> | <u>\$ 153,501</u> | <u>\$ 1,833,907</u> |

(22) Other income

| | For the three-month periods ended September 30, | | |
|-------------------------------|---|-------------------|-----------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Rental revenue | \$ 6,670 | \$ 6,224 | \$ 219 |
| Interest income | 15,150 | 14,283 | 498 |
| Technical compensation income | - | 7,033 | - |
| Management service income | 8,324 | 12,702 | 274 |
| Others | 84,289 | 62,308 | 2,771 |
| | <u>\$ 114,433</u> | <u>\$ 102,550</u> | <u>\$ 3,762</u> |

| | For the nine-month periods ended September 30, | | |
|-------------------------------|--|-------------------|------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Rental revenue | \$ 20,894 | \$ 18,624 | \$ 687 |
| Interest income | 56,191 | 48,070 | 1,847 |
| Technical compensation income | - | 57,585 | - |
| Management service income | 27,209 | 48,454 | 894 |
| Others | 285,550 | 170,868 | 9,387 |
| | <u>\$ 389,844</u> | <u>\$ 343,601</u> | <u>\$ 12,815</u> |

(23) Other gains and losses

| | For the three-month periods ended September 30, | | |
|--|---|------------------|--------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Net gains (losses) on financial assets at fair value through profit or loss | (\$ 1,530) | \$ 15,793 | (\$ 50) |
| Net currency exchange gain (losses) | 118,229 | (70,970) | 3,887 |
| Gains (losses) on disposal of property, plant and equipment | (2,950) | (24,959) | (97) |
| Gains (losses) on disposal of investments | (114) | 34,865 | (4) |
| Others | (49,754) | 63,922 | (1,636) |
| | <u>\$ 63,881</u> | <u>\$ 18,651</u> | <u>2,100</u> |

| | For the nine-month periods ended September 30, | | |
|---|--|-------------------|-------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Net gains (losses) on financial assets at fair value through profit or loss | \$ 9,808 | 13,576 | \$ 322 |
| Net currency exchange gain (losses) | (9,041) | 222,629 | (297) |
| Gains (losses) on disposal of property, plant and equipment | (10,232) | (80,293) | (336) |
| Gains (losses) on disposal of investments | 27,463 | 35,400 | 903 |
| Others | (65,930) | 13,461 | (2,167) |
| | <u>(\$ 47,932)</u> | <u>\$ 204,773</u> | <u>(\$ 1,576)</u> |

(24) Finance costs

| | For the three-month periods ended September 30, | | |
|-------------------|---|------------------|-----------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Interest expense: | | | |
| Bank borrowings | \$ 70,610 | \$ 69,090 | \$ 2,321 |
| Bonds | 4,770 | 4,627 | 157 |
| Others | 22 | 406 | 1 |
| | <u>\$ 75,402</u> | <u>\$ 74,123</u> | <u>\$ 2,479</u> |

| | For the nine-month periods ended September 30, | | |
|-------------------|--|-------------------|-----------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Interest expense: | | | |
| Bank borrowings | \$ 208,991 | \$ 204,501 | \$ 6,870 |
| Bonds | 14,201 | 13,779 | 467 |
| Others | 1,315 | 5,987 | 43 |
| | <u>\$ 224,507</u> | <u>\$ 224,267</u> | <u>\$ 7,380</u> |

(25) Expenses by nature

| | For the three-month periods ended September 30, | | |
|---|---|---------------------|-------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Employee benefit expense | \$ 3,061,979 | \$ 3,358,535 | \$ 102,527 |
| Depreciation charges on property, plant and equipment and investment property | 824,681 | 882,251 | 27,614 |
| Amortisation charges on intangible assets | 13,183 | 9,305 | 441 |
| Transportation expenses | 236,522 | 218,843 | 7,920 |
| Advertising costs | 35,923 | 5,427 | 1,203 |
| Operating lease payments | 218,966 | 130,075 | 7,332 |
| Total cost of sales and operating expenses | <u>\$ 4,391,254</u> | <u>\$ 4,604,436</u> | <u>\$ 147,037</u> |

| | For the nine-month periods ended September 30, | | |
|---|--|----------------------|-------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Employee benefit expense | \$ 9,443,633 | \$ 10,033,618 | \$ 310,442 |
| Depreciation charges on property, plant and equipment and investment property | 2,496,482 | 2,722,673 | 82,067 |
| Amortisation charges on intangible assets | 38,512 | 37,629 | 1,266 |
| Transportation expenses | 664,661 | 652,101 | 21,849 |
| Advertising costs | 95,339 | 36,503 | 3,134 |
| Operating lease payments | 690,920 | 620,528 | 22,713 |
| Total cost of sales and operating expenses | <u>\$ 13,429,547</u> | <u>\$ 14,103,052</u> | <u>\$ 441,471</u> |

(26) Employee benefit expense

| | For the three-month periods ended September 30, | | |
|----------------------------------|---|---------------------|-------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Wages and salaries | \$ 2,729,636 | \$ 3,007,632 | \$ 89,732 |
| Labour and health insurance fees | 245,225 | 184,527 | 8,061 |
| Pension costs | 20,336 | 18,755 | 669 |
| Other personnel expenses | 66,782 | 147,621 | 2,195 |
| | <u>\$ 3,061,979</u> | <u>\$ 3,358,535</u> | <u>\$ 100,657</u> |

| | For the nine-month periods ended June 30, | | |
|----------------------------------|---|----------------------|-------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Wages and salaries | \$ 8,406,943 | \$ 9,118,969 | \$ 276,362 |
| Labour and health insurance fees | 687,325 | 511,636 | 22,595 |
| Pension costs | 62,768 | 61,817 | 2,063 |
| Other personnel expenses | 286,597 | 341,196 | 9,421 |
| | <u>\$ 9,443,633</u> | <u>\$ 10,033,618</u> | <u>\$ 310,442</u> |

