(English Translation of Financial Report Originally Issued in Chinese)

COMPAL ELECTRONICS, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(With Independent Auditor's Report Thereon)

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Independent Auditors' Report

To the Board of Directors
Compal Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Compal Electronics, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013. These consolidated financial reports are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial reports based on our audits.

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

In our opinion, the consolidated financial reports referred to above present fairly, in all material respects, the consolidated financial position of Compal Electronics, Inc. as of December 31, 2014 and 2013, and the results of their consolidated operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting standards, International Accounting Standards, IFRSC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission in the Republic of China.

As stated in note (6)(c) of the consolidated financial reports, Compal Electronics, Inc. and its subsidiaries recognized an impairment loss of NT$4,730,000 thousand on the equity investment in Chunghwa Picture Tubes, Ltd. for the three months ended March 31, 2014.

As stated in note (6)(c) of the consolidated financial reports, Compal Electronics, Inc. and its subsidiaries reclassified the investment of VIBO Telecom Inc. from investments accounted for using equity method to non-current assets classified as held for sale, and recognized an impairment loss of NT$4,901,360 thousand for the three months ended September 30, 2013.

Compal Electronics Inc. has prepared the annual parent company only financial reports as of and for the years ended December 31, 2014 and 2013, on which we have issued a modified unqualified opinion.

KPMG

Taipei, Taiwan, R.O.C.
February 26, 2015

Note to Readers

The accompanying financial reports are intended only to present the financial position, results of operations, and cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards and interpretations endorsed by the Financial Supervisory Commissions in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial reports are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial reports are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language versions of the auditors' report and financial reports, the Chinese version shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013
(expressed in thousands of New Taiwan Dollars)

Assets	December 31, 2014 Amount	%	December 31, 2013 Amount	%
Current assets:				
Cash and cash equivalents (note (6)(a))	$ 74,708,130	19.7	46,965,852	14.0
Current financial assets at fair value through profit or loss (note (6)(b))	184,093	-	83,772	-
Current available-for-sale financial assets (note (6)(c))	44,538	-	80,275	-
Current bond investment without active market (note (6)(e))	350,000	0.1	1,745,000	0.5
Notes and accounts receivable, net (notes (6)(f) and (8))	178,552,207	47.2	183,481,024	54.6
Notes and accounts receivable due from related parties, net (notes (6)(f) and (7))	343,030	0.1	214,854	0.1
Other receivables (notes (6)(f) and (7))	788,334	0.2	830,638	0.3
Inventories, net (note (6)(g))	67,270,875	17.8	51,219,127	15.2
Non-current assets classified as held for sale (note (6)(c))	-	-	1,000,000	0.3
Other current assets (note (8))	2,604,042	0.7	1,760,278	0.5
	324,845,249	85.8	287,380,820	85.5
Non-current assets:				
Investments accounted for using equity method (note (6)(h))	11,694,855	3.1	9,301,877	2.8
Non-current available-for-sale financial assets (note (6)(c))	12,402,009	3.3	14,695,637	4.4
Non-current financial assets at cost (note (6)(d))	83,202	-	6,588	-
Non-current bond investment without active market (note (6)(e))	1,400,000	0.4	-	-
Property, plant and equipment (notes (6)(j) and (8))	24,472,732	6.4	21,209,228	6.3
Intangible assets	1,035,162	0.3	1,293,643	0.4
Deferred tax assets (note (6)(p))	1,653,141	0.4	1,174,203	0.3
Long-term prepaid rents (note (6)(n))	735,246	0.2	707,261	0.2
Other non-current assets (note (6)(o))	429,122	0.1	333,557	0.1
	53,905,469	14.2	48,721,994	14.5
Total assets	$ 378,750,718	100.0	336,102,814	100.0

Liabilities and equity	December 31, 2014 Amount	%	December 31, 2013 Amount	%
Current liabilities:				
Short-term borrowings (note (6)(k))	$ 46,692,373	12.3	51,971,767	15.5
Current financial liabilities at fair value through profit or loss (note (6)(b))	39,310	-	11,382	-
Notes and accounts payable	170,739,133	45.1	143,514,698	42.7
Notes and accounts payable to related parties (note (7))	1,167,152	0.3	1,944,703	0.6
Other payables (note (6)(i))	18,216,304	4.8	15,601,065	4.6
Current tax liabilities	2,180,985	0.6	1,006,058	0.3
Current provisions (note (6)(m))	2,066,581	0.5	1,675,765	0.5
Other current liabilities	3,233,431	0.9	2,559,650	0.8
Unearned revenue	2,294,765	0.6	1,889,019	0.6
Long-term borrowings, current portion (note (6)(l))	3,634,233	1.0	423,154	0.1
	250,264,267	66.1	220,597,261	65.7
Non-current liabilities:				
Long-term borrowings (note (6)(l))	20,504,301	5.4	14,107,367	4.2
Deferred tax liabilities (note (6)(p))	1,136,411	0.3	678,587	0.2
Accrued pension liabilities (note (6)(o))	674,794	0.2	658,410	0.2
Other non-current liabilities	163,793	-	98,917	-
	22,479,299	5.9	15,543,281	4.6
Total liabilities	272,743,566	72.0	236,140,542	70.3
Equity attributable to owners of parent:				
Ordinary shares (notes (6)(q) and (r))	44,232,366	11.7	44,134,467	13.1
Capital surplus (note (6)(q))	14,296,445	3.8	16,193,087	4.8
Retained earnings (note (6)(q))	47,509,087	12.5	44,260,834	13.2
Other equity interest	(3,139,021)	(0.8)	(7,707,518)	(2.3)
Treasury shares (note (6)(q))	(1,724,739)	(0.5)	(2,007,725)	(0.6)
	101,174,138	26.7	94,873,145	28.2
Non-controlling interests	4,833,014	1.3	5,089,127	1.5
Total equity	106,007,152	28.0	99,962,272	29.7
Total liabilities and equity	$ 378,750,718	100.0	336,102,814	100.0

See accompanying notes to the consolidated financial reports.

(English Translation of Financial Report Originally Issued in Chinese)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

(expressed in thousands of New Taiwan Dollars, except net income per share)

	2014 Amount	%	2013 Amount	%
Net sales revenue (notes (6)(t) and (7))	$ 845,700,752	100.0	$ 692,748,293	100.0
Cost of sales (notes (6)(g), (6)(o), (7) and (12))	813,336,090	96.2	664,637,902	95.9
Gross profit	32,364,662	3.8	28,110,391	4.1
Operating expenses (notes (6)(o) and (12)):				
Selling expenses	3,746,315	0.4	3,271,332	0.5
Administrative expenses	4,832,771	0.6	4,294,551	0.6
Research and development expenses	12,111,034	1.4	11,310,464	1.7
	20,690,120	2.4	18,876,347	2.8
Net operating income	11,674,542	1.4	9,234,044	1.3
Non-operating income and expenses:				
Other gains and losses (notes (6)(h) and (6)(u))	1,119,338	0.1	179,651	-
Finance costs	(1,019,504)	(0.1)	(493,642)	(0.1)
Other income (note (6)(u))	1,800,129	0.2	1,468,093	0.2
Miscellaneous disbursements	(37,566)	-	(10,291)	-
Impairment loss (note (6)(c))	(4,777,920)	(0.5)	(4,909,772)	(0.7)
Share of gain (loss) of associates and joint ventures accounted for using equity method (note (6)(h))	977,953	0.1	(1,107,701)	(0.1)
Total non-operating income and expenses	(1,937,570)	(0.2)	(4,873,662)	(0.7)
Profit before tax	9,736,972	1.2	4,360,382	0.6
Less: tax expense (note (6)(p))	2,181,971	0.3	1,456,650	0.2
Profit	7,555,001	0.9	2,903,732	0.4
Other comprehensive income:				
Other comprehensive income, before tax, exchange differences on translation	2,882,064	0.3	1,113,347	0.2
Other comprehensive income, before tax, available-for-sale financial assets	1,667,628	0.2	(765,150)	(0.1)
Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	(35,349)	-	651	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method	80,992	-	391,438	-
Less: income tax relating to components of other comprehensive income	33,097	-	28,988	-
Other comprehensive income, net of tax	4,562,238	0.5	711,298	0.1
Total comprehensive income	$ 12,117,239	1.4	$ 3,615,030	0.5
Profit, attributable to:				
Profit, attributable to owners of parent	$ 7,034,081	0.8	$ 2,467,211	0.3
Profit, attributable to non-controlling interests	520,920	0.1	436,521	0.1
	$ 7,555,001	0.9	$ 2,903,732	0.4
Comprehensive income attributable to:				
Comprehensive income, attributable to owners of parent	$ 11,564,839	1.4	$ 3,160,663	0.4
Comprehensive income, attributable to non-controlling interests	552,400	-	454,367	0.1
	$ 12,117,239	1.4	$ 3,615,030	0.5
Earnings per share (note (6)(s)):				
Basic net income per share	$ 1.63		0.57	
Diluted net income per share	$ 1.61		0.57	

See accompanying notes to the consolidated financial reports.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the years ended December 31, 2014 and 2013
(expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent												
			Retained earnings				Other equity interest						
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance on January 1, 2013	$ 44,126,526	16,122,810	14,980,079	8,713,018	31,360,844	55,053,941	(3,134,266)	(5,248,131)	(8,382,397)	(881,247)	106,039,633	8,753,637	114,793,270
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	641,103	-	(641,103)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	105,707	(105,707)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(4,384,186)	(4,384,186)	-	-	-	-	(4,384,186)	-	(4,384,186)
Purchase of treasury share	-	-	-	-	-	-	-	-	-	(1,126,478)	(1,126,478)	-	(1,126,478)
Difference between consideration and carrying amount arising from acquisition or disposal of subsidiaries	-	-	-	-	(8,826,585)	(8,826,585)	(11,538)	(96)	(11,634)	-	(8,838,219)	(4,153,317)	(12,991,536)
Change in ownership interests in subsidiaries		22,330			(52,290)	(52,290)					(29,960)		(29,960)
Changes in equity of associates and joint ventures accounted for using equity method	-	(10,754)	-	-	(4,196)	(4,196)	-	-	-	-	(14,950)	-	(14,950)
Issuance of shares for employee share options exercised	7,941	8,338	-	-	-	-	-	-	-	-	16,279	-	16,279
Adjustments of capital surplus for the Company's cash dividends received by subsidiaries	-	50,363	-	-	-	-	-	-	-	-	50,363	-	50,363
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	34,440	34,440
	44,134,467	16,193,087	15,621,182	8,818,725	17,346,777	41,786,684	(3,145,804)	(5,248,227)	(8,394,031)	(2,007,725)	91,712,482	4,634,760	96,347,242
Profit for the year ended December 31, 2013	-	-	-	-	2,467,211	2,467,211	-	-	-	-	2,467,211	436,521	2,903,732
Other comprehensive income	-	-	-	-	6,939	6,939	1,299,130	(612,617)	686,513	-	693,452	17,846	711,298
Total comprehensive income	-	-	-	-	2,474,150	2,474,150	1,299,130	(612,617)	686,513	-	3,160,663	454,367	3,615,030
Balance on January 1, 2014	$ 44,134,467	16,193,087	15,621,182	8,818,725	19,820,927	44,260,834	(1,846,674)	(5,860,844)	(7,707,518)	(2,007,725)	94,873,145	5,089,127	99,962,272
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	246,721	-	(246,721)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(1,111,207)	1,111,207	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(2,177,668)	(2,177,668)	-	-	-	-	(2,177,668)	-	(2,177,668)
Cash dividends from capital surplus	-	(2,177,668)	-	-	-	-	-	-	-	-	(2,177,668)	-	(2,177,668)
Difference between consideration and carrying amount arising from acquisition or disposal of subsidiaries	-	3,492	-	-	(1,575,776)	(1,575,776)	6,763	87	6,850	-	(1,565,434)	(630,432)	(2,195,866)
Changes in ownership interests in subsidiaries	-	(3,720)	-	-	(1,495)	(1,495)	-	-	-	-	(5,215)	-	(5,215)
Changes in equity of associates and joint ventures accounted for using equity method	-	24,056	-	-	-	-	-	-	-	-	24,056	-	24,056
Share-based payment transaction	-	109,389	-	-	-	-	-	-	-	282,986	392,375	-	392,375
Issuance of shares for employee share options exercised	97,899	97,818	-	-	-	-	-	-	-	-	195,717	-	195,717
Adjustments of capital surplus for the Company's cash dividends received by subsidiaries	-	49,991	-	-	-	-	-	-	-	-	49,991	-	49,991
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(178,081)	(178,081)
	44,232,366	14,296,445	15,867,903	7,707,518	16,930,474	40,505,895	(1,839,911)	(5,860,757)	(7,700,668)	(1,724,739)	89,609,299	4,280,614	93,889,913
Profit for the year ended December 31, 2014	-	-	-	-	7,034,081	7,034,081	-	-	-	-	7,034,081	520,920	7,555,001
Other comprehensive income	-	-	-	-	(30,889)	(30,889)	3,018,218	1,543,429	4,561,647	-	4,530,758	31,480	4,562,238
Total comprehensive income	-	-	-	-	7,003,192	7,003,192	3,018,218	1,543,429	4,561,647	-	11,564,839	552,400	12,117,239
Balance on December 31, 2014	$ 44,232,366	14,296,445	15,867,903	7,707,518	23,933,666	47,509,087	1,178,307	(4,317,328)	(3,139,021)	(1,724,739)	101,174,138	4,833,014	106,007,152

See accompanying notes to the consolidated financial reports.