(27) Income tax

A. Income tax expense

a) Components of income tax expense:

| | <u>For the three-month periods ended September 30,</u> | | |
|---|--|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> |
| | <u>New Taiwan Dollars</u> | | <u>US Dollars</u> |
| Current tax: | | | |
| Current tax on profits for the period | \$ 235,234 | \$ 146,246 | \$ 7,733 |
| Adjustments in respect of prior years | - | 917 | - |
| Total current tax | <u>235,234</u> | <u>147,163</u> | <u>7,733</u> |
| Deferred tax: | | | |
| Origination and reversal of temporary differences | 103,322 (| 30,909) | 3,397 |
| Impact of change in tax rate | - | - | - |
| Total deferred tax | <u>103,322 (</u> | <u>30,909)</u> | <u>3,397</u> |
| 10% surtax on undistributed earnings | - | - | - |
| Income tax expense | <u>\$ 338,556</u> | <u>\$ 116,254</u> | <u>\$ 11,129</u> |

| | <u>For the nine-month periods ended September 30,</u> | | |
|---|---|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> |
| | <u>New Taiwan Dollars</u> | | <u>US Dollars</u> |
| Current tax: | | | |
| Current tax on profits for the period | \$ 343,987 | \$ 351,346 | \$ 11,308 |
| Adjustments in respect of prior years | (361) | 4,691 | (12) |
| Total current tax | <u>343,626</u> | <u>356,037</u> | <u>11,296</u> |
| Deferred tax: | | | |
| Origination and reversal of temporary differences | 139,560 | 5,799 | 4,588 |
| Impact of change in tax rate | - | - | - |
| Total deferred tax | <u>139,560</u> | <u>5,799</u> | <u>4,588</u> |
| 10% surtax on undistributed earnings | <u>37,882</u> | <u>52,334</u> | <u>1,245</u> |
| Income tax expense | <u>\$ 521,068</u> | <u>\$ 414,170</u> | <u>\$ 17,129</u> |

b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

| | <u>For the three-month periods ended September 30,</u> | | |
|---|--|------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> |
| | <u>New Taiwan Dollars</u> | | <u>US Dollars</u> |
| Currency translation differences | (\$ 103,972) | \$ 41,226 | (\$ 3,418) |
| Actuarial gains and losses on benefit obligation | - | - | - |
| Available-for-sale financial assets-Unrealised gains and losses | (15,898) | - | (523) |
| | <u>(\$ 119,870)</u> | <u>\$ 41,226</u> | <u>(\$ 3,940)</u> |

| | For the nine-month periods ended September 30, | | |
|---|--|--------------------|--------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Currency translation differences | (\$ 26,150) | (\$ 93,835) | (\$ 860) |
| Actuarial gains and losses on benefit obligation | - | - | - |
| Available-for-sale financial assets-Unrealised gains and losses | (357,856) | - | (11,764) |
| | <u>(\$ 384,006)</u> | <u>(\$ 93,835)</u> | <u>(\$ 12,623)</u> |

B. The status of the Company's and its domestic subsidiaries' income tax returns is as follows:

Status of Assessment

| | |
|---|----------------------------------|
| The Company, PQI, PROCONN, FII, WCT, FUII, Studio A Inc., Zhi De Investment, Shinfox, Du Precision, VT, Dart, Va Product Inc. | Assessed and approved up to 2012 |
|---|----------------------------------|

C. Unappropriated retained earnings:

| | New Taiwan Dollars | | | US Dollars |
|---------------------------------------|---------------------|---------------------|---------------------|-------------------|
| Earnings generated in and before 1998 | <u>\$ 5,172,015</u> | <u>\$ 5,980,533</u> | <u>\$ 5,291,866</u> | <u>\$ 170,020</u> |

D. As of September 30, 2014, December 31, 2013 and September 30, 2013, the balance of the imputation tax credit account was \$897,201, \$1,088,743 and \$993,279, respectively. The creditable tax rate was 18.69% for 2012 and is estimated to be 17.34% for 2013.

(28) Earnings per share

| | For the three-month period ended September 30, 2014 | | | | |
|--|---|------------------|---|---------------------------------|----------------|
| | Amount after tax | | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) | |
| | | | | New Taiwan Dollars | US Dollars |
| | New Taiwan Dollars | US Dollars | | | |
| <u>Basic earnings per share</u> | | | | | |
| Profit attributable to ordinary shareholders of the parent | <u>\$ 524,906</u> | <u>\$ 17,255</u> | <u>514,421</u> | <u>\$ 1.02</u> | <u>\$ 0.03</u> |
| <u>Diluted earnings per share</u> | | | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 524,906 | \$ 17,255 | 514,421 | | |
| Assumed conversion of all dilutive potential ordinary shares | | | | | |
| Employees' options | - | - | 2,133 | | |
| Employees' bonus | - | - | 8,703 | | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | <u>\$ 524,906</u> | <u>\$ 17,255</u> | <u>525,257</u> | <u>\$ 1.00</u> | <u>\$ -</u> |

| For the three-month period ended September 30, 2013 | | | |
|--|--------------------|---|------------------------------------|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| | New Taiwan Dollars | | US Dollars |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 591,124 | 494,542 | \$ 0.04 |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 591,124 | 494,542 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' options | - | 5,206 | |
| Employees' bonus | - | 5,372 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 591,124 | 505,120 | \$ 0.04 |
| For the nine-month period ended September 30, 2014 | | | |
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| | New Taiwan Dollars | | US Dollars |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 928,592 | 507,566 | \$ 0.06 |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 928,592 | 507,566 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' options | - | 3,156 | |
| Employees' bonus | - | 8,703 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 928,592 | 519,425 | \$ 0.06 |
| For the nine-month period ended September 30, 2013 | | | |
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| | New Taiwan Dollars | | US Dollars |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 1,386,174 | 494,323 | \$ 0.09 |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 1,386,174 | 494,323 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' options | - | 4,904 | |
| Employees' bonus | - | 5,372 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | \$ 1,386,174 | 504,599 | \$ 0.09 |

(29) Transactions with non-controlling interest

Acquisition of additional equity interest in a subsidiary

- A. On January 28, 2014, PQI has acquired an additional 6.13% shares in PQI JAPAN CO., LTD. for a total cash consideration of JPY 40 million (approximately NT\$11,832). The carrying amount of the non-controlling interest – PQI JAPAN CO., LTD. was (\$7,660) at the acquisition date. The transaction has increased the non-controlling interest by \$7,660 and decreased equity attributable to owners of the parent by \$8,295.
- B. On April 11, 2014, the Group has acquired an additional 12.25% shares in Va Product Inc. for a total cash consideration of \$2,940. The carrying amount of non-controlling interest – Va Product Inc. was \$3,082 at the acquisition date. The transaction has decreased the non-controlling interest by \$771 and has decreased equity attributable to owners of the parent by \$2,169.
- C. On January 17, 2013, the Group acquired an additional 24.5% shares of Studio A Inc. (Hong Kong) for a total cash consideration of US\$21,300. The carrying amount of non-controlling interest – Studio A Inc. (Hong Kong) was \$133,868 at the acquisition date. The transaction has decreased the non-controlling interest by \$66,934 and has decreased equity attributable to owners of the parent by \$552,136.
- D. The effect of equity attributable to owners of the parent from changes in non-controlling interest for the nine-month periods ended September 30, 2014 and 2013 is as follows:

| | For the nine-month period ended Septmber 30, 2014 | For the nine-month period ended Septmber 30, 2013 | For the nine-month period ended Septmber 30, 2014 |
|--|---|---|---|
| | New Taiwans Dollars | | US Dollars |
| Carrying amount of non-controlling interest acquired | (\$ 2,489) | \$ 66,934 | (\$ 82) |
| Consideration paid to non-controlling interest | (7,975) | (619,070) | (262) |
| | <u>(\$ 10,464)</u> | <u>(\$ 552,136)</u> | <u>(\$ 344)</u> |
| Capital surplus, difference between consideration and carrying amount of subsidiaries acquired or disposed | (\$ 24) | \$ - | (\$ 1) |
| Retained earnings, difference between consideration and carrying amount of subsidiaries acquired or disposed | <u>(\$ 10,440)</u> | <u>(\$ 552,136)</u> | <u>(\$ 343)</u> |

(30) Operating leases

The Group leases offices, warehouses and branch locations under non-cancellable operating lease agreements. The lease terms are between 1 to 6 years, and all the lease agreements are renewable at the end of the lease period. The Group recognised rental expenses of \$153,982, \$109,339, \$454,825 and \$277,377 and contingent rents of \$11,164, \$3,183, \$12,534 and \$13,414 for these leases in profit or loss for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | September 30, 2014 | December 31, 2013 | September 30, 2013 | September 30, 2014 |
|---|--------------------|-------------------|--------------------|--------------------|
| | New Taiwan Dollars | | | US Dollars |
| No later than one year | \$ 362,921 | \$ 355,200 | \$ 423,388 | \$ 11,930 |
| Later than one year but not later than five years | 300,203 | 384,908 | 400,191 | 9,869 |
| | <u>\$ 663,124</u> | <u>\$ 740,108</u> | <u>\$ 823,579</u> | <u>\$ 21,799</u> |

(31) Non-cash transaction

Investment activities paid in cash:

| | For the nine-month periods ended September 30, | |
|--|--|---------------------|
| | 2014 | 2013 |
| Purchased fixed assets | \$ 2,390,419 | \$ 3,104,914 |
| Add: payables on equipment beginning of period | 867,825 | 1,752,810 |
| Less: payables on equipment end of period | (580,135) | (909,879) |
| Cash paid during the period for fixed assets | <u>\$ 2,678,109</u> | <u>\$ 3,947,845</u> |

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A. Sales of goods

| | For the three-month periods ended September 30, | | |
|-----------------|---|-------------------|------------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Sales of goods: | | | |
| -Associates | <u>\$ 568,050</u> | <u>\$ 720,269</u> | <u>\$ 18,674</u> |

| | For the nine-month periods ended September 30, | | |
|-----------------|--|--------------|------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Sales of goods: | | | |
| -Associates | \$ 1,013,332 | \$ 1,359,398 | \$ 33,311 |

All the credit term on sales to related parties was 120 to 180 days after monthly billings. The credit term on sales to third parties was 30 to 120 days after monthly billing or upon shipment of goods, except for receivables arising from the sales of tooling that are collectible upon acceptance by customers.

B. Purchases of goods

| | For the three-month periods ended September 30, | | |
|-----------------|---|------------|------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Sales of goods: | | | |
| -Associates | \$ 387,254 | \$ 739,907 | \$ 12,730 |

| | For the nine-month periods ended September 30, | | |
|-----------------|--|--------------|------------|
| | 2014 | 2013 | 2014 |
| | New Taiwan Dollars | | US Dollars |
| Sales of goods: | | | |
| -Associates | \$ 1,104,951 | \$ 1,461,798 | \$ 36,323 |

All purchases from related parties are at arm's-length. Payment period was 60 to 120 days after receipt of goods from suppliers.

C. Accounts receivable

| | September 30, 2014 | December 31, 2013 | September 30, 2014 | September 30, 2014 |
|---|--------------------|-------------------|--------------------|--------------------|
| | New Taiwan Dollars | | US Dollars | |
| Receivables from related parties: | | | | |
| Associates | \$ 827,754 | \$ 871,744 | \$ 882,376 | \$ 27,211 |
| Other receivables from related parties: | | | | |
| Associates | 192,466 | 182,229 | 177,912 | 6,327 |
| | \$ 1,020,220 | \$ 1,053,973 | \$ 1,060,288 | \$ 33,538 |

D. Accounts payable

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2014</u> | <u>September 30, 2014</u> |
|--------------------------------|---------------------------|--------------------------|---------------------------|---------------------------|
| | <u>New Taiwan Dollars</u> | | <u>US Dollars</u> | |
| Payables from related parties: | | | | |
| Associates | <u>\$ 321,707</u> | <u>\$ 419,439</u> | <u>\$ 292,345</u> | <u>\$ 10,576</u> |

(2) Key management compensation

| | <u>For the three-month periods ended September 30,</u> | | |
|---|--|------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2013</u> |
| | <u>New Taiwan Dollars</u> | | <u>US Dollars</u> |
| Salaries and other short-term employee benefits | \$ 37,824 | \$ 13,666 | \$ 1,243 |
| Post-employment benefits | <u>340</u> | <u>369</u> | <u>11</u> |
| Total | <u>\$ 38,164</u> | <u>\$ 14,035</u> | <u>\$ 1,255</u> |

| | <u>For the nine-month periods ended September 30,</u> | | |
|---|---|------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2013</u> |
| | <u>New Taiwan Dollars</u> | | <u>US Dollars</u> |
| Salaries and other short-term employee benefits | \$ 66,319 | \$ 57,795 | \$ 2,180 |
| Post-employment benefits | <u>1,093</u> | <u>5,238</u> | <u>36</u> |
| Total | <u>\$ 67,412</u> | <u>\$ 63,033</u> | <u>\$ 2,216</u> |