(English Translation of Financial Report Originally Issued in Chinese)
COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013
(expressed in thousands of New Taiwan Dollars)

		2014	2013
Cash flows from (used in) operating activities:			
Profit before tax	$	9,736,972	4,360,382
Adjustments:			
Depreciation and amortization		6,036,864	5,555,712
Increase (decrease) in allowances for uncollectible accounts and allowance for sales returns and discounts		(10,582)	8,825
Interest expense		1,019,504	493,642
Interest income		(1,023,736)	(628,457)
Dividend income		(208,983)	(179,601)
Compensation cost of employee share options		168,012	44,561
Share of loss (profit) of associates and joint ventures accounted for using equity method		(977,953)	1,107,701
Gain on disposal of property, plan and equipment		(46,226)	(246,995)
Gain on disposal of investments		(18,348)	(626,458)
Impairment loss on financial assets		4,777,920	4,909,772
Long-term prepaid rents		16,690	16,222
Adjustments to reconcile profit		9,733,162	10,454,924
Changes in operating assets and liabilities:			
Changes in operating assets:			
Changes in financial assets at fair value through profit or loss		(100,321)	(2,386)
Decrease (increase) in notes and accounts receivable		9,337,791	(22,772,559)
Decrease (increase) in other receivables		108,584	(158,572)
Decrease (increase) in inventories		(16,026,011)	506,056
Decrease (increase) in other current assets		(798,821)	(226,654)
Decrease (increase) in other non-current liabilities		(98,042)	77,947
Total changes in operating assets		(7,576,820)	(22,576,168)
Changes in operating liabilities:			
Changes in financial liabilities at fair value through profit or loss		27,928	(28,581)
Increase (decrease) in notes and accounts payable		20,156,529	6,316,271
Increase (decrease) in other payables		1,172,834	3,327,186
Increase (decrease) in provisions		390,816	(263,237)
Increase (decrease) in unearned revenue		405,746	191,507
Increase (decrease) in other current liabilities		453,269	30,547
Other		(40,107)	11,873
Total changes in operating liabilities		22,567,015	9,585,566
Total changes in operating assets and liabilities		14,990,195	(12,990,602)
Total adjustments		24,723,357	(2,535,678)
Cash flows from (used in) operations		34,460,329	1,824,704
Interest received		975,307	616,057
Dividends received		284,335	204,926
Interest paid		(946,545)	(444,699)
Income taxes paid		(975,202)	(1,651,406)
Net cash flows from (used in) operating activities		33,798,224	549,582
Cash flows from (used in) investing activities:			
Acquisition of investments accounted for using equity method, available-for-sale financial assets, bond investment without active market and financial assets at cost		(1,285,377)	(1,101,629)
Increase in non-current assets classified as held for sale		-	(4,052,535)
Proceeds from disposal of investments accounted for using equity method and available-for-sale financial assets		183,002	916,950
Net cash flow from acquisition of subsidiaries		2,159,000	(24,102)
Proceeds from capital reduction of investments		68,599	80,427
Acquisition of property, plant and equipment		(6,565,882)	(5,677,308)
Proceeds from disposal of property, plant and equipment		145,932	942,031
Acquisition of intangible assets		(396,954)	(481,451)
Increase in prepayments for business facilities		(15,332)	15,370
Other		17,809	89,335
Net cash flows from (used in) investing activities		(5,689,203)	(9,292,912)
Cash flows from (used in) financing activities:			
Increase (decrease) in short-term borrowings		(5,315,160)	15,437,974
Proceeds from long-term borrowings		10,271,167	13,932,534
Repayments of long-term borrowings		(663,154)	-
Cash dividends paid		(4,305,345)	(4,333,823)
Exercise of employee share options		195,717	16,279
Payments to acquire treasury shares		-	(1,126,478)
Treasury shares convert to employee		282,125	-
Acquisition of non-controlling interests		(2,304,824)	(13,171,986)
Proceeds of disposal of ownership interests in subsidiaries (without losing control)		98,938	141,517
Changes in non-controlling interests		(230,546)	88,538
Other		58,941	16,341
Net cash flows from (used in) financing activities		(1,912,141)	11,000,896
Effect of exchange rate changes on cash and cash equivalents		1,545,398	553,704
Net increase in cash and cash equivalents		27,742,278	2,811,270
Cash and cash equivalents at beginning of period		46,965,852	44,154,582
Cash and cash equivalents at end of period	$	**74,708,130**	**46,965,852**

See accompanying notes to the consolidated financial reports.

(English Translation of Financial Report Originally Issued in Chinese)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Company history

Compal Electronics, Inc. (the "Company") was incorporated in June 1984 as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is No.581 Ruiguang Rd., Neihu Dist., Taipei City, Taiwan. In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged its subsidiary, Compal Communications, Inc. ("CCI") (the "Merger"), pursuant to the resolutions of the Board of Directors in November, 2013. The Company was the surviving company and CCI was the dissolved company. The effective date of the Merger was February 27, 2014. The Company and its subsidiaries (together referred to as the "Group" and individually as the "Group entities") primarily is involved in the manufacture and sale of notebook personal computers ("notebook PCs"), monitors, LCD TVs, and various components and peripherals.

(2) Financial statements authorization date and authorization process

These consolidated financial statements were authorized for issuance by the Board of Directors and issued on February 26, 2015.

(3) New standards and interpretations not yet adopted

(a) Impact of the 2013 version of the International Financial Reporting Standards ("IFRS") endorsed by the Financial Supervisory Commissions R.O.C. ("FSC") but not yet in effect

According to Rule No.1030010325 issued on April 3, 2014 by the FSC, listed, over-the-counter, and emerging stock companies are required to adopt the 2013 version of the IFRS endorsed by the FSC (IFRS 9 "Financial Instruments" is excluded) in preparing the 2015 financial statements. The new standards and amendments issued by the International Accounting Standards Board ("IASB") were as follows:

New standards and amendments	Effective date per IASB
･Amended IFRS 1 "*Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*"	July 1, 2010
･Amended IFRS 1 "*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*"	July 1, 2011
･Amended IFRS 1 "*Government Loans*"	January 1, 2013
･Amended IFRS 7 "*Disclosure – Transfers of Financial Assets*"	July 1, 2011
･Amended IFRS 7 "*Disclosure – Offsetting Financial Assets and Financial Liabilities*"	January 1, 2013

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

New standards and amendments	Effective date per IASB
·IFRS 10 "*Consolidated Financial Statements*"	January 1, 2013 (Investment Entities amendments, effective on 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
·Amended IAS 1 "*Presentation of Items of Other Comprehensive Income*"	July 1, 2012
·Amended IAS 12 "*Deferred Tax: Recovery of Underlying Assets*"	January 1, 2012
·Amended IAS 19 "*Employee Benefits*"	January 1, 2013
·Amended IAS 27 "*Separate Financial Statements*"	January 1, 2013
·Amended IAS 32 "*Offsetting Financial Assets and Financial Liabilities*"	January 1, 2014
·IFRIC 20 – "*Stripping Costs in the Production Phase of a Surface Mine*"	January 1, 2013

The Group had assessed that the 2013 version of the IFRS may not have a significant impact on the consolidated financial statements except for the following:

1. IAS 1 "Presentation of Financial Statements"

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

2. IFRS 12 "Disclosure of Interests in Other Entities"

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

3. IFRS 13 "Fair Value Measurement"

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

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. IAS 19 "Employee Benefits"

The major amendments are:

(i) Calculating the net interest expense or income on the net defined benefit liability (asset) by applying the discount rate to the net defined benefit liability (asset), which replaces the interest cost on the defined benefit obligation and the expected return on plan assets.

(ii) Requiring the immediate recognition of past service cost.

(iii) A liability for a termination benefit will be recognized when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs, whichever is earlier. Any benefit that requires future service is not a termination benefit.

(iv) Enhanced disclosures are required to explain the characteristics of defined benefit plans.

The Group plans to recognize the past service cost which resulted in a decrease in accrued pension liabilities of $229,144, and an increase in retained earnings of $229,144 as of January 1, 2014. Accordingly, as of December 31, 2014, the accrued pension liability was decreased by $212,785 and the retained earnings was increased by $212,785; for the year ended December 31, 2014, the operating expense was increased by $9,620 and the actuarial loss was increased by $6,739.

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

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

New standards and amendments	Effective date per IASB
‧IFRS 9 "*Financial Instruments*"	January 1, 2018
‧Amended IFRS 10 and IAS 28 "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*"	January 1, 2016
‧Amended IFRS 10, IFRS 12 and IAS28 "*Investment Entities: Applying the Consolidation Exception*"	January 1, 2016
‧Amended IFRS 11 "*Accounting for Acquisitions of interests in Joint Operations*"	January 1, 2016
‧IFRS 14 "*Regulatory Deferral Accounts*"	January 1, 2016
‧IFRS 15 "*Revenue from Contracts with Customers*"	January 1, 2017
‧Amended IAS 1 "*Disclosure Initiative*"	January 1, 2016
‧Amended IAS 16 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortization*"	January 1, 2016
‧Amended IAS 16 and IAS 41 "*Bearer Plants*"	January 1, 2016
‧Amended IAS 19 "*Defined Benefit Plans: Employee Contributions*"	July 1, 2014

(Continued)

New standards and amendments	Effective date per IASB
·Amended IAS 27 "*Equity Method in Separate Financial Statements*"	January 1, 2016
·Amended IAS 36 "*Recoverable Amount Disclosures for Non-Financial Assets*"	January 1, 2014
·Amended IAS 39 "*Novation of Derivatives and Continuation of Hedge Accounting*"	January 1, 2014
·Amended IFRIC 21 "*Levies*"	January 1, 2014

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

(4) Significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically mentioned, the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

The consolidated financial statements have been translated into English. The translated information is consistent with the Chinese language version of the consolidated financial statements from which it is derived.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the "Regulations"), the International Financial Reporting Standards, the International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as the "IFRS endorsed by the FSC").

(b) Basis of preparation

1. Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on the historical cost basis:

(i) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;

(ii) Available-for-sale financial assets are measured at fair value;

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii) The defined benefit asset (liabilities) is recognized as plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less the present value of the defined benefit obligation.

2. Functional and presentation currencies

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

(c) Basis of consolidation

1. Principle of preparation of the consolidated financial statements

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

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

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

2. List of subsidiaries in the consolidated financial statements

			Percentage of ownership		
Investor	**Name of Subsidiary**	**Nature of Operation**	**December 31, 2014**	**December 31, 2013**	**Description**
The Company, Panpal Technology Corp. ("Panpal"), et al.	Compal Communications, Inc. ("CCI")	Sales and manufacturing of mobile phones	-	93 %	The Company and CCI merged on February 27, 2014. The Company was the surviving entity, and CCI was the dissolved company.
The Company	Panpal	Investment	100%	100%	Panpal held 31,648 thousand shares of the Company as of December 31, 2014, which represented 0.7% of the Company's outstanding shares.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2014	December 31, 2013	Description
The Company	Gempal Technology Corp. (“Gempal”)	〃	100%	100%	Gempal held 18,369 thousand shares of the Company as of December 31, 2014, which represented 0.4% of the Company’s outstanding shares.
〃	Hong Ji Capital Co., Ltd. (“Hong Ji”)	〃	100%	100%	
〃	Hong Jin Investment Co., Ltd. (“Hong Jin”)	〃	100%	100%	
〃	Zhaopal Investment Co., Ltd. (“Zhaopal”)	〃	100%	100%	
〃	Yongpal Investment Co., Ltd. (“Yongpal”)	〃	100%	100%	
〃	Kaipal Investment Co., Ltd. (“Kaipal”)	〃	100%	100%	
The Company, Panpal, et al.	Accesstek, Inc. (“ATK”)	Design, manufacturing and sales of optical disk drives and components	38 %	38 %	The Group had controlling interests over ATK. ATK was dissolved on June 30, 2009.
The Company	VAP Optoelectronics Corp. (“VAP”)	R&D, manufacturing, process and sales of backlight modules and components	-	100%	VAP was liquidated in April 2014
The Company, Panpal, et al.	Arcadyan Technology Corp. (“Arcadyan”)	R&D, manufacturing and sales of wireless network, integrated household electronics, and mobile office products	36%	36%	The Group had controlling interests over Arcadyan.
The Company	Rayonnant Technology Co., Ltd. (“Rayonnant Technology”)	Manufacturing and sales of PCs, computer periphery devices, and electronic components	100%	100%	
〃	HengHao Technology Co., Ltd. (“HengHao”)	〃	97%	100%	
〃	Synchro Seiki, Co., Ltd. (“Synchro”)	〃	63%	63%	
〃	Ripal Optoelectronics Co., Ltd. (“Ripal”)	Manufacturing of electric appliance and audiovisual electric products	100%	100%	
〃	Auscom Engineering Inc. (“Auscom”)	R&D of notebook PCs related products and components	100%	100%	
〃	Just International Ltd. (“Just”)	Manufacturing, sales and maintenance of monitors and LCD TVs,	100%	100%	

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2014	Percentage of ownership December 31, 2013	Description
		and investment			
The Company	Compal International Holding Co., Ltd. (“CIH”)	Sales and manufacturing of notebook PCs and investments	100%	100%	
〃	Compal Electronics Holding Co., Ltd. (“CEH”)	Investment	100%	100%	
〃	Bizcom Electronics, Inc. (“Bizcom”)	After-sale services and marketing of monitors and notebook PCs	100%	100%	
〃	Flight Global Holding Inc. (“FGH”)	Investment	100%	100%	
〃	High Shine Industrial Corp. (“HSI”)	〃	100%	100%	
〃	Compal Europe (Poland) Sp. z o. o. (“CEP”)	Maintenance and after-sale services of notebook PCs	100%	100%	
〃	Big Chance International Co., Ltd. (“BCI”)	Investment	100%	100%	
〃	Compal Rayonnant Holdings Limited (“CRH”)	〃	100%	100%	
〃	Core Profit Holdings Limited (“CORE”)	〃	100%	100%	
〃	Compalead Electronics B.V. (“CPE”)	〃	100%	-	CPE was incorporated in March 2014.
Panpal and Gempal	Compalead Eletronica do Brasil Industria e Comercio Ltda. (“CEB”)	Manufacturing of notebook PCs	100%	100%	
Just	Compal Display Holding (HK) Limited (“CDH (HK)”)	Investment	100%	100%	
〃	Compal Electronics International Ltd. (“CII”)	〃	100%	100%	
〃	Compal International Ltd. (“CPI”)	Sales of monitors, LCD TVs and related components	100%	100%	
CDH (HK)	Compal Electronics (China) Co., Ltd. (“CPC”)	Manufacturing and sales of monitors	100%	100%	
〃	Compal Optoelectronics (Kunshan) Co., Ltd. (“CPO”)	Manufacturing and sales of LCD TVs	100%	100%	
〃	Compal System Trading (Kunshan) Co., Ltd. (“CST”)	International trade and distribution of computers and electronic components	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

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Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2014	Percentage of ownership December 31, 2013	Description
CII	Smart International Trading Ltd. ("Smart")	Sales of electronic products and related components	100%	100%	
〃	Amexcom Electronics Inc. ("AEI")	Sales and maintenance of LCD TVs	100%	100%	
〃	Mexcom Electronics LLC. ("MEL")	Investment	100%	100%	
〃	Mexcom Technologies, LLC. ("MTL")	〃	100%	100%	
MEL and MTL	CENA Electromex S.A. de C.V. ("CMX")	Manufacturing, sales, and maintenance of LCD TVs	100%	100%	
CIH	Compal International Holding (HK) Limited ("CIH (HK)")	Investment	100%	100%	
〃	Jenpal International Ltd. ("Jenpal")	〃	100%	100%	
〃	Prospect Fortune Group Ltd. ("PFG")	Sales of notebook PCs and related components	100%	100%	
CIH (HK)	Compal Electronics Technology (Kunshan) Co., Ltd. ("CET")	Manufacturing of notebook PCs	100%	100%	
〃	Compal Information (Kunshan) Co., Ltd. ("CIC")	〃	100%	100%	
〃	Compal Information Technology (Kunshan) Co., Ltd. ("CIT")	〃	100%	100%	
〃	Kunshan Botai Electronics Co., Ltd. ("BT")	〃	100%	100%	
〃	Compal Information Research and Development (Nanjing) Co., Ltd. ("CIN")	RD for software and hardware, manufacturing and sales of computers, mobile phones and electronic components	100%	100%	
〃	Compal Digital Technology (Kunshan) Co., Ltd. ("CDT")	Manufacturing and sales of notebook PCs, mobile phones, and digital products	100%	100%	
BT	Compower Global Service Co., Ltd. ("CGS")	Maintenance and after-sale service of notebook PCs	100%	100%	
CDH (HK) and CIH (HK)	Compal Investment (Jiansu) Co., Ltd. ("CIJ")	Investment	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2014	Percentage of ownership December 31, 2013	Description
CIJ	Compal Display Electronics (Kunshan) Co., Ltd. (“CDE”)	Manufacturing and sales of LCD TVs	100%	100%	
The Company and CCI	Etrade Management Co., Ltd. (“Etrade”)	Investment	100%	100%	Originally, CCI directly invested in the company. After the merging of the Company and CCI on February 27, 2014, Etrade’s share is directly owned by the Company
〃	Webtek Technology Co., Ltd. (“Webtek”)	Sales of mobile phones	100%	100%	〃
CCI	Forever Young Technology Inc. (“Forever”)	Sales of mobile phones	100%	100%	〃
〃	UniCom Global, Inc. (“UCGI”, originally Jin-Rui Communication, Inc.)	Manufacturing and sales of computers and electronic components	100%	100%	〃
〃	Huang-Feng Communication, Inc. (“Huang-Feng”)	Investment	100%	100%	〃
Etrade	Compal Communication (Nanjing) Co., Ltd. (“CCI Nanjing”)	Manufacturing and processing of mobile phones	100%	100%	
〃	Compal Digital Communication (Nanjing) Co., Ltd. (“CDCN”)	〃	100%	100%	
〃	Compal Wireless Communication (Nanjing) Co., Ltd. (“CWCN”)	〃	100%	100%	
Forever	Hanhelt Communication (Nanjing) Co., Ltd. (“Hanlelt”)	R&D and manufacturing of electronic communication equipment	100%	100%	
〃	Giant Rank Trading Ltd (“GIA”)	Sales of mobile phones	100%	100%	
ATK	OptoRite Inc.	Sales of optical disc drives	100%	100%	
〃	MSI-ATK Optics Holding Corporation (“MSI-ATK”)	Investment	100%	100%	
〃	Maitek (BVI) Corporation (“Maitek”)	〃	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

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Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2014	December 31, 2013	Description
Arcadyan	Arcadyan Technology N.A. Corp. (“Arcadyan USA”)	Sales of wireless network products	100%	100%	
〃	Arcadyan Technology Germany GmbH (“Arcadyan Germany”)	Technology support of wireless network products	100%	100%	
〃	Arcadyan Technology Corporation Korea (Arcadyan Korea)	Sales of wireless network products	100%	-	Arcadyan Korea was incorporated in October 2014.
〃	Arcadyan Holding (BVI) Corp. (“Arcadyan Holding”)	Investment	100%	100%	
〃	Zhi-pal Technology Inc. (“Zhi-pal”)	〃	100%	100%	
〃	Tatung Technology Inc. (“TTI”)	R&D and sales of household digital electronic products	57%	57%	
〃	AcBel Telecom Inc. (“AcBel Telecom”)	Manufacturing and Sales of communication and electronic components	51%	51%	
The Company and Zhi-pal	Compal Broadband Network Inc. (“CBN”)	R&D and sales of communication and electronic components	100%	100%	
CBN	Speedlink Tradings Limited (”Speedlink”)	Import and export business	100%	100%	
Arcadyan Holding	Sinoprime Global Inc. (“Sinoprime”)	Sales of wireless network products	100%	100%	
〃	Arcadyan Technology (Shanghai) Corp. (“SVA Arcadyan”)	R&D and sales of wireless network products	100%	100%	
〃	Arch Holding (BVI) Corp. (“Arch”)	Investment	100%	100%	
Arch	Compal Networking (Kunshan) Co., Ltd. (“CNC”)	Manufacturing of wireless network products	100%	100%	
AcBel Telecom	Astoria Networks Inc. (“Astoria”)	R&D of communication equipment	100%	100%	
〃	Leading Images Ltd. (“Leading Images”)	Investment	100%	100%	
〃	Great Arch Group Ltd. (“Great Arch”)	Sales of wireless network products	100%	100%	
Leading Images	Astoria Networks GmbH (“Astoria GmbH”)	Sales of wireless network products	100%	100%	
TTI	Quest International Group Co., Ltd. (“Quest”)	Investment	100%	100%	
Quest	Exquisite Electronic Co., Ltd. (“Exquisite”)	Investment	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

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Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2014	Percentage of ownership December 31, 2013	Description
Exquisite	Tatung Home Appliances (Wujiang) Co., Ltd. (“THAC”)	Manufacturing of household digital electronic products	100%	100%	
HSI	Intelligent Universal Enterprise Ltd. (“IUE”)	Investment	100%	100%	
〃	Goal Reach Enterprise Ltd. (“Goal”)	〃	100%	100%	
IUE	Compal (Vietnam) Co., Ltd. (“CVC”)	R&D, manufacturing, sales, and maintenance of notebook PCs, computer monitors, LCD TVs and electronic components	100%	100%	
Goal	Compal Development & Management (Vietnam) Co., Ltd. (“CDM”)	Construction of and investment in infrastructure in Ba-Thien industrial district of Vietnam	100%	100%	
Rayonnant Technology and CRH	Allied Power Holding Corp. (“APH”)	Investment	100%	100%	
APH	Primetek Enterprise Limited (“PEL”)	〃	100%	100%	
〃	Rayonnant Technology (HK) Co., Ltd. (“Rayonnant Technology (HK)”)	〃	100%	100%	
Rayonnant Technology (HK)	Rayonnant Technology (Taicang) Co., Ltd. (“Rayonnant Technology (Taicang)”)	Manufacturing and sales of aluminium alloy and magnesium alloy products	100%	100%	
HengHao	HengHao Holding A Co., Ltd. (“HHA”)	Investment	100%	100%	
HHA	HengHao Holding B Co., Ltd. (“HHB”)	〃	100%	100%	
HHB	HengHao Trading Co., Ltd.	Marketing and international trade	100%	100%	
〃	HengHao Optoelectronics Technology (Kunshan) Co., Ltd.	Production of touch panels and related components	100%	100%	
〃	Lucom Display Technology (KunShan) Limited (“Lucom”)	Manufacturing of notebook PCs and related modules	100%	49%	Since the Group had controlling interests over Lucom after January 2014, Lucom was included in the consolidated financial statements.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2014	Percentage of ownership December 31, 2013	Description
BCI	Center Mind International Co., Ltd. ("CMI")	Investment	100%	100%	
BCI	Prisco International Co., Ltd. ("PRI")	Investment	100%	100%	
CMI	Compal Investment (Sichuan) Co., Ltd. ("CIS")	Outward investment and consulting services	100%	100%	
PRI	Compal Electronics (Chongqing) Co., Ltd. ("CEQ")	R&D, manufacturing and sales of notebook PCs, related components, related maintenance and after-sale services	100%	100%	
CIS	Compal Electronics (Chengdu) Co., Ltd. ("CEC")	R&D and manufacturing of notebook PCs, tablet PCs, digital products, network switches, wireless AP, and automobile electronic products	100%	100%	
〃	Compal Management (Chengdu) Co., Ltd. ("CMC")	Corporate management consulting, training and education, business information consulting, financial and tax consulting, investment consulting, and investment management services	100%	100%	
CORE	Billion Sea Holdings Limited ("BSH")	Investment	100%	100%	
CPE	Compal Electronics Europe Sp. z o. o. ("CEE")	Manufacturing, sales and maintenance of LCD TVs	100%	-	CPE obtained full equity ownership of CEE in March 2014.

(d) Foreign currencies

1. Foreign currency transactions

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

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

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

- available-for-sale financial assets;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective

2. Foreign operations

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

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

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(e) Classification of current and non-current assets and liabilities

An entity shall classify an asset as current when:

1. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

2. It holds the asset primarily for the purpose of trading;

3. It expects to realize the asset within twelve months after the reporting period; or

4. The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

1. It expects to settle the liability in its normal operating cycle;

2. It holds the liability primarily for the purpose of trading;

3. The liability is due to be settled within twelve months after the reporting period; or

4. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not impact its classification.

An entity shall classify all other liabilities as non-current.

(f) Cash and cash equivalents

Cash comprise cash on hand and demand deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

(g) Financial instruments

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

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1. Financial assets

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

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

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

A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

B. Performance of the financial asset is evaluated on a fair value basis

C. A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. Under a regular way, purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

(ii) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. Under a regular way, purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

(Continued)

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

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally on the date the Shareholders' meeting approved the earning distribution. Such dividend income is included in non-operating income and expenses.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables, other receivables, and investment in debt instrument with no active market. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. Under a regular way, purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

(iv) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment 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 that can be estimated reliably.

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

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

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lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

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

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

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

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

Impairment losses and recoveries are recognized in profit or loss under operating expense for doubtful debts of accounts receivable, and under non-operating income and expense for financial assets other than accounts receivable.

(v) Derecognition of financial assets

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

(Continued)

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income or expenses.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in non-operating income or expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts.

2. Financial liabilities and equity instruments

(i) Classification of debt or equity

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

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

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

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income or expenses.

(Continued)

(iii) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payable, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method other than significant interest on short-term loans and payables. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expenses.

(iv) Derecognition of financial liabilities

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

(v) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

3. Derivative financial instruments, including hedge accounting

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

When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

For derivatives that are linked to investments in equity instruments that do not have a quoted market price in an active market and must be settled by delivery of such unquoted equity instruments, such derivatives that are classified as financial assets are measured at cost less impairment losses, and are included in financial assets measured at cost; and such derivatives that are classified as financial liabilities are measured at cost, and are included in financial liabilities measured at cost.

(Continued)

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

(h) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Non-current assets held for sale

When non-current assets are expected to be recovered primarily through sale rather than through continuing use are reclassified as held for sale. And it is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale. The sale is highly probable and shall take place within one year. Those classified as non-current assets held for sale are measured at the lower of their carrying value or fair value less costs to sell. An entity shall recognize an impairment loss for write-downs of non-current assets held for sale to fair value less costs to sell in the statements of income. If the fair value less costs to sell increases later on, a gain from such subsequent increase shall be recognized in the statements of income, but not in excess of the cumulative impairment loss that has been recognized. When the assets classified as held for sale, those assets are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(j) Investment in associates

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

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

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity-accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases.

(Continued)

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

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(k) Jointly controlled entities

A jointly controlled entity is an entity which is established as the result of a contractual arrangement between the Group and other venturers to jointly control its financial and operating policies. Consensus for all decisions must be obtained from the venturers. The Group uses the equity method to account for a jointly controlled entity.

(l) Property, plant and equipment

1. Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

2. Subsequent cost

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

(Continued)

3. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

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

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

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

(i) Buildings: 9~50 years

(ii) building improvement: 0.5~20 years

(iii) machinery and equipment: 1~14 years

(iv) research equipment: 3~6 years

(v) modeling equipment: 0.5~5 years

(vi) other equipment: 0.5~11 years

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

(m) Leases

1. The Group as lessor

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

(Continued)

operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

2. The Group as lessee

Operating leases are not recognized in the Group's balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Long-term prepaid rents of land leasehold rights (accounted for under other non-current assets) are recognized periodically as rent expenses based on the shorter of the lease term and the statutory period on a straight-line basis.

(n) Intangible assets

1. Goodwill

(i) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in intangible assets.

(ii) Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses.

Goodwill related to an associate or a joint venture is included in the carrying amount of the investment. Impairment loss not allocated to any asset, including goodwill, forms part of the carrying amount of the investment in the associate or joint venture.