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| | <u>Book value</u> | <u>Book value</u> | |
|-----------------------------|---------------------------|--------------------------|---|
| <u>Pledged assets</u> | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>Pledged purpose</u> |
| Restricted assets - current | \$ 189,010 | \$ 183,620 | Customs deposit and guarantee for L/C issued for purchases of materials |
| | (US\$ 6,184) | | |
| Other receivables | 60,025 | 68,999 | Sale of accounts receivable retention money |
| | (US\$ -) | | |
| Refundable deposits | 368,784 | 420,611 | Customs deposit and plant deposit |
| | (US\$ 12,087) | | |
| Other assets - other | 2,500 | 2,500 | Litigation deposit |
| | (US\$ 83.71) | | |
| | <u>\$ 620,319</u> | <u>\$ 675,730</u> | |

| | Book value | |
|-----------------------------|--------------------|---|
| Pledged assets | September 30, 2013 | Pledged purpose |
| Restricted assets - current | \$ 384,939 | Customs deposit and guarantee for L/C issued for purchases of materials |
| Other receivables | 41,546 | Sale of accounts receivable retention money |
| Refundable deposits | 196,303 | Customs deposit and plant deposit |
| Other assets - other | 2,500 | Litigation deposit |
| | <u>\$ 625,288</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows :

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> | <u>September 30, 2013</u> | <u>September 30, 2014</u> |
|-------------------------------|---------------------------|--------------------------|---------------------------|---------------------------|
| | New Taiwan Dollars | | | US Dollars |
| Property, plant and equipment | <u>\$ 919,168</u> | <u>\$ 343,417</u> | <u>\$ 405,104</u> | <u>\$ 30,216</u> |

(2) On December 16, 2011, PQI was informed by its US indirect subsidiary that it had a dispute over accounts receivable with a customer in Central and South America. Through the Company's investigation, it was found that this event was caused by one employee of the US indirect subsidiary of PQI, who altered the related delivery documents without permission, which resulted to the delivery of the goods to a location that was not designated by the customer. The related amount was estimated at US\$19,447 thousand (NT\$577,633 thousand). Based on the attorney's opinion, the US indirect subsidiary of PQI has the credit right to the employee on this event. However, based on conservatism principle, the US indirect subsidiary of PQI has recognized bad debts in full for the credit right (shown under non-operating expenses – other expenses). This case has been under the investigation of the courts in ROC and USA. However, actual loss depends on the judgement of the courts. PQI had filed a lawsuit in ROC and USA, respectively, against the employee and applied to Taiwan New Taipei District Court for provisional seizure with a deposit of \$2,500 as security. Based on the attorney's opinion, the collectability of the credit right was uncertain. In addition, the US indirect subsidiary of PQI filed a lawsuit against its client—PRIVATE LABEL PC, INC. (PLPC), seeking compensation. PLPC also filed a counterclaim against the US indirect subsidiary and HK subsidiary of PQI, seeking compensation of US\$3,224 thousand. As of the financial reporting date, the final results of these cases had not been determined.

- (3) On March 25, 2014, the shareholders of Studio A Inc. approved to sell its 51% shares in ASHOP CO., LTD. to Dugo Tech (Dugo Tech Co., Ltd.) or the designated person for the amount of USD 5 million over three years. The transaction amount will be collected in full at the end of 2016. In order to protect its right, Studio A Inc. will not transfer its control right until the amount of equity transaction is collected completely. Furthermore, since ASHOP CO. LTD. is still considered as a subsidiary of Studio A Inc., ASHOP CO., LTD. consults and requests the Company to provide capital of up to USD 10 million and guarantee for material purchase from Apple of up to USD 3 million. If there is any loss on the loan and the endorsement, Studio A Inc. has the joint and several liability and the maximum of the compensation is USD 13 million. However, the result is dependent upon the completion of the transaction.
- (4) The Group has signed an equity transaction agreement with GENG SI HUA in July 2014 to acquire 64.29% share ownership of Power Channel Ltd. As of the financial reporting date, the transaction has not been completed yet. For business relationship, the Group has provided a maximum of RMB\$100 million financing to Sharetronic Digital Electronic (Shen Zhen) Co., Ltd. SI HUA has provided 58% share ownership of Sharetronic Digital Electronic (Shen Zhen) Co., Ltd. as guarantee for the aforementioned transaction.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- A. On October 13, 2014, the Board of Directors has resolved that Foxlink Technology Limited sell 25% share ownership of Xie Xun Electronics (Ji An) Ltd. to ICT-LANTO LIMITED for the amount of RMB\$149,722 thousand (approximately \$738,728).
- B. On October 17, 2014, the Board of Directors has resolved that Fu Uei International Investment Ltd. (FUII) acquire newly issued shares of Glory Science Co., Ltd. through capital increase. The investment amount was increased by \$413,490. The accumulated investment amount was \$551,558 and the ownership ratio was 15.41%.
- C. Fu Gang Electronics (Tian Jin) Ltd. (FGETJ) has disposed its 1,918,090 shares in Shenzhen Luxshare Precision Industry Co., Ltd. starting from October 30, 2014 to November 11, 2014. The selling price was RMB\$61,656 thousand (approximately \$304,213).

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the actual financial condition.

(2) Financial instruments

A. Fair value information of financial instruments

Except for those listed in the table below, the carrying amount of financial instruments measured at amortised cost (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables) is approximate to their fair value. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

| | September 30, 2014 | | | |
|--|--------------------|--------------|--------------------|--------------|
| | Book value | Fair value | Book value | Fair value |
| | New Taiwan Dollars | | US Dollars | |
| Financial assets: | | | | |
| Financial assets measured at cost | \$ 533,000 | \$ - | \$ 17,521 | \$ - |
| Financial liabilities: | | | | |
| Long-term borrowings (including current portion) | \$ 5,746,665 | \$ 5,562,830 | \$ 188,911 | \$ 182,868 |
| | December 31, 2013 | | September 30, 2013 | |
| | Book value | Fair value | Book value | Fair value |
| | New Taiwan Dollars | | New Taiwan Dollars | |
| Financial assets: | | | | |
| Financial assets measured at cost | \$ 33,000 | \$ - | \$ 34,429 | \$ - |
| Financial liabilities: | | | | |
| Bonds payable | \$ - | \$ - | \$ 459,243 | \$ 475,000 |
| Long-term borrowings (including current portion) | 5,812,986 | 5,548,643 | 5,888,049 | 5,618,231 |
| | \$ 5,812,986 | \$ 5,548,643 | \$ 6,347,292 | \$ 6,093,231 |

B. Financial risk management policies

- a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance. The Group uses derivative financial instruments to hedge certain risk exposures (see Note 6(2)).
- b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

- The Group primarily uses US dollars as the valuation unit in purchases and sales, and the fair value of foreign currency will change as the market exchange rate changes. If a short-term position gap arises, the Group will enter into foreign exchange forward contracts. Hence, it does not expect to have significant market risk.
- The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and HKD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| September 30, 2014 | | | |
|---|------------------------------------|---------------|------------------|
| | Foreign currency (in thousands) | Exchange rate | Book value (NTD) |
| (Foreign currency: functional currency) | | | |
| <u>Financial Assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | \$ 1,018,236 | 30.42 | \$ 30,974,739 |
| USD : RMB | 58,479 | 6.14 | 1,778,931 |
| HKD : NTD | 18,886 | 3.92 | 73,995 |
| JPY : NTD | 382,054 | 0.28 | 106,211 |
| <u>Non-monetary items</u> | | | |
| RMB : HKD | \$ 130,619 | 1.26 | \$ 644,474 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | \$ 343,275 | 30.42 | \$ 10,442,426 |
| USD : RMB | 205,082 | 6.14 | 9,238,594 |
| USD : HKD | 51,895 | 7.76 | 1,578,646 |
| JPY : NTD | 182,762 | 0.28 | 50,808 |
| RMB : HKD | 65,720 | 1.26 | 34,252,262 |
| December 31, 2013 | | | |
| | Foreign currency (in thousands) | Exchange rate | Book value (NTD) |
| (Foreign currency: functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | \$ 1,398,758 | 29.81 | \$ 41,696,976 |
| USD : RMB | 30,044 | 6.05 | 895,612 |
| HKD : NTD | 20,114 | 3.84 | 77,298 |
| JPY : NTD | 817,656 | 0.28 | 228,944 |
| <u>Non-monetary items</u> | | | |
| RMB : HKD | \$ 27 | 1.28 | \$ 133 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | \$ 1,121,818 | 29.81 | \$ 33,441,395 |
| USD : RMB | 718,879 | 6.05 | 21,429,783 |
| USD : HKD | 12,957 | 7.76 | 386,183 |
| JPY : NTD | 261,652 | 0.28 | 74,283 |
| RMB : HKD | 91,781 | 1.28 | 451,838 |

| September 30, 2013 | | | | |
|---|------------------|---------|---------------|------------------|
| | Foreign currency | | | |
| | (in thousands) | | Exchange rate | Book value (NTD) |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | \$ | 401,748 | 29.57 | \$ 11,879,688 |
| USD : RMB | | 152,521 | 6.12 | 4,510,046 |
| HKD : NTD | | 8,854 | 3.81 | 33,760 |
| JPY : NTD | | 545,410 | 0.30 | 164,768 |
| <u>Non-monetary items</u> | | | | |
| RMB : HKD | \$ | 143,777 | 1.27 | \$ 694,874 |
| <u>Monetary liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | \$ | 294,551 | 29.57 | \$ 8,709,873 |
| USD : RMB | | 381,637 | 6.12 | 11,285,006 |
| USD : HKD | | 62,930 | 7.76 | 488,025 |
| JPY : NTD | | 19,445 | 0.30 | 5,874 |
| RMB : HKD | | 92,928 | 1.27 | 449,121 |

- Analysis of foreign currency market risk arising from significant foreign exchange variation:

| For the nine-month period ended September 30, 2014 | | | | |
|--|---------------------|--|--------------------------------------|---|
| Sensitivity Analysis | | | | |
| | Extent of variation | Effect on profit or loss before income tax | Effect on other comprehensive income | |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | 1% | \$ 309,747 | \$ | - |
| USD : RMB | 1% | 17,789 | | - |
| HKD : NTD | 1% | 740 | | - |
| JPY : NTD | 1% | 1,062 | | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | 1% | \$ 104,424 | \$ | - |
| USD : RMB | 1% | 62,386 | | - |
| USD : HKD | 1% | 15,786 | | - |
| JPY : NTD | 1% | 508 | | - |
| RMB : HKD | 1% | 3243 | | - |

| For the nine-month period ended September 30, 2013 | | | | |
|--|------------------------|----|--|--|
| Sensitivity Analysis | | | | |
| | Extent of variation | | Effect on profit or loss before income tax | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | 1% | \$ | 118,797 | \$ - |
| USD : RMB | 1% | | 45,100 | - |
| HKD : NTD | 1% | | 338 | - |
| JPY : NTD | 1% | | 1,648 | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | 1% | \$ | 87,099 | \$ - |
| USD : RMB | 1% | | 112,850 | - |
| USD : HKD | 1% | | 4,880 | - |
| JPY : NTD | 1% | | 59 | - |
| RMB : HKD | 1% | | 4,491 | - |

Price risk

- The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss or measured at cost. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. The Group has set stop-loss amounts. No significant market risk is expected.
- The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the nine-month periods ended September 30, 2014 and 2013 would have increased/decreased by \$4 and (\$362), respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$24,353 and \$22,259, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

- The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings at variable rate were denominated in NTD and USD.
- As of September 30, 2014 and 2013, if interest rates on borrowings at that date had been 1% lower/higher with all other variables held constant, post-tax profit for the nine-month periods ended September 30, 2014 and 2013 would have been \$47,697 and \$48,871 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only financial institutions with high credit quality are accepted as counterparties of trade.

Loan guarantees provided by the Company are in compliance with the Company's "Procedures for Provision of Endorsements and Guarantees" and are only provided to subsidiaries of which the Company owns directly more than 50% ownership or affiliates of which the Company owns directly or indirectly more than 50% ownership and on which the Company has a significant influence. As the Company is fully aware of the credit conditions of these related parties, it has not asked for collateral for the loan guarantees provided. In the event that these related parties fail to comply with loan agreements with banks, the maximum loss to the Company is the total amount of loan guarantees.

- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The individual analysis of financial assets that had been impaired is provided in the disclosure for each type of financial asset in Note 6.

c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The Group expects the foreign exchange forward contracts to result in a cash inflow of NT\$29,906 and outflow of US\$1 in October, 2014. The exchange rate is reasonably assured and the Group has sufficient operating capital to meet the above cash needs.

The equity instruments are traded in active markets and accordingly, are expected to be readily sold at approximately its fair value.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

| <u>Septmtember 30, 2014</u> | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Between 2 and 3 years</u> | <u>Between 3 and 5 years</u> | <u>Over 5 years</u> |
|--|---------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------|
| | <u>New Taiwan Dollars</u> | | | | |
| Short-term borrowings | \$ 9,900,263 | \$ - | \$ - | \$ - | \$ - |
| Notes payable | 7,517 | - | - | - | - |
| Accounts payable | 12,129,522 | - | - | - | - |
| Other payables | 4,682,986 | - | - | - | - |
| Bonds payable | 475,000 | - | - | - | - |
| Long-term borrowings (including current portion) | 48,002 | 5,631,311 | 27,833 | 34,323 | 5,196 |
| <u>September 30, 2014</u> | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Between 2 and 3 years</u> | <u>Between 3 and 5 years</u> | <u>Over 5 years</u> |
| | <u>US Dollars</u> | | | | |
| Short-term borrowings | \$ 325,452 | \$ - | \$ - | \$ - | \$ - |
| Notes payable | 247 | - | - | - | - |
| Accounts payable | 398,735 | - | - | - | - |
| Other payables | 153,944 | - | - | - | - |
| Bonds payable | 15,615 | - | - | - | - |
| Long-term borrowings (including current portion) | 1,578 | 185,119 | 915 | 1,128 | 171 |

Non-derivative financial liabilities:

| <u>December 31, 2013</u> | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Between 2 and 3 years</u> | <u>Between 3 and 5 years</u> | <u>Over 5 years</u> |
|--|---------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------|
| | <u>New Taiwan Dollars</u> | | | | |
| Short-term borrowings | \$ 9,909,862 | \$ - | \$ - | \$ - | \$ - |
| Notes payable | 726 | - | - | - | - |
| Accounts payable | 17,479,488 | - | - | - | - |
| Other payables | 5,615,456 | - | - | - | - |
| Bonds payable | 475,000 | - | - | - | - |
| Long-term borrowings (including current portion) | 163,182 | 17,467 | 5,612,400 | 12,400 | 7,537 |

| <u>September 30, 2013</u> | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Between 2 and 3 years</u> | <u>Between 3 and 5 years</u> | <u>Over 5 years</u> |
|--|---------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------|
| | <u>New Taiwan Dollars</u> | | | | |
| Short-term borrowings | \$ 12,117,967 | \$ - | \$ - | \$ - | \$ - |
| Notes payable | 40,238 | - | - | - | - |
| Accounts payable | 12,446,251 | - | - | - | - |
| Other payables | 5,404,330 | - | - | - | - |
| Bonds payable | - | 475,000 | - | - | - |
| Long-term borrowings (including current portion) | 235,700 | 21,862 | 5,612,400 | 11,937 | 6,150 |

As of September 30, 2014, December 31, 2013 and September 30, 2013, all of the derivative financial liabilities of the Group will be settled in less than 1 year.

- iv. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value estimation

A. The table below analyses financial instruments measured at fair value, by valuation method.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data.

The Group's financial assets and liabilities measured by fair value on September 30, 2014, December 31, 2013 and September 30, 2013 are as follows:

| <u>September 30, 2014</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|------------------|----------------|---------------------|
| Financial assets: | | | | |
| Available-for-sale financial assets | | | | |
| Equity securities | <u>\$ 2,934,150</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,934,150</u> |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward exchange contracts | <u>\$ -</u> | <u>\$ 530</u> | <u>\$ -</u> | <u>\$ 530</u> |
| <u>December 31, 2013</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Financial assets: | | | | |
| Available-for-sale financial assets | | | | |
| Equity securities | <u>\$ 2,160,581</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,160,581</u> |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward exchange contracts | <u>\$ -</u> | <u>\$ 10,338</u> | <u>\$ -</u> | <u>\$ 10,338</u> |
| <u>September 30, 2013</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | \$ - | \$ 43,576 | \$ - | \$ 43,576 |
| Available-for-sale financial assets | | | | |
| Equity securities | <u>2,225,931</u> | <u>-</u> | <u>-</u> | <u>2,225,931</u> |
| | <u>\$ 2,225,931</u> | <u>\$ 43,576</u> | <u>\$ -</u> | <u>\$ 2,269,507</u> |

- B. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments and debt instruments classified as financial assets/financial liabilities at fair value through profit or loss or available-for-sale financial assets.

- C. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- D. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.
- E. Specific valuation techniques used to value financial instruments include:
 - (a) Quoted market prices or dealer quotes for similar instruments.
 - (b) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
 - (c) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

13. SUPPLEMENTARY DISCLOSURES

1) Significant transactions information

A. Loans to others:

(The information disclosed relative to the investee companies was based on their financial statements for the corresponding period which were not reviewed by independent accountants and the transactions with subsidiaries have been written off when preparing consolidated financial statements.)