2. Research & Development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred:

During the development phase, expenditures which meet all the criteria are recognized as intangible assets, while recognized in profit and loss as incurred if part of criteria not met.

(i) The technical feasibility to complete the intangible asset achieved so that it will be available for use or sale.

(ii) Its intention to complete the intangible asset and use or sell it.

(Continued)

(iii) Its ability to use or sell the intangible asset.

(iv) How the intangible asset will generate probable future economic benefits.

(v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(vi) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

3. Other intangible assets

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

4. Subsequent expenditure

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

5. Amortization

The amortizable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

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

(i) Patents: the shorter of contract period and estimated useful lives

(ii) Computer software: 1~10 years

(iii) Copyright: 10 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(Continued)

(o) Impairment – non-derivative financial assets

Non-derivative financial assets except for inventories, deferred tax assets, assets arising from employee benefits and non-current assets classified as held for sale are assessed at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

The Group assesses goodwill and intangible assets, which have indefinite useful lives and are not available for use, on an annual basis and recognizes an impairment loss on excess of carrying value over the recoverable amount.

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

(Continued)

(p) Provisions

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

(q) Treasury stock

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

During the cancellation of treasury shares, Capital Reserve – Share Premiums and Share Capital should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; Losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

(r) Revenue

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

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

(Continued)

(s) Employee benefits

1. Defined contribution plans

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

2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

All actuarial gains and losses at January 1, 2012, the date of transition to IFRSs endorsed by the FSC, were recognized in retained earnings. The Group recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

(Continued)

3. Short term employee benefits

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

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

(t) Share-based payment

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

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

(u) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

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

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

1. Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

2. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(Continued)

3. Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and

2. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

   i) levied by the same taxing authority; or

   ii) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

The 10% surtax on unappropriated earnings is recoded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

(v) Business combination

Goodwill is measured as an aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and as an amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

If the business combination is achieved in stages, the Group shall measure any non-controlling equity interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

(Continued)

In a business combination achieved in stages, the Group shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

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

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

(w) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary equity holders of the Group. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholder of the Group divided by weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options and employee bonuses not yet resolved by the shareholders.

(x) Operating segments

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

(Continued)

(5) Major sources of significant accounting assumptions, judgments and estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continues to monitor the accounting assumptions, estimates and judgments. Management recognizes the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

There are no critical judgments in applying the accounting policies that have significant effect on the amounts recognized in the consolidated financial statements. Also, there are no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	$ 10,336	10,836
Checking accounts and demand deposits	26,534,214	6,134,479
Time deposits	47,539,969	35,627,527
Bonds purchased under resale agreements	623,611	5,193,010
	$ 74,708,130	**46,965,852**

Please refer to note (6)(w) for the disclosure of the exchange rate risk, the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

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

	December 31, 2014	December 31, 2013
Financial assets at fair value through profit or loss:		
Financial assets held-for-trading:		
Derivative instruments not used for hedging	**$ 184,093**	**83,772**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2014	December 31, 2013
Financial liabilities at fair value through profit or loss:		
Financial liabilities held-for-trading:		
Derivative instruments not used for hedging	$ 39,310	11,382

The Group uses derivative instruments to hedge foreign currency risk the Group is exposed to arising from its operating activities. The Group held the following derivative instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2014 and 2013:

	December 31, 2014		
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange purchased	USD 200,000	USD to TWD	January 14~March 23, 2015
Forward exchange purchased	USD 37,500	USD to BRL	January 5~March 16, 2015
Forward exchange sold	EUR 36,200	EUR to USD	January 9~March 30, 2015
Forward exchange sold	EUR 2,000	EUR to TWD	April 14~April 29, 2015
Forward exchange sold	GBP 500	GBP to USD	February 13, 2015
Derivative financial liabilities:			
Swap contracts:			
Currency swap	USD 30,000	USD to TWD	January 13~March 13, 2015

	December 31, 2013		
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange purchased	USD 445,000	USD to TWD	January 29~April 3, 2014
Forward exchange purchased	USD 19,000	USD to BRL	January 3~March 19, 2014
Forward exchange sold	EUR 11,000	EUR to USD	January 14~April 22, 2014
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 1,000	EUR to TWD	January 28, 2014
Forward exchange sold	EUR 17,400	EUR to USD	January 10~March 27, 2014
Forward exchange sold	GBP 500	GBP to USD	February 26, 2014
Swap contracts:			
Currency swap	USD 27,000	USD to TWD	January 10~March 28, 2014

(Continued)

As of December 31, 2014 and 2013, the Group did not provide any aforementioned financial assets as collaterals for its loans.

(c) Available-for-sale financial assets

	December 31, 2014	December 31, 2013
Stocks listed in domestic markets (including stocks acquired via private placement)	$ 9,553,412	12,641,288
Stocks listed in foreign markets	618,873	597,274
Stocks unlisted in domestic markets	2,249,404	1,514,297
Stocks unlisted in foreign markets	24,858	23,053
	$ 12,446,547	14,775,912
Current	$ 44,538	80,275
Non-current	12,402,009	14,695,637
	$ 12,446,547	14,775,912

1. The Group purchased newly issued shares of Chunghwa Picture Tubes, Ltd. ("CPT") via private placement in 2009. The cost was 2.5 New Taiwan dollars per share, totally amounting to $7,000,000. The Group signed an agreement with Tatung Company ("Tatung", the parent company of CPT) on such matter. In accordance with the agreement, the Group has the right to request Tatung to purchase all the CPT shares obtained via the private placement within certain agreed periods at the price the Group originally paid for the CPT shares plus interest. Accordingly, since the fair value of CPT shares obtained via the private placement were below the original costs as of December 31, 2013, the Group measured the book value of the shares at its original cost.

   The Group filed an arbitration based on the agreement on March 29, 2013, requesting Tatung to perform its obligations. The Group received the verdict on May 12, 2014. According to the verdict, Tatung should pay $2,118,607 to the Group for purchasing all the CPT shares held by the Group. Additionally, Tatung should pay the interest which is calculated by the annual rate of 5% in the period from April 3, 2013 to the actual payment date. Therefore, the Group recognized an impairment loss of $4,730,000 in the first quarter of 2014 accordingly. On June 13, 2014, the Group filed a civil complaint with the Taiwan Taipei District Court to revoke the arbitration award. The case is still in progress.

(Continued)

2. The Group signed a Shareholders' Agreement with Taiwan Star Cellular Corporation ("Taiwan Star") on November 8, 2013 to sell all the equity investment of VIBO Telecom Inc. ("VIBO") to Taiwan Star in exchange of Taiwan Star's shares. Since all the requirements have been met, the Group reclassified the equity investment in VIBO to non-current asset classified as held for sale in September 2013 in accordance to IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". Meanwhile, the Group discontinued the use of equity method for investment in VIBO. The Group recognized an impairment loss of $4,901,360, which was the difference between the fair value and the book value of the equity investment in VIBO. The share exchange procedure of VIBO and Taiwan Star had been completed on May 31, 2014. The gain from share exchange amounting to $9,955 was recognized as other gains and losses. Taiwan Star's shares with the fair value amounting to $985,592 were recorded as non-current available-for-sale financial assets.

   At the meeting held on August 18, 2014, shareholders of Taiwan Star approved to change its name to Taiwan Star Telecom Corporation Limited.

3. The Board of Directors of Simpal Electronics Co., Ltd. ("Simpal"), an investee company under the equity method, and Chipbond Technology Corporation ("Chipbond Technology") both held their meeting on May 2, 2013, to approve share exchange of Simpal and Chipbond Technology. The exchange ratio of Simpal is 2.49 shares for one ordinary share of Chipbond Technology. The Group reclassified the equity investment of Simpal to non-current asset classified as held for sale after the approval of security authorities, and discontinued the use of equity method. The share exchange procedure had been completed on October 1, 2013. The Group had obtained 15,248 thousand shares of Chipbond Technology, which accounted for 2.4% equity ownership, and recorded them as non-current available-for-sale financial assets. The gain from share exchange amounting to $444,957 was recognized as other gains and losses.

4. Except for the stocks acquired via private placement mentioned above, which are measured at its original costs and the arbitration award, if there is an increase (decrease) in the market price of the equity securities by 5% on the reporting date, the increase (decrease) in other comprehensive income (pre-tax) for the years ended December 31, 2014 and 2013, will be $508,827 and $388,796, respectively. These analyses are performed on the same basis for both periods and assume that all other variables remain the same.

5. As of December 31, 2014 and 2013, the Group did not provide any available-for-sale financial assets as collaterals for its loans.

6. On the reporting date, the significant foreign currency equity investment were as follows (foreign currencies were expressed in thousands) :

(Continued)

	December 31, 2014			December 31, 2013		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
THB	$ 640,854	0.9657	618,873	651,975	0.9161	597,274

(d) Financial assets at cost

	December 31, 2014	December 31, 2013
Common stock unlisted in domestic markets	$ 7,588	6,588
Common stock unlisted in foreign markets	12,754	-
Preferred stock unlisted in foreign markets	62,860	-
	$ 83,202	6,588

1. The aforementioned common stock and preferred stock unlisted in domestic and foreign markets held by the Group are measured at cost less accumulated impairment losses on the reporting date. The fair values of these investments cannot be measured reliably because the range of reasonable fair value estimates is large and the probabilities for each estimate cannot be reasonably determined.

2. As of December 31, 2014 and 2013, the Group did not provide any financial assets at cost as collaterals for its loans.

(e) Bond investment without active market

	December 31, 2014	December 31, 2013
Convertible bonds – VIBO	$ -	1,745,000
Common bonds – Taiwan Star	1,750,000	-
	$ 1,750,000	1,745,000
Current	$ 350,000	1,745,000
Non-current	1,400,000	-
	$ 1,750,000	1,745,000

(Continued)

The Group subscribed the five-year unsecured convertible bonds issued by VIBO via private placement for $1,745,000 in 2009. The interest rate is 3%, and the convertible price was adjusted from 5.7 to 39.9 New Taiwan dollars per share after the changes in common stock in the past. In June 2014, VIBO had paid off the unsecured convertible bonds before the maturity date.

According to the Shareholder's Agreement mentioned in note (6)(c) 2, the Group subscribed a five-year common bonds issued by Taiwan Star via private placement for $1,750,000 in June 2014 with an interest rate of 2%. Taiwan Star will repay the amount of $350,000 per annum from the date of issuance till the maturity of the bond in June 2019.

As of December 31, 2014 and 2013, the Group did not provide the aforementioned financial assets as collaterals for its loans.

(f) Notes and accounts receivable and other receivables

	December 31, 2014	December 31, 2013
Notes receivable	$ 119,199	235,508
Accounts receivable	178,723,056	182,665,719
Accounts receivable pledged as collateral	149,193	900,425
Other receivables	788,351	830,729
	179,779,799	184,632,381
Less: allowance for uncollectible accounts	(71,417)	(82,134)
allowance for sales returns and discounts	(24,811)	(23,731)
	$ 179,683,571	**184,526,516**
Notes and account receivable	**$ 178,552,207**	**183,481,024**
Notes and account receivable – related parties	**$ 343,030**	**214,854**
Other receivables – current	**$ 788,334**	**830,638**

The aging analysis of accounts receivable and other receivables which were past due but not impaired was as follows:

	December 31, 2014	December 31, 2013
Overdue 1 to 180 days	$ 3,554,484	1,254,343
Overdue 181 to 365 days	24,491	17,089
Overdue 365 days and over	1,527	191
	$ 3,580,502	**1,271,623**

(Continued)

The change of allowance for accounts receivable and other receivables for the years ended December 31, 2014 and 2013, were as follows:

		Collectively assessed impairment	
		2014	**2013**
Balance on January 1	$	82,134	49,362
Impairment loss recognized		-	32,007
Reversal of impairment loss		(11,659)	-
Effect of changes in exchange rates		942	765
Balance on December 31	$	71,417	82,134

The Group entered into accounts receivable factoring agreements with banks. As of December 31, 2014 and 2013, except for the amount used under the actual sales amount in accordance with certain agreements, the factoring amount granted by the banks was USD2,137,000 thousand and $2,545,480, and USD655,000 thousand and $1,415,216, respectively. Based on the agreements, the Group is not responsible for guaranteeing the ability of the account receivable obligor to make payment when it is affected by credit risk. Thus, this is non-recourse accounts receivable factoring. After the transfer of the accounts receivable, the Group can request partial advanced amount, while the interest calculated at an agreed rate is paid to the bank in the period during the time of receiving advance and collecting the accounts receivable. The remaining amounts with no advance are received when the accounts receivable are settled by the customers. As of December 31, 2014 and 2013, the factored accounts receivable with no advance amounting to $105,331 and $48,966, respectively, are accounted for as other receivables.

As of December 31, 2014 and 2013, the details of the factored accounts receivable were as follows:

	December 31, 2014					
		Accounts receivable factored (gross)	**Advanced amount**	**Collateral**	**Amount derecognized**	**Interest rate**
Non-related parties	$	16,210,050	16,104,719	-	16,104,719	0.702%~2.37%

	December 31, 2013					
		Accounts receivable factored (gross)	**Advanced amount**	**Collateral**	**Amount derecognized**	**Interest rate**
Non-related parties	$	3,163,759	3,114,793	**Promissory note amounted to $852,201 (cashed only for business dispute)**	3,114,793	0.6137%~2.62%

(Continued)

The Company, customers, and banks signed the three-party contracts in which the banks purchase accounts receivable from the Company. The total amount of the accounts receivable should not exceed the facility limit provided by the banks to the Company's customers. Based on the contracts, the banks have no right to request the Company to repurchase the accounts receivable. Thus, this is a non-recourse accounts receivable transfer. As of December 31, 2014 and 2013, accounts receivable amounting to $38,421,729 and $1,176,443, respectively, had been factored and derecognized since the conditions of derecognition were met. As of December 31, 2014 and 2013, the agreed interest rate is 0.69850%~1.16167% and 0.69768%, respectively, in the contracts mentioned above.