| Number | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding balance during the nine-month period ended September 30, 2014 | Balance at September 30, 2014 | Actual amount drawn down | Interest rate | Nature of loan (Note 1) | Amount of transactions with the borrower | Reason for short – term financing | Allowance for doubtful accounts | Collateral | | Limit on loans granted to a single party (Note 2) | Ceiling on total loans granted (Note 3) | Note |
|--------|--|--|-------------------------------------|--------------------|---|-------------------------------|--------------------------|---------------|-------------------------|--|-----------------------------------|---------------------------------|------------|-------|---|---|------|
| | | | | | | | | | | | | | Item | Value | | | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Fu Gang Electronics (Tian Jin) Ltd. | Other receivables - related parties | Yes | \$ 500,000 | \$ 500,000 | \$ 465,144 | - | 2 | \$ - | Operations | \$ - | - | \$ - | \$ 4,980,053 | \$ 9,960,106 | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Suntain Co., Ltd.(Suntain) | " | " | 150,000 | 100,000 | 46,389 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Culink (Tianjin) Co., Ltd. (Foxlink, Taijin) | " | " | 200,000 | 200,000 | 183,100 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Kunshan Fugang Electronics Trading Co., Ltd. | " | " | 49,863 | 49,340 | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | ASHOP Co., Ltd. | " | " | 304,700 | 304,200 | 304,200 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 1 | CU INTERNATIONAL LTD. | Kunshan Fushijing Electronics Co., Ltd. | " | " | 200,000 | 200,000 | 110,738 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 1 | CU INTERNATIONAL LTD. | Fu Gang Electronics (Kun Shan) Ltd. | " | " | 100,000 | 100,000 | 53,481 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 2 | Fu Gang Electronics (Kun Shan) Ltd. | Darts Technologies (Shang Hai) Co., Ltd. | " | " | 177,511 | 175,650 | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 2 | Fu Gang Electronics (Kun Shan) Ltd. | Kunshan Fugang Electronics Trading Co., Ltd. | " | " | 149,588 | 148,020 | 148,020 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 2 | Fu Gang Electronics (Kun Shan) Ltd. | Kunshan Fu Shi Yu Trading Co., Ltd. | " | " | 24,931 | 24,670 | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 2 | Fu Gang Electronics (Kun Shan) Ltd. | Sharetronic Digital Electronic (Shen Zhen) Co., Ltd. | | | 493,400 | 493,400 | 493,400 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |

| Number | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding balance during the nine-month period ended September 30, 2014 | Balance at September 30, 2014 | Actual amount drawn down | Interest rate | Nature of loan (Note 1) | Amount of transactions with the borrower | Reason for short – term financing | Allowance for doubtful accounts | Collateral | | Limit on loans granted to a single party (Note 2) | Ceiling on total loans granted (Note 3) | Note |
|--------|--|--|-------------------------------------|--------------------|---|-------------------------------|--------------------------|---------------|-------------------------|--|-----------------------------------|---------------------------------|------------|-------|---|---|------|
| | | | | | | | | | | | | | Item | Value | | | |
| 3 | Proconn Technology Co., Ltd. | MEDIA UNIVERSE INC. | Other receivables - related parties | Yes | \$ 241,514 | \$ 241,514 | \$ 241,514 | - | 2 | \$ - | Operations | \$ - | - | \$ - | \$ 4,980,053 | \$ 9,960,106 | |
| 3 | Proconn Technology Co., Ltd. | BYFORD INTERNATIONAL LIMITED. | " | " | 50,782 | 50,699 | 50,699 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 4 | MEDIA UNIVERSE INC. | Proconn Technology (Suzhou) Co., Ltd. | " | " | 357,479 | 339,943 | 339,943 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 5 | Studio A Inc. | Jing Jing Technology Co., Ltd. (Jing Jing) | " | " | 100,000 | 100,000 | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 5 | Studio A Inc. | ASHOP CO., LTD. | " | " | 150,000 | - | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 5 | Studio A Inc. | Studio A Inc. (Hong Kong) | " | " | 300,000 | 300,000 | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 5 | Studio A Inc. | Jin Sheng Technology Co., Ltd. | " | " | 100,000 | 100,000 | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 6 | World Circuit Technology Co., Ltd. | World Circuit Technology (Hong Kong) Limited. | " | " | 30,470 | 30,420 | 23,931 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 6 | World Circuit Technology Co., Ltd. | Shanghai World Circuit Technology Co., Ltd. (SWCT) | " | " | 150,000 | 150,000 | 72,028 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 6 | World Circuit Technology Co., Ltd. | Cheng Uei Precision Industry Co., Ltd. | " | " | 222,000 | 222,000 | 222,000 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 7 | BYFORD INTERNATIONAL LTD. | Proconn Technology (Shenzhen) Co., Ltd. | " | " | 163,255 | 162,987 | 160,987 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 8 | Jing Jing Technology Co., Ltd. (Jing Jing) | Studio A Inc. | " | " | 100,000 | 100,000 | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 9 | Studio A Macau Limited | Studio A Inc. (Hong Kong) | " | " | 150,000 | - | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 10 | Foxlink Electronics (Tian Jin) Ltd. | Fu Gang Electronics (Tina Jin) Ltd. | " | " | 269,756 | - | - | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 10 | Foxlink Electronics (Tian Jin) Ltd. | Fu Gang Electronics (Kun Shan) Ltd. | " | " | 246,700 | 246,700 | 246,700 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |

| Number | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding balance during the nine-month period ended September 30, 2014 | Balance at September 30, 2014 | Actual amount drawn down | Interest rate | Nature of loan (Note 1) | Amount of transactions with the borrower | Reason for short – term financing | Allowance for doubtful accounts | Collateral | | Limit on loans granted to a single party (Note 2) | Ceiling on total loans granted (Note 3) | Note |
|--------|--|--|-------------------------------------|--------------------|---|-------------------------------|--------------------------|---------------|-------------------------|--|-----------------------------------|---------------------------------|------------|-------|---|---|------|
| | | | | | | | | | | | | | Item | Value | | | |
| 11 | Neosonic Energy Technology (Tianjin) Ltd. | Fu Gang Electronics (Tina Jin) Ltd. | Other receivables - related parties | Yes | 191,971 | 189,959 | 189,959 | - | 2 | \$ - | Operations | \$ - | - | \$ - | \$ 4,980,053 | \$ 9,960,106 | |
| 12 | Kunshan Fugang Electronics Trading Co., Ltd. | Kunshan Fu Shi Yu Trading Co., Ltd. | " | " | 49,863 | 49,340 | 4,934 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 13 | Apix Limited | Power Quotient International Co., Ltd. | Other receivables | " | 211,614 | 211,267 | 209,514 | - | 2 | - | Acquisition of plan | - | - | - | 670,868 | 1,341,737 | |
| 13 | Apix Limited | SINOCITY INDUSTRIES LTD. | " | " | 304,700 | 304,200 | - | - | 2 | - | " | - | - | - | 670,868 | 1,341,737 | |
| 14 | Shinfox Corporation Ltd. | CLASSIC LIVING CO., LTD. | " | No | 40,000 | 40,000 | 16,625 | - | 2 | - | Operations | - | - | - | 4,980,053 | 9,960,106 | |
| 15 | FOXWELL ENERGY CORPORATION LTD. | Shinfox Corporation Ltd. | " | Yes | 35,000 | 35,000 | 15,214 | - | 2 | - | " | - | - | - | 4,980,053 | 9,960,106 | |
| 16 | Power Quotient International Co., Ltd. | SINOCITY INDUSTRIES LTD. | " | " | 304,700 | 304,200 | - | - | 2 | - | Acquisition of plan | - | - | - | 884,963 | 1,769,926 | |
| 17 | Fu Uei International Investment Ltd. | Cheng Uei Precision Industry Co., Ltd. | " | " | 450,000 | 450,000 | 450,000 | - | 2 | - | Operations | - | - | - | 4,980,053 | 9,960,106 | |