In addition, the Group signed an accounts receivable debt financing contract with a financial institution in which accounts receivables are pledged as collateral for its short-term loans. Please refer to note (8).

(g) Inventories

	December 31, 2014	December 31, 2013
Finished goods	$ 11,331,281	7,085,816
Work in progress	3,109,948	2,978,532
Raw materials	52,234,556	40,881,969
Raw materials in transit	595,090	272,810
	$ 67,270,875	**51,219,127**

(i) During the years ended December 31, 2014 and 2013, inventory cost recognized as cost of sales amounted $813,336,090 and $664,637,902, respectively.

(ii) The write-down of inventories to net realizable value amounted to $1,474,790 and $653,165, respectively, in the years ended December 31, 2014 and 2013.

(iii) As of December 31, 2014 and 2013, the Group did not provide any inventories as collaterals for its loans.

(h) Investments accounted for using equity method

A summary of the Group's financial information for equity-accounted investees at the reporting date is as follows:

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	December 31, 2014	December 31, 2013
Associates	$ 11,732,844	9,327,527
Jointly controlled entities	86,431	91,722
	11,819,275	9,419,249
Less: unrealized profits or losses	(124,420)	(117,372)
	$ 11,694,855	9,301,877

1. Associates

(i) The fair value of the shares of listed company based on the closing price was as follow:

	December 31, 2014	December 31, 2013
Allied Circuit Co., Ltd.	$ 736,255	434,193
Avalue Technology Inc.	623,000	-
	$ 1,359,255	434,193

(ii) For the years ended December 31, 2014 and 2013, the Group's share of gain (loss) of associates was as follows:

	2014	2013
The Group's share of gain (loss) of associates	$ 1,019,011	(1,085,702)

(iii) The financial information for investments in associates was summarized as follows (before being proportionately adjusted to the Group's ownership interests; and the financial information of the non-current assets held for sale mentioned in paragraph 1 (iv) as of December 31, 2013 and in the fourth quarter of 2013 was excluded):

	December 31, 2014	December 31, 2013
Total assets	$ 201,007,911	77,321,848
Total liabilities	$ 172,008,568	54,848,025

(Continued)

	2014	2013
Revenue	$ 232,751,313	77,909,965
Net income (loss) for the period	$ 2,375,359	(2,062,722)

(iv) The financial information of VIBO, for which after the Group discontinued the use of equity method, was as follows (before being proportionately adjusted to the Group's ownership interests):

	December 31, 2013
Total assets	$ 10,340,696
Total liabilities	$ 7,962,696

	Three months ended December 31, 2013
Revenue	$ 1,813,575
Net loss for the period	$ (9,732,312)

2. Jointly controlled entities

In April 2010, the Group and another company established a jointly controlled entity, Compal Connector Manufacture Ltd. ("CCM"), and obtained an ownership interest of 51%. CCM's actual paid-in capital amounted to USD10,000 thousands. Moreover, in May 2014, the Group and another company established a jointly controlled entity, Zheng Ying Electronics (Chongoing) Co., Ltd., ("Zheng Ying"), and obtained an ownership interest of 51%. Zheng Ying's actual paid-in capital amounted to USD2,500 thousands. The Group's shares of the net loss on jointly controlled entities in 2014 and 2013 were $41,058 and $21,999, respectively. The financial information on jointly controlled entities (before being proportionately adjusted to the Group's ownership interests) was summarized as follows:

	December 31, 2014	December 31, 2013
Current assets	$ 164,510	162,109
Non-current assets	71,529	63,181
	$ 236,039	225,290
Current liabilities	$ 58,743	45,351

(Continued)

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	2014	2013
Revenue	$ 40,163	173,174
Expenses	$ 123,276	216,308

3. As of December 31, 2014 and 2013, the Group did not provide any investments accounted for using equity method as collaterals for its loans.

(i) Subsidiaries and non-controlling interests

1. Acquisitions of subsidiaries

(i) The consideration transferred for acquisition of subsidiaries

A. Lucom

For the purpose of lowering production cost, and expanding and integrating the market of China, the Group and LG Display Co., Ltd. (“LG”) signed an agreement in which the Group will purchase 51% of Lucom’s equity for $98,789 (USD3,315 thousands) from LG. The transaction was completed in June 2014, and starting January 1, 2014, the Group has taken full control of Lucom.

B. CEE

For business demands and for a closer relationship with the clients, the Board of Directors resolved on October 28, 2013, to acquire 100% equity ownership of Toshiba Television Central Europe Sp z o. o. from Toshiba Corporation by its 100% holding subsidiary, CPE. The purchase price amounted to $757,500 (USD 25,000 thousands). The Group renamed the company as CEE. As of December 31, 2014, the unpaid payable amounted to $606,000 (USD 20,000 thousands), which was recorded as other payables.

C. THAC

In consideration of industrial development strategies in the future, the Group entered into an equity agreement with Tatung Information (Singapore) Pte., Ltd. and Shan-Chin International Holding Corp. in March 2013, in which the Group acquired their 69% and 31% equity ownership of THAC for $23,561 (USD 790 thousand) and $10,737 (USD 360 thousand), respectively. The acquisition date was February 28, 2013. The aforementioned consideration had been paid.

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(ii) The identifiable assets acquired and liabilities assumed

As of the acquisition date, the identifiable assets acquired and liabilities assumed ware as follows:

A. Lucom

Cash and cash equivalents	$	12,076
Notes and accounts receivable, net		496,631
Other receivables		11,039
Other current assets		44,943
Property, plant and equipment		156,808
Other non-current assets		23,502
Short-term borrowings		(35,766)
Notes and accounts payable		(493,949)
Other payables		(20,977)
Other current liabilities		(604)
Total net identifiable assets	**$**	**193,703**

B. CEE

Cash and cash equivalents	$	2,397,213
Notes and accounts receivable, net		4,030,011
Other receivables		6,738
Inventories, net		25,737
Property, plant and equipment		455,693
Intangible assets		22,794
Deferred tax assets		58,113
Notes and accounts payable		(5,796,406)
Other payables		(216,550)
Other current liabilities		(219,908)
Other non-current liabilities		(5,935)
Total net identifiable assets	**$**	**757,500**

(Continued)

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C. THAC

Cash and cash equivalents	$	10,196
Notes and accounts receivable		104,946
Inventories		17,715
Other receivables		542
Prepayments		29,650
Property, plant and equipment		11,475
Intangible assets		479
Accounts payable		(89,463)
Other payables		(38,837)
Total net identifiable assets	**$**	**46,703**

The consideration transferred amounting to $34,298 less the net amounts of the identifiable assets acquired and liabilities assumed was $(12,405), which was recognized as other income − bargain purchase gain.

(iii) Changes in ownership interests in subsidiaries while retaining control (increase in ownership interests)

The Group purchased newly issued shares of Arcadyan amounting to $259,036 in the fourth quarter of 2013, and increased their ownership in Arcadyan by 0.44%.

In the fourth quarter of 2013, the Group launched a cash tender offer to acquire outstanding common shares of CCI and purchased CCI's common shares in the public market. The consideration to purchase those shares was $13,171,986 in total, which accounted for 42.64% equity ownership of CCI. As of December 31, 2013, the Group owned 92.53% equity ownership in CCI. The Company's Board of Directors resolved to merge CCI, with the effective date of the Merger on February 27, 2014. After the Merger, the Company is the surviving company and CCI is the dissolved company. In the first quarter of 2014, the consideration to purchase the shares from the shareholders (who disagreed with the Merger) and the non-controlling interest totally amounted to $2,304,824.

The following summarizes the effect of changes in equity of the parent due to changes in the ownership interests of subsidiaries:

		2014
		CCI
Acquisition of non-controlling interest (carrying amount)	$	1,241,975
Consideration paid for the non-controlling interest		(2,820,921)
Difference	**$**	**(1,578,946)**

(Continued)

		2014 CCI
The effect of cancellation of treasury shares of subsidiaries	$	(10,020)
Other equity interest		6,850
Retained earnings		(1,575,776)
	$	**(1,578,946)**

		2013	
		Arcadyan	CCI
Acquisition of non-controlling interest (carrying amount)	$	280,260	4,251,936
Consideration paid for the non-controlling interest		(259,036)	(13,171,986)
Difference	$	**21,224**	**(8,920,050)**
Capital surplus – recognition of changes in ownership interests in subsidiaries	$	34,241	-
Capital surplus – difference between consideration and carrying amount arising from the acquisition or disposal of subsidiaries		-	(93,465)
Retained earnings		(13,017)	(8,826,585)
	$	**21,224**	**(8,920,050)**

2. Disposal of part of equity ownership of subsidiaries without losing control

Panpal and Gempal, the subsidiaries of the Company, disposed of 1% equity ownership of CCI in March 2013 for $141,517, but did not result in losing the Group's control over CCI.

The Group disposed 3% of HengHao's equity ownership in July 2014 for $98,938, but did not result in losing its control over HengHao.

The following summarizes the effect of changes in equity of the parent due to changes in the ownership interests of subsidiaries:

		2014	2013
Disposal of the non-controlling interest (carrying amount)	$	(95,446)	(98,619)
Consideration transferred from the non-controlling interest		98,938	141,517
Difference	**$**	**3,492**	**42,898**

(Continued)

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	2014	2013
Other equity interest	$ -	(11,634)
Deferred credits – realized inter-company profits	-	(16,592)
Capital equity – difference between consideration and carrying amount arising from the acquisition or disposal of subsidiaries	3,492	71,124
	$ 3,492	**42,898**

3. Changes in subsidiaries' equity did not result in losing control over subsidiaries

(i) Subsidiaries employee stock options exercised

Arcadyan issued 404 thousand new shares because of employees' stock options being exercised in the years ended December 31, 2014 and 2013, respectively, which resulted in the decrease of 0.12% and 0.08%, respectively, of the Group's ownership interests in Arcadyan.

CCI issued 201 thousand new shares because of employees' stock options being exercised in the year ended December 31, 2013, which resulted in the decrease of 0.03% of the Group's ownership interests in CCI.

(ii) Subsidiaries issued restricted shares

Arcadyan issued 2,800 thousands new shares of restricted stock on August 8, 2013, which resulted in the decrease of 0.71% of the Group's ownership interests in Arcadyan.

(iii) Cancellation of subsidiaries' restricted shares

Arcadyan cancelled 12 thousand restricted shares on August 14, 2014, which resulted in the increase of 0.0026% of the Group's ownership interests in Arcadyan.

(iv) The following summarizes the effect of changes in equity of the parent due to changes in the ownership interests of subsidiaries:

	2014	2013
Capital equity – recognition of changes in ownership interests in subsidiaries	$ (3,720)	2,560
Retained earnings	(1,495)	(39,273)
	$ (5,215)	**(36,713)**

(Continued)

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(j) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2014 and 2013 were as follows:

	Land	Buildings and building improvement	Machinery and equipment	Other equipment	Under construction and prepayment for purchase of equipment	Total
Cost or deemed cost:						
Balance on January 1, 2014	$ 1,701,570	12,202,869	16,162,392	7,940,783	3,577,480	41,585,094
Acquisition through business combination	188,996	315,454	732,127	72,220	9,619	1,318,416
Additions	-	195,926	2,611,352	2,043,464	2,258,326	7,109,068
Disposals and derecognitions	-	(10,884)	(346,839)	(1,282,036)	-	(1,639,759)
Reclassifications	-	1,399,221	608,937	815,845	(2,824,003)	-
Effect of changes in exchange rates	2,993	703,722	812,780	(225,622)	266,338	1,560,211
Balance on December 31, 2014	$ 1,893,559	14,806,308	20,580,749	9,364,654	3,287,760	49,933,030
Balance on January 1, 2013	$ 1,699,470	11,921,108	15,118,030	6,994,021	3,923,236	39,655,865
Acquisition through business combination	-	7,904	7,666	2,531	-	18,101
Additions	-	84,870	2,374,135	1,330,212	1,884,515	5,673,732
Disposals and derecognitions	-	(10,941)	(3,360,114)	(892,230)	-	(4,263,285)
Reclassifications	-	2,881	1,903,568	115,315	(2,242,779)	(221,015)
Effect of changes in exchange rates	2,100	197,047	119,107	390,934	12,508	721,696
Balance on December 31, 2013	$ 1,701,570	12,202,869	16,162,392	7,940,783	3,577,480	41,585,094
Depreciation and impairment loss:						
Balance on January 1, 2014	$ -	6,864,624	8,890,461	4,620,781	-	20,375,866
Acquisition through business combination	-	127,118	537,419	41,378	-	705,915
Depreciation for the period	-	871,283	2,358,346	2,108,425	-	5,338,054
Impairment loss	-	-	33,913	163	-	34,076
Disposals and derecognitions	-	(8,457)	(302,247)	(1,229,349)	-	(1,540,053)
Effect of changes in exchange rates	-	398,183	484,387	(336,130)	-	546,440
Balance on December 31, 2014	$	8,252,751	12,002,279	5,205,268	-	25,460,298
Balance on January 1, 2013	$ -	5,698,782	9,396,551	3,787,742	-	18,883,075
Acquisition through business combination	-	3,539	2,135	952	-	6,626
Depreciation for the period	-	1,055,258	1,913,837	1,983,051	-	4,952,146
Disposals and derecognitions	-	(9,142)	(2,754,818)	(804,290)	-	(3,568,250)
Reclassifications	-	-	-	(211,475)	-	(211,475)
Effect of changes in exchange rates	-	116,187	332,756	(135,199)	-	313,744
Balance on December 31, 2013	$	6,864,624	8,890,461	4,620,781	-	20,375,866
Carrying amounts:						
Balance on December 31, 2014	$ 1,893,559	6,553,557	8,578,470	4,159,386	3,287,760	24,472,732
Balance on January 1, 2013	$ 1,699,470	6,222,326	5,721,479	3,206,279	3,923,236	20,772,790
Balance on December 31, 2013	$ 1,701,570	5,338,245	7,271,931	3,320,002	3,577,480	21,209,228

In order to build a research and development center and operational headquarters, Arcadyan contracted with non-related parties to construct an office building in March 2012 for $844,000, which initiated its construction in the second quarter of 2012. In December 2013, Arcadyan signed a contract with non-related parties on the design and decoration of its office building, in which additional items were added amounting to $97,900 in September 2014 with the aggregate amount for $941,900.

(Continued)

As of December 31, 2014 and 2013, the payments amounted to $697,538 and $300,001, respectively, and the capitalized borrowing cost amounted to $14,719 and $7,700, respectively.

As of December 31, 2014 and 2013, part of the Group's property, plant and equipment are pledged as collateral for long-term borrowings. Please see note (8).

(k) Short-term borrowings

The details of short-term borrowings were as follows:

	December 31, 2014	December 31, 2013
Credit loans	$ 46,543,180	51,071,342
Secured bank loans	149,193	900,425
	$ 46,692,373	**51,971,767**
Unused credit line for short-term borrowings	**$ 96,698,000**	**81,779,000**
Annual range of interest rates	**0.70%~11.72%**	**0.60%~10.00%**

For information on the Group's interest risk, foreign currency risk and liquidity risk, please see note (6)(w).

The Group pledges accounts receivable as collaterals for partial short-term borrowings. Please see note (8).

(l) Long-term borrowings

The details, conditions and clauses covenants of long-term borrowings were as follows:

	December 31, 2014			
	Currencies	Annual interest rate	Expiration year	Amount
Unsecured bank loans	TWD	1.35%~1.57%	2015~2017	$ 22,660,000
Unsecured bank loans	USD	2.02%~2.50%	2016	379,801
Secured bank loans	TWD	0.90%~2.25%	2015~2022	1,098,733
				$ 24,138,534
Current				$ 3,634,233
Non-current				20,504,301
Total				**$ 24,138,534**
Unused credit line for long-term borrowings				**$ 80,000**

(Continued)

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	December 31, 2013			
	Currencies	Annual interest rate	Expiration year	Amount
Unsecured bank loans	TWD	1.33%~1.56%	2015~2016	$ 12,800,000
Secured bank loans	TWD	0.90%~2.25%	2014~2022	1,464,760
Secured bank loans	USD	2.06%~2.49%	2016	265,761
				$ 14,530,521
Current				$ 423,154
Non-current				14,107,367
Total				$ 14,530,521
Unused credit line for long-term borrowings				$ 7,098,000

For information on the Group's interest risk and liquidity risk, please see note (6)(w).

The Group pledged property, plant and equipment as collateral for its partial long-term borrowings. Please see note (8).

(m) Provisions

	Warranties	Sales returns and allowances	Guarantee of defective rate	Total
Balance on January 1, 2014	$ 247,658	1,391,452	36,655	1,675,765
Provisions made during the period	278,659	1,003,571	15,365	1,297,595
Provisions used during the period	(131,855)	(452,038)	-	(583,893)
Provisions reversed during the period	(25,528)	(245,150)	(52,050)	(322,728)
Effect of changes in exchange rates	-	(188)	30	(158)
Balance on December 31, 2014	$ 368,934	1,697,647	-	2,066,581
Balance on January 1, 2013	$ 148,310	1,733,320	57,372	1,939,002
Provisions made during the period	335,554	674,182	6,181	1,015,917
Provisions used during the period	(234,737)	(715,791)	-	(950,528)
Provisions reversed during the period	(1,469)	(300,261)	(32,449)	(334,179)
Effect of changes in exchange rates	-	2	5,551	5,553
Balance on December 31, 2013	$ 247,658	1,391,452	36,655	1,675,765

Provisions relate to sales of products, and are assessed based on historical experience. The aforementioned provisions are expected to occur over the next year.

(Continued)

(n) Operating lease

1. The Group as lessee

(i) The rental payables of the non-cancellable operating lease are as follows:

	December 31, 2014	December 31, 2013
Less than one year	$ 527,566	430,732
Between one and five years	920,959	635,372
More than five years	176,969	223,241
	$ 1,625,494	1,289,345

The Group leased several office areas and plants under operating leases with the leasing terms from 1 to 19 years and had an option to renew the leases when the leases expired.

For the years ended December 31, 2014 and 2013, expenses recognized in profit or loss under operating leases amounted to $628,390 and $489,245, respectively.

The lease contract includes those of the land and building, with their residual values being assumed by the landlord. The rental is regularly adjusted based on the current market price. Based on the risks and rewards of leased assets not transferred to the Group, the Group recognized the lease as operating lease.

(ii) Long-term prepaid rent – land leasehold rights

Just’s and CIH’s subsidiaries in Mainland China have contracted with the government authority of Kunshan City, Jiangsu Province, People’s Republic of China, to acquire land leasehold rights for buildings and dormitories. The contract period extends from 1996 to 2061. According to the contracts, total expenditures for obtaining land leasehold rights amounted to CNY 182,285 thousand.

CDM has contracted with the People’s Committee of Vinh Phuc Province of Vietnam to acquire land leasehold rights for buildings. The contract period extends from 2008 to 2057.

CCI Nanjing and CWCN have contracted with the government authority of Nanjing City, Jiangsu Province, People’s Republic of China, to acquire lands leasehold rights for buildings. The contract period extends from 2003 to 2056. According to the contract, total expenditures for obtaining land leasehold rights amounted to CNY 2,090 thousand.

(Continued)

For the years ended December 31, 2014 and 2013, expenses recognized in profit or loss under operating lease amounted to $16,690 and $16,222, respectively.

2. The Group as lessor

The Group leased out a few office buildings, plants and equipments to third parties under operating lease with lease terms of 3 to 5 years. For the years ended December 31, 2014 and 2013, rentals recognized in profit or loss amounted to $15,978 and $17,283, respectively. The future minimum lease receivables under non-cancellable leases are as follows:

	December 31, 2014	December 31, 2013
Less than one year	$ 3,058	12,914
Between one and five years	-	2,662
	$ 3,058	**15,576**

(o) Employee benefits

1. Defined benefit plans

The present value of the defined benefit obligations and fair value of plan assets of the Group were as follows:

	December 31, 2014	December 31, 2013
Present value of defined benefit obligations	$ (1,247,642)	(1,239,104)
Fair value of plan assets	788,334	812,531
Unamortized past service costs	(212,785)	(229,144)
	$ (672,093)	**(655,717)**

	December 31, 2014	December 31, 2013
Prepaid pension cost	$ 2,701	2,693
Accrued pension liability	(674,794)	(658,410)
	$ (672,093)	**(655,717)**

The Group makes defined benefit plan contributions to the pension fund account at the Bank of Taiwan that provides pensions for employees upon retirement. The plans entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The balance of the Group's labor pension reserve accounts in the Bank of Taiwan amounted to $779,896 as of December 31, 2014. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, the Minister of Labor.

(ii) Movements in the present value of the defined benefit obligations

The movements in the present value of defined benefit obligations for the Group were as follows:

		2014	2013
Balance on January 1	$	(1,239,104)	(1,260,601)
Benefit paid by the plan		70,768	50,158
Current service costs and interest		(36,751)	(34,071)
Actuarial gains (losses)		(42,555)	5,410
Balance on December 31	**$**	**(1,247,642)**	**(1,239,104)**

(iii) Movements of the fair value of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the Group were as follows:

		2014	2013
Fair value of plan assets on January 1	$	812,531	823,083
Contributions made		28,812	29,793
Benefits paid by the plan assets		(70,768)	(50,158)
Expected return on plan assets		10,553	16,073
Actuarial gains (losses)		7,206	(4,759)
Impact of curtailment		-	(1,501)
Fair value of plan assets on December 31	**$**	**788,334**	**812,531**
Actual return on plan assets	**$**	**17,759**	**11,314**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Service cost	$	10,942	12,411
Interest cost		25,818	21,833
Amortized past service costs		(16,360)	(16,360)
Expected return on plan assets		(10,553)	(16,073)
	$	**9,847**	**1,811**
Cost of sales	$	531	512
Selling expenses		848	270
Administrative expenses		(73)	(2,800)
Research and development expenses		8,541	3,829
	$	**9,847**	**1,811**

(v) Actuarial gains and losses recognized in other comprehensive income

The Group's actuarial gains and losses recognized in other comprehensive income, before tax, for the years ended December 31, 2014 and 2013, were as follows:

		2014	2013
Cumulative amount on January 1	$	169,510	170,161
Recognized during the period		35,349	(651)
Cumulative amount on December 31	$	**204,859**	**169,510**

(vi) Actuarial assumptions

The following are the Group's principal actuarial assumptions at the reporting date:

	2014	2013
Discount rate on December 31	2.00%~2.25%	1.75%~2.00%
Expected return on plan assets	1.25%~2.00%	2.00%
Future salary increases	1.50%~3.00%	2.00%~3.00%

The assumption of expected return on plan assets is based on the portfolio other than the sum of returns on individual investment. The expected return rate was based on the trends of historical return without adjustment.

(Continued)

(vii) Experience adjustments on historical information

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit plans	$ (1,247,642)	(1,239,104)	(1,260,601)	(1,151,933)
Fair value of plan assets	788,334	812,531	823,083	864,177
Recognized liabilities of defined benefit obligations, net	**$ (459,308)**	**(426,573)**	**(437,518)**	**(287,756)**
Experience adjustments arising on the present value of defined benefit plans	**$ (17,675)**	**(47,784)**	**(30,601)**	**-**
Experience adjustments arising on the fair value of the plan assets	**$ 7,206**	**(1,279)**	**(9,726)**	**-**

The expected allocation payment made by the Group to the defined benefit plans in the one-year period after the reporting date is $28,252.

(viii) When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including employee turnover rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2014, the Group’s prepaid pension cost and accrued pension liabilities were $2,701 and $674,794, respectively. If the discount rate had increased or decreased by 0.25%, the Group’s accrued pension liabilities would be decreased by $36,528 or increased by $38,095, respectively; if the salary increase rate had increased or decreased by 0.25%, the Group’s accrued pension liabilities would be increased by $37,709 or decreased by $36,348, respectively.

2. Defined contribution plans

The Group allocates 6% of each employee’s monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group allocates the labor pension at a specific percentage to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Group recognized the pension costs under the defined contribution plans amounting to $313,021 and $303,466 for the years ended December 31, 2014 and 2013, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expenses, basic endowment insurance expenses, and social welfare expenses amounting to $807,247 and $379,953 for the years ended December 31, 2014 and 2013, respectively.

(Continued)

(p) Income taxes

1. Income tax expenses

(i) The amount of income tax for the years ended December 31, 2014 and 2013 was as follows:

		2014	2013
Current tax expense			
Recognized during the period	$	2,184,535	1,605,828
10% surtax on unappropriated earnings		156,692	156,536
Tax credit of investment		(163,158)	(192,394)
		2,178,069	1,569,970
Deferred tax expense			
Recognition and reversal of temporary differences		3,902	(113,320)
Income tax expense	**$**	**2,181,971**	**1,456,650**

(ii) The amount of income tax recognized in other comprehensive income for the years ended December 31, 2014 and 2013 was as follows:

		2014	2013
Exchange differences on translation of foreign financial statements	$	3,969	62,579
Unrealized gains (losses) on available-for-sale financial assets		35,138	(33,703)
Actuarial gains (losses) on defined benefit plans		(6,010)	112
	$	**33,097**	**28,988**

(iii) The income tax that was reconciled between the actual income tax expense and profit before tax for the years ended December 31, 2014 and 2013, was as follows:

		2014	2013
Profit before tax	**$**	**9,736,972**	**4,360,382**
Income tax calculated based on tax rate	**$**	1,924,725	1,414,668
Estimated tax effect of tax exemption on investment loss, net		1,152,631	808,154
Realized investment loss		(1,156,758)	(564,539)
Investment tax credit		(160,338)	(161,341)
Changes in temporary differences		(447,841)	(431,687)
Adjustment of estimated difference and other		712,860	234,859
10% surtax on unappropriated earnings		156,692	156,536
	$	**2,181,971**	**1,456,650**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2014 and 2013 were as follows:

		Provision-sales return and allowance	Unearned revenue	Unrealized exchange losses, net	Others	Total
Deferred tax assets:						
Balance on January 1, 2014	$	330,595	245,779	158,280	439,549	1,174,203
Amount increased through business combination		-	-	-	58,113	58,113
Recognized in profit or loss		40,091	75,284	293,701	42,181	451,257
Recognized in other comprehensive income		-	-	-	(30,432)	(30,432)
Balance on December 31, 2014	**$**	**370,686**	**321,063**	**451,981**	**509,411**	**1,653,141**
Balance on January 1, 2013	$	191,543	206,736	151,505	530,342	1,080,126
Recognized in profit or loss		139,052	39,043	6,775	(28,102)	156,768
Recognized in other comprehensive income		-	-	-	(62,691)	(62,691)
Balance on December 31, 2013	**$**	**330,595**	**245,779**	**158,280**	**439,549**	**1,174,203**

		Unrealized exchange gains, net	Others	Total
Deferred tax liabilities:				
Balance on January 1, 2014	$	(296,170)	(382,417)	(678,587)
Recognized in profit or loss		(455,979)	820	(455,159)
Recognized in other comprehensive income		-	(2,665)	(2,665)
Balance on December 31, 2014	**$**	**(752,149)**	**(384,262)**	**(1,136,411)**
Balance on January 1, 2013	$	(183,582)	(485,260)	(668,842)
Recognized in profit or loss		(112,588)	69,140	(43,448)
Recognized in other comprehensive income		-	33,703	33,703
Balance on December 31, 2013	**$**	**(296,170)**	**(382,417)**	**678,587**

3. Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

		December 31, 2014	December 31, 2013
Tax effect of deductible temporary differences	$	**594,833**	**354,088**
Tax effect of investment tax credits	$	**-**	**261,561**
Tax effect of loss carryforward	$	**659,420**	**706,517**

(Continued)

The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years.