Note 1: The numbers as follows represent the nature of loan:

a) Business transaction is labeled as “1”.

b) Short-term financing is labeled as “2”.

Note 2: Limit on loans granted to a single party is 20% of the Company’s net assets value.

Limit on loans granted by APIX LIMITED Co., Ltd. to a single party is 20% of their respective net assets value.

Note 3: Ceiling on total loans granted to all parties is 40% of the Company’s net assets value.

Celing on total loans granted by APIX LIMITED Co., Ltd. to all parties is 40% of their respective net assets value.

B. Provision of endorsements and guarantees to others

| Number | Endorser / guarantor | Party being endorsed / guaranteed | | Limit on endorsements / guarantees provided for a single party (Note 1) | Maximum outstanding endorsement / guarantee amount during the nine-month period ended September 30, 2014 | Outstanding endorsement / guarantee amount at September 30, 2014 | Actual amount of drawn down | Amount of endorsements / guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Ceiling on total amount of endorsements / guarantees provided (Note 2) | Provision of endorsements / guarantees by parent company to subsidiary | Provision of endorsements / guarantees by subsidiary to parent company | Provision of endorsements / guarantees to the party in Mainland China | Note |
|--------|--|--|--|---|--|--|-----------------------------|---|--|--|--|--|---|------|
| | | Company Name | Relationship with the endorser / guarantor | | | | | | | | | | | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Fu Gang Electronics (Nanchang) Ltd. | An indirect wholly-owned subsidiary | \$ 12,450,133 | \$ 121,880 | \$ - | \$ - | \$ - | 0.00 | \$ 12,450,133 | Y | N | Y | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Fushineng Electronics (Kun Shan) Co., Ltd. | " | 12,450,133 | 304,700 | - | - | - | 0.00 | 12,450,133 | Y | N | Y | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | ASHOP CO., LTD. | " | 9,960,106 | 304,700 | - | - | - | 0.00 | 12,450,133 | Y | N | N | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | ASHOP CO., LTD. | " | 9,960,106 | 152,350 | 91,260 | 91,260 | - | 0.37 | 12,450,133 | Y | N | N | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Jing Jing Technology Co., Ltd. (Jing Jing) | " | 9,960,106 | 510,000 | 450,000 | - | - | 1.81 | 12,450,133 | Y | N | N | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Jing Sheng Technology Co., Ltd. | " | 9,960,106 | 60,000 | 60,000 | 3,978 | - | 0.24 | 12,450,133 | Y | N | N | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Studio A Inc. | " | 9,960,106 | 900,000 | 720,000 | 460,894 | - | 2.89 | 12,450,133 | Y | N | N | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Studio A (Hong Kong) Inc. | " | 9,960,106 | 2,311,920 | 2,311,920 | 460,559 | - | 9.28 | 12,450,133 | Y | N | N | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Kunshan Fugang Electronics Trading Co., Ltd. | " | 9,960,106 | 152,350 | 152,100 | - | - | 0.61 | 12,450,133 | Y | N | Y | |
| 0 | Cheng Uei Precision Industry Co., Ltd. | Kunshan Fugang Electronics Trading Co., Ltd. | " | 9,960,106 | 912,600 | 912,600 | 57,042 | - | 3.67 | 12,450,133 | Y | N | Y | |
| 1 | Proconn Technology Co., Ltd. | Media Universe Inc. | Subsidiary | 9,960,106 | 45,705 | 45,630 | 9,734 | - | 0.18 | 12,450,133 | Y | N | N | |
| 1 | Proconn Technology Co., Ltd. | Proconn Technology (Suzhou) Co., Ltd. | " | 9,960,106 | 60,940 | - | - | - | 0.00 | 12,450,133 | Y | N | Y | |
| 2 | Power Quotient International Co., Ltd. | SINOCITY INDUSTRIES LTD. | Subsidiary | 2,212,408 | 304,700 | 304,200 | 304,200 | - | 6.87 | 2,212,408 | Y | N | N | |
| 3 | Studio A Inc. | Jing Jing Technology Co., Ltd. (Jing Jing) | " | 9,960,106 | 50,000 | 50,000 | - | - | 0.20 | 12,450,133 | Y | N | N | |
| 3 | Studio A Inc. | Studio A (Hong Kong) Inc. | " | 9,960,106 | 396,110 | 395,460 | 395,460 | - | 1.59 | 12,450,133 | Y | N | N | |
| 3 | Studio A Inc. | ASHOP CO., LTD. | " | 9,960,106 | 1,066,450 | 547,560 | 91,260 | - | 2.20 | 12,450,133 | Y | N | N | |
| 4 | Fu Gang Electronics (Kun Shan) Ltd. | FUGANG ELECTRIC (MAANSHAN) CO., LTD. | Affiliates | 12,450,133 | 1,357,020 | 1,332,180 | 740,100 | - | 5.35 | 12,450,133 | Y | N | Y | |

Note 1: For subsidiaries whose shares are 90% or above held by the Company, ceiling on total amount of endorsements and guarantees provided by the Company is 50% of the Company's net assets value; limit on endorsements and guarantees provided by the Company for a single party is 40% of the Company's net assets value.

For PQI, ceiling on total amount of endorsements and guarantees provided by PQI is 50% of PQI's net assets value.

Note 2: The Company's guarantee to others should not exceed 50% of the Company's net assets.

PQI's guarantee to others should not exceed 50% of PQI's net assets.