As of December 31, 2014, the tax effects on loss carryforward that have not been recognized as deferred tax assets were as follows:

Year of loss	Deductible amount	Expiry year
AcBel Telecom		
2005 (Assessed)	$ 119,239	2015
2006 (Assessed)	157,676	2016
2007 (Assessed)	127,682	2017
2008 (Assessed)	40,232	2018
	444,829	
Panpal		
2008 (Assessed)	527,590	2018
2009 (Assessed)	827,076	2019
2011 (Assessed)	358,865	2021
2013 (Filed)	13,323	2023
	1,726,854	
Gempal		
2009 (Assessed)	30,599	2019
Zhaopal		
2009 (Assessed)	545	2019
2010 (Assessed)	243,903	2020
2011 (Assessed)	49	2021
2012 (Assessed)	66	2022
2013 (Assessed)	49	2023
2014 (Estimated)	50	2024
	244,662	
Yongpal		
2009 (Assessed)	489	2019
2010 (Assessed)	213,421	2020
2011 (Assessed)	49	2021
2012 (Assessed)	65	2022
2013 (Assessed)	49	2023
2014 (Estimated)	49	2024
	214,122	

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Year of loss	Deductible amount	Expiry year
Kaipal		
2009 (Assessed)	264	2019
2010 (Assessed)	91,494	2020
2011 (Assessed)	49	2021
2012 (Assessed)	65	2022
2013 (Assessed)	49	2023
2014 (Estimated)	49	2024
	91,970	
HengHao		
2010 (Assessed)	316	2020
2011 (Assessed)	192,657	2021
2012 (Assessed)	842,820	2022
2013 (Filed)	73,925	2023
	1,109,718	
Ripal		
2013 (Filed)	12,646	2023
Rayonnant Technology (Assessed)		
2011	3,539	2021
	$ 3,878,939	

4. Unrecognized deferred tax assets and liabilities relating to investments in subsidiaries

   As of December 31, 2014 and 2013, the aggregate deductible temporary differences relating to investments in subsidiaries not recognized as deferred tax assets amounted to $785,369 and $1,124,527, respectively.

   As of December 31, 2014 and 2013, the aggregate taxable temporary differences relating to investments in subsidiaries not recognized as deferred tax liabilities amounted to $39,839,113 and $32,615,207, respectively.

5. The ROC tax authorities have assessed the Company's income tax returns through 2011. The Company disagreed with the assessment and filed formal tax appeals for 2009. The total amounts of the assessed additional income tax were recognized in the statements of income out of conservatism. Any differences will be reflected as an adjustment after the tax appeal is resolved.

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The ROC tax authorities have assessed the income tax returns of Acbel Telecom and Zhipal through 2013, of Panpal, Gempal, Hong Ji, Hong Jin, Zhaopal, Yongpal, Kaipal, Arcadyan, TTI, HengHao, Synchro, Huang Feng, Rayonnant Technology, UCGI and CBN through 2012, of ATK through June 2009, of VAP through April 2013, of CCI through 2012 except for 2010.

6. The Company's information related to the integrated income tax system is summarized below:

	December 31, 2014	December 31, 2013
Unappropriated earnings retained after January 1, 1998	$ 23,933,666	19,820,927
Balance of the imputation credit account	$ 2,689,493	2,732,749

	2014	2013
Creditable ratio for earnings distribution to R.O.C residents	12.59% (expected)	14.65% (actual)

The above stated information was prepared in accordance with the information letter No. 10204562810 announced by the Ministry of Finance of R.O.C. on October 17, 2013.

(q) Capital and other equities

As of December 31, 2014 and 2013, the Company's authorized common stock consisting of 6,000,000 thousand shares with a par value of 10 New Taiwan dollar per share amounted to $60,000,000 of which 4,423,237 thousand shares and 4,413,447 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

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1. Ordinary shares

   The Company's employees exercised stock options to acquire the Company's ordinary shares amounting to $97,899 and $7,941 in the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014, the registration procedure related to employee stock options converted into ordinary shares amounting to $20,266 had not been completed.

2. Capital surplus

   The balances of capital surplus were as follows:

	December 31, 2014	December 31, 2013
Additional paid-in capital	$ 11,743,975	13,823,825
Treasury stock transactions	2,276,131	2,116,751
Difference between consideration and carrying amount arising from acquisition or disposal of subsidiaries	3,492	-
Recognition of changes in ownership interests in subsidiaries	19,909	23,629
Changes in equity of associates and joint ventures accounted for using equity method	252,938	228,882
	$ 14,296,445	16,193,087

   In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

   The Company's shareholders' meeting held on June 20, 2014, approved to distribute the cash dividend of $2,177,668 representing 0.5 New Taiwan dollars per share by using the additional paid-in capital.

3. Retained earnings

   Based on the Company's articles of incorporation amended on June 21, 2013, 10% of annual net income after offsetting prior years' deficits, if any, is to be set aside as legal reserve and a special reserve is set aside or reversed in accordance with the laws or regulations, and an amount less than 2% of the balance, after deducting the legal reserve and the special reserve, is appropriated as remuneration to the directors and supervisors, and more than 2% as bonus to employees. The balance of earnings available for distribution is composed of the remainder of the said profit and the unappropriated retained earnings in prior years. The earnings appropriation proposal to distribute dividend and bonus shall be proposed by the

(Continued)

Board of Directors and approved by the General Shareholders Meeting. The rest of the unappropriated retained earnings shall be reserved.

According to the Company's articles of incorporation before amendment, 10% of annual net income after offsetting prior years' deficits, if any, was to be set aside as legal reserve and a special reserve is set aside or reversed in accordance with laws and regulations, and an amount less than 2% of the balance, after deducting the legal reserve and the special reserve, is appropriated as remuneration to the directors and supervisors, and more than 2% as bonus to employees. Dividends and bonuses distributed to stockholders shall not be less than 10% of annual net income after deducting the above items. If the annual net income per share was less than 1 New Taiwan dollar, the Company could opt to retain net income for such year.

According to the law, when there is a deduction from stockholders' equity (excluding treasury stock) during the year, an amount equal to the deduction item is set aside as a special reserve before the earnings are appropriated. A special reserve is made available for earning distribution only after the deduction of the related shareholders' equity has been reversed.

(i) Legal reverse

In accordance with the Company Act, 10% of net income should be set aside as legal reserve until it is equal to the paid-in capital. When a company incurs no loss, it may, in pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares and distributing stock dividends or distributing cash to shareholders. Only the portion of the legal reserve which exceeds 25% of the paid-in capital may be distributed.

(ii) Special reverse

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current earnings and previous unappropriated earnings shall be set aside as a special reserve during earnings distribution. The amount to be set aside should equal the total amount of contra accounts that are accounted for as deductions to other equity interests. A portion of previous unappropriated earnings shall be set aside as a special reserve, which should not be distributed, to account for cumulative changes to other equity interests pertaining to prior periods. The special reserve shall be made available for appropriation when the net deductions of other equity interests are reversed in the subsequent periods.

(iii) Earnings distribution

The employee bonuses and directors' and supervisors' remuneration were accrued and recognized as operating costs or operating expenses based on a specific percentage, which was approved by the management, of net income after deducting the legal reserve for the years ended December 31, 2014 and 2013. The Company accrued and recognized employee bonuses of $895,790 and $314,199, and directors' and supervisors' remuneration

(Continued)

of $49,379 and $21,761 for the years ended December 31, 2014 and 2013, respectively. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

Distribution for the earnings of 2013 and 2012 was approved by the shareholders during their annual meeting held on June 20, 2014, and June 21, 2013, respectively. The relevant information was as follows:

	2013		2012	
	Amount per share	**Total amount**	**Amount per share**	**Total amount**
Cash dividends distributed to common shareholders	$ 0.5	2,177,668	1.0	4,384,186

	2013	2012
Employee bonuses – cash	$ 314,199	816,440
Directors' and supervisors' remuneration	21,761	56,545
	$ 335,960	872,985

The above earnings distribution for the fiscal years 2013 and 2012 had no difference from the estimated distribution in the financial reporting for 2013 and 2012.

Distribution for the earnings of 2014 was resolved by the Company's Board of Directors on February 26, 2015. The relevant information was as follows:

	2014	
	Amount per share	**Total amount**
Cash dividends distributed to common shareholders from the unappropriated earnings	$ 1.0	4,428,781
Cash distributed to common shareholders from the capital surplus	0.5	2,214,390
Total		$ 6,643,171

(Continued)

The distribution of cash dividends, employee bonuses and directors' and supervisors' remuneration for the year of 2014 is still subject to be approved in the shareholders' meeting. The related information can be accessed from the Market Observation Post System after the holding of the shareholders' meeting.

4. Treasury stock

The subsidiaries of the Company did not sell the ordinary shares of the Company in the years ended December 31, 2014 and 2013. As of December 31, 2014, Panpal and Gempal, subsidiaries of the Company, held 50,017 thousand shares of ordinary shares of the Company, recorded as the Company's treasury stock, with a book value of 17.6 New Taiwan dollars per share. The total cost was $881,247 as of December 31, 2014. The fair value of the ordinary shares of the Company was 22.20 and 22.85 New Taiwan dollars per share as of December 31, 2014 and 2013, respectively.

Pursuant to Article 28-2 of the Securities and Exchange Act, in order to transfer its own shares to employees, the Company purchased 58,516 thousand shares of treasury stock amounting to $1,126,478 in the year ended December 31, 2013.

Pursuant to the Securities and Exchange Act, the number of treasury shares purchased cannot exceed 10% of the number of shares issued. The total purchase cost cannot exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. The shares purchased for the purpose of transferring to employees shall be transferred within three years from the date of share repurchase. Those not transferred within the said limit shall be deemed as not issued by the Company and it should be cancelled. Furthermore, treasury stock cannot be pledged for debts, and treasury stock does not carry any shareholder rights until it is transferred.

5. Other equity interests (net-of-tax)

		Exchange differences on transaction of foreign financial statements	Unrealized gain (losses) on available-for-sale financial assets	Total
Balance on January 1, 2014	$	(1,846,674)	(5,860,844)	(7,707,518)
The Group		2,854,185	1,632,577	4,486,762
Associates		170,796	(89,061)	81,735
Balance on December 31, 2014	$	**1,178,307**	**(4,317,328)**	**(3,139,021)**
Balance on January 1, 2013	$	(3,134,266)	(5,248,131)	(8,382,397)
The Group		1,001,548	(717,869)	283,679
Associates		286,044	105,156	391,200
Balance on December 31, 2013	$	**(1,846,674)**	**(5,860,844)**	**(7,707,518)**

(Continued)

(r) Share-based payment

1. The Company – employee stock options

At a meeting held on October 31, 2007, the Company's Board of Directors resolved to issue 100,000,000 units of stock options, with an exercisable right of one share of the Company's ordinary shares per unit. The share option issuance was authorized by the FSC on November 19, 2007. Total options issued were 100,000,000 units, and the issue date was December 21, 2007. The information on total options issued was as follows:

	2014		2013	
	Units (in thousands)	Weighted-average exercise price (NT dollars)	Units (in thousands)	Weighted-average exercise price (NT dollars)
Outstanding units on January 1	39,242	$ 20.50	40,036	$ 21.70
Current units exercised	(9,790)	19.99	(794)	20.50
Current units expired	(29,452)	19.80	-	-
Outstanding units on December 31	-	$ -	39,242	$ 20.50
Exercisable units on December 31	-	$ -	39,242	$ 20.50

The weighted-average market price of the Company's share during the exercise period was 23.06 and 20.34 NT dollars for the years ended December 31, 2014 and 2013, respectively. The aforementioned share options were vested in the fourth quarter of 2011 and expired in the fourth quarter of 2014.

The issuance terms of the share options are as follows:

(i) Exercise price: 19.8 NT dollars per share after the adjustment for dividends declared (the exercise price was 31.6 NT dollars at the issue date)

(ii) Exercisable duration: After two years, the employees who received share options can exercise a specific percentage in each period as below. The exercisable duration of the options is seven years. No transfer, pledge, donation or other methods of disposal are allowed except for inheritance.

Period to exercise options	Exercisable percentage (cumulative)
2 years after options received	40%
3 years after options received	70%
4 years after options received	100%
7 years after options received	All unexercised options will be retired

(Continued)

(iii) Exercise method: The Company would issue new shares as the options are exercised.

(iv) Exercise procedure: In accordance with the Company's issuance and exercise rules, the entitlement certification of share options exercised is registered as ordinary share at least once a quarter.

The compensation cost of the share options issued before December 31, 2007 was computed by the intrinsic value method. Because the fair value of the Company's ordinary shares on the measurement date was not in excess of the exercise price of the share options, the Company did not have to recognize the compensation cost.

The share options issued before the conversion date were vested by December 31, 2011, thus there was no compensation cost retroactively recognized.

2. The Company – treasury stock transferred to employees

At a meeting held on August 13, 2014, the Company's Board of Directors resolved to transfer 14,700 thousands shares of treasury stocks, which were purchased in 2013, to its employees, at 19.25 New Taiwan dollar per share. The Company estimated the fair value of the treasury stock to be transferred to employees would be $110,250, and recognized it as compensation cost. Upon the receipt of cash from employees, the cost of treasury stock was decreased by $282,986, and the capital surplus – treasury stock transactions of $109,389 was recognized.

3. The Company – employee restricted shares

At the meeting held on June 20, 2014, the Company's Shareholders' Meeting adopted a resolution to issue 100,000 thousand new shares of employee restricted stock with no consideration to those full time employees who meet certain requirements. The first issuance of 50,000 thousand shares had been approved by the FSC on October 30, 2014. Moreover, the Company's Board of Directors resolved to issue 49,980 thousand shares on January 22, 2015, and the effective date of the share issuance was on February 25, 2015.

4. Arcadyan – employee stock options

At the meetings held on October 3, 2005 and December 6, 2007, Arcadyan's Board of Directors resolved to issue employee share options, with an exercisable right of one thousand shares and one share, respectively, of Arcadyan's ordinary share per unit. Total options issued represented 7,809,000 shares. The information on total options issued was as follows:

(Continued)

	2014		2013	
	Shares	**Weighted-average exercise price (NT dollars)**	**Shares**	**Weighted-average exercise price (NT dollars)**
Outstanding shares on January 1	521,300	$ 23.50	924,900	$ 23.38
Granted shares during the period	-	-	-	-
Shares exercised during the period	(403,800)	22.71	(403,600)	21.42
Shares expired during the period	(117,500)	22.40	-	-
Outstanding shares on December 31	-	$ -	521,300	23.50
Exercisable shares on December 31	-	$ -	521,300	23.50

The weighted-average market price of Arcadyan's share during the exercise period was $45.94 and $40.63 NT dollars for the years ended December 31, 2014 and 2013, respectively.

The issuance terms of the share options are as follows.

(i) Exercise price: After the adjustment for share dividends over the years, the exercise prices are summarized as follows:

Date of issuance	Exercise price (NT dollars)
December 2005	$ 10.00
December 2007	22.40

(ii) Exercisable duration: The employees who received share options being granted over two years can exercise a specific percentage in each period as below. The exercisable duration of the options was ten years for shares options issued in 2005 and seven years for shares options issued in 2007, respectively. No transfer is allowed except for inheritance. After the expiration of the exercisable duration, Arcadyan will retire the unexercised options and not re-issue the options.

Options issued in 2005	
Period to exercise options	**Exercisable percentage (cumulative)**
2 years after options received	50%
3 years after options received	100%

(Continued)

Options issued in 2007	
Period to exercise options	**Exercisable percentage (cumulative)**
2 years after options received	40%
3 years after options received	70%
4 years after options received	100%

(iii) Exercise method: Arcadyan would issue new shares as the options are exercised.

(iv) Exercise procedure: In accordance with Arcadyan's issuance and exercise rules, the entitlement certification of share options exercised is registered as ordinary share at least once a quarter.

The share options issued before the conversion date were vested by December 31, 2011, thus there was no compensation cost retroactively recognized.

5. Arcadyan – employee restricted shares

At the meeting held on June 25, 2013, Arcadyan's shareholders' Meeting adopted resolution to issue 2,800,000 new shares of employee restricted stock to those Arcadyan's full-time employees who meet certain requirements. The issuance of restricted shares had been approved by the FSC. The Board of Directors resolved to issue all the restricted shares on August 8, 2013, which was also the effective date of the share issuance.

2,100,000 shares of the aforementioned restricted stock are issued without consideration. 40%, 30% and 30% of the 2,100,000 restricted shares will be vested, respectively, when the employees continue to provide service for at least 1 year, 2 years and 3 years from the grant date as well as meet the performance requirement. In addition, when earnings per share in two consecutive and full fiscal years from the registration and effective date are no less than 4 New Taiwan dollars and in the mean time, the employees granted the restricted shares meet the performance requirement, the other 700,000 shares of the restricted stock are 100% vested at the date that the shareholders' meeting approved the financial statements for the second fiscal year. The earnings per share mentioned above is calculated based on profit approved by the shareholders dividing the weighted average number of ordinary shares outstanding at the date of the restricted shares being approved by the authority.

(Continued)

After the issuance, the restricted shares are kept by trustee, which is designated by Arcadyan, before they are vested. These restricted shares shall not be sold, pledged, transferred, gifted or created other rights or encumbrances, or otherwise disposed in any other means during the custody period. Before the vesting conditions are fully satisfied, the shareholder rights of these shares are executed by the custodian, and the custodian shall act based on law and regulations. If the shares remain unvested after the vesting period, Arcadyan will redeem the shares without consideration and cancel the shares thereafter. Restricted shares could participate in cash and stock dividends, and could join cash injection. The aforementioned new shares arising from dividends are not considered as restricted shares.

The information of Arcadyan's restricted shares (in thousands) is as follows:

	2014
Outstanding shares on January 1	2,800
Vested during the period	(830)
Aborted during the period	(12)
Outstanding shares on December 31	**1,958**

As of December 31, 2014 and 2013, the unearned employee benefit was $25,511 and $76,045, respectively.

The compensation cost related to the restricted shares amounted to $50,534 and $26,369 for the years ended December 31, 2014 and 2013, respectively.

6. CCI – employee stock options

At a meeting held on March 29, 2011, CCI's Board of Directors resolved to issue 20,000,000 units of employee stock options, with an exercisable right of one share of CCI's ordinary shares per unit. The exercise of the options will be settled through the issuance of new shares. The options are granted to selected employees of CCI and companies in which CCI has over 50% of total voting shares either directly or indirectly. The exercisable duration of the options is 6 years. No transfer is allowed except for inheritance. The employees who received share options being granted over two years can exercise a specific percentage in each period as below.

Period to exercise options	**Exercisable percentage (cumulative)**
2 Years	50%
3 Years	100%
6 Years	All unexercised options will be retired

(Continued)

The compensation cost related to the employee stock option plan issued in July 2011 amounted to $73,496 for the year ended December 31, 2013, with a corresponding increase in capital surplus totally amounting to $157,541.

At the meeting held on July 4, 2013, the Board of Directors of CCI resolved that employee may opt for continuous service bonuses instead of the originally issued employee stock options. The amount of the employee stock option compensation cost (originally recorded as capital surplus – employee stock option) was reclassified into liabilities was $155,317. As of December 31, 2014, the aforementioned liabilities were totally paid.

The information of CCI's employee stock options as of December 31, 2013, is summarized as follows:

	2013	
	Units	**Weighted-average exercise price (NT dollars)**
Units issued	20,000,000	$ 37.00
Outstanding units on January 1	20,000,000	37.00
Converted to continuous service bonuses	(19,799,000)	37.00
Units exercised	(201,000)	35.94
Outstanding units on December 31	-	$ -
Exercisable units on December 31	-	

CCI used the Hull & White (2004) and Ritchken (1995) trinomial lattice tree option pricing models to evaluate the employee stock option plan. The fair value of the options and the main assumptions to the pricing model were as follows:

Expected price volatility	42.43%
Risk-free interest rate	1.3022%
Expected life	6 years
Expected dividend yield rate	1.5%
Weighted average fair value (NT dollars per share)	$ 11.575

7. CCI – treasury stock

For the purpose of transferring CCI's shares to employees, CCI purchased the outstanding shares as treasury stock in accordance with the Article 28-2 of the Securities and Exchange Act. The change in treasury stock in the year ended December 31, 2013 was follows:

(Continued)

	2013	
	Shares (in thousands)	Amounts
Treasury stock at the beginning of period	3,144	$ 111,112
Transferred during the current period	(3,144)	(111,112)
Treasury stock at end of period	-	$ -

CCI transferred 3,144 thousands shares of treasury stocks to employees at $35.34 per share on September 18, 2013. The fair value of the share-based payment estimated by the Company amounting to $12,290 was recognized as compensation cost. Upon the receipt of cash from employees, the cost of treasury stock was decreased by $111,112, and the capital surplus – treasury stock transactions of $11,958 was recognized.

8. CBN – employee stock options

At the meeting held on May 26, 2014 and May 30, 2012, CBN's Board of Directors resolved to issue 800,000 and 1,000,000 units of employee stock options, respectively, with an exercisable right of one share of CBN's ordinary shares per unit, representing 800,000 and 1,000,000 shares, respectively. The issuance date was September 1, 2014, and November 1, 2012, respectively. The information on total options issued was as follows:

(i) The first employee stock option plan

	2014		2013	
	Shares	Weighted-average exercise price (NT dollars)	Shares	Weighted-average exercise price (NT dollars)
Outstanding shares on January 1	974,000	$ 10.00	1,000,000	$ 10.00
Issued during the period	-	-	-	-
Aborted during the period	(86,400)	10.00	(26,000)	10.00
Outstanding shares on December 31	**887,600**	$ 10.00	**974,000**	$ 10.00
Exercisable shares on December 31	**383,600**	$ 10.00	**-**	$ -

As of December 31, 2014 and 2013, the weighted-average remaining contractual life of the outstanding options was 4.83 and 5.83 years, respectively.

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(ii) The second employee stock option plan

	2014	
	Shares	**Weighted-average exercise price (NT dollars)**
Outstanding shares on January 1	-	$ -
Issued during the period	800,000	10.00
Aborted during the period	(91,000)	10.00
Outstanding shares on December 31	709,000	$ 10.00
Exercisable shares on December 31	-	$ -

As of December 31, 2014, the weighted-average remaining contractual life of the outstanding options was 6.67 years.

The issuance terms of the share options are as follows.

(iii) Exercise price: 10 NT dollars per share.

(iv) Exercisable duration:

A. The first employee stock options plan:

The employees who received share options being granted over two years can exercise a specific percentage in each period as below. The exercisable duration of the options is seven years. No transfer is allowed except for inheritance. After the expiration of the exercisable duration, the unexercised options will be canceled by CBN and not be re-issued anymore.

B. The second employee stock option plan:

The employees who received share options being granted over two years and are still employed by CBN and meet requirements can exercise a specific percentage in each period as stated below. The exercisable duration of the options is seven years. No transfer is allowed except for inheritance. After the expiration of the exercisable duration, the unexercised options will be canceled by CBN and not re-issued anymore.

Period to exercise options	Exercisable percentage (cumulative)
2 years after options received	40%
3 years after options received	70%
4 years after options received	100%

(Continued)

(v) Exercise method: CBN would issue new shares as the options are exercised.

(vi) Exercise procedure: In accordance with CBN's issuance and exercise rules, after receiving the consideration of share options, the entitlement certification of share options exercised is registered as ordinary shares once a quarter.

The compensation cost for the years ended December 31, 2014 and 2013 were $7,228 and $5,902, respectively.

CBN adopted the Black-Scholes model to estimate the fair value on the grant date, and the assumptions are summarized as follows:

A. The first employee stock option plan:

Original exercise price (NT dollars)	10
Current price (NT dollars)	25
Expected dividend yield rate	0%
Expected volatility	38.25%~38.64%
Risk-free interest rate	0.91%~1.02%
Expected life of the option	7 years
Weighted average fair value (NT dollars per share)	16.10~16.49

B. The second employee stock option plan:

Original exercise price (NT dollars)	10
Current price (NT dollars)	37.02
Expected dividend yield rate	0%
Expected volatility	31.07%~32.77%
Risk-free interest rate	1.17%~1.33%
Expected life of the option	7 years
Weighted average fair value (NT dollars per share)	27.62~27.92

9. TTI – employee stock options

At a meeting held on November 26, 2014, TTI's Board of Directors resolved to issue 1,000,000 units of its employee stock options, with an exercisable right of one share of TTI's ordinary shares for each unit. As of February 26, 2015, the said shares had yet to be issued by TTI.

(Continued)

(s) Earnings per share

The Group's basic and diluted earnings per share are calculated as follows:

		2014	2013
Basic earnings per share:			
Profit attributable to ordinary shareholders of the Company	$	7,034,081	2,467,211
Weighted-average number of outstanding ordinary shares		4,312,855	4,324,113
Diluted earnings per share:			
Profit attributable to ordinary shareholders of the Company (after adjustment of potential diluted ordinary shares)	$	7,034,081	2,467,211
Weighted-average number of outstanding ordinary shares with effect of potential diluted ordinary shares			
Weighted-average number of outstanding ordinary shares		4,312,855	4,324,113
Effect of dilutive ordinary shares			
Employee bonuses		46,746	38,295
Employee stock options		931	-
Weighted-average number of ordinary shares (after adjustment of potential diluted ordinary shares)		4,360,532	4,362,408

(t) Revenue

The revenue for the years ended December 31, 2014 and 2013, were as follows:

		2014	2013
Sale of goods	$	843,978,273	690,389,958
Rendering of services and others		1,722,479	2,358,335
	$	845,700,752	692,748,293

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Notes to Consolidated Financial Statements

(u) Non-operating income and expenses

1. Other income

The other income for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Interest income			
Bond investment without an active market	$	42,308	52,350
Bank deposits		960,128	565,311
Others		21,300	10,796
Dividend revenue		208,983	179,601
Bargain purchase gain		-	12,405
Overdue payable reversed as other income		134,528	287,858
Other revenue		432,882	359,772
	$	**1,800,129**	**1,468,093**

2. Other gains and losses

The other gains and losses for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Gain on disposal of investments	$	18,348	626,458
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net		529,423	(147,667)
Foreign currency exchange gains (losses), net		525,341	(546,135)
Gain on disposal of fixed assets		46,226	246,995
	$	**1,119,338**	**179,651**

(v) Reclassification of the components of other comprehensive income

The details of reclassification of the components of other comprehensive income for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Available-for-sale financial assets			
Net change in fair value (net of tax)	$	(3,100,162)	(540,354)
Net change in fair value reclassified to profit or loss (net of tax)		4,732,652	(191,093)
Net change in fair value recognized in other comprehensive income (net of tax)	**$**	**1,632,490**	**(731,447)**

(Continued)

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Notes to Consolidated Financial Statements

(w) Financial instruments

1. Categories of financial instruments

(i) Financial assets

	December 31, 2014	December 31, 2013
Financial assets at fair value through profit or loss:		
Financial assets held for trading	$ 184,093	83,772
Current available-for-sale financial assets	44,538	80,275
Non-current available-for-sale financial assets	12,402,009	14,695,637
Non-current financial assets at cost	83,202	6,588
Loans and receivables:		
Cash and cash equivalents	74,708,130	46,965,852
Notes and accounts receivable, net	178,552,207	183,481,024
Notes and accounts receivable due from related parties, net	343,030	214,854
Other receivables	788,334	830,638
Current and non-current bonds investment without active market	1,750,000	1,745,000
Guarantee deposits	208,937	226,746
	256,350,638	233,464,114
Total	$ 269,064,480	248,330,386

(ii) Financial liabilities

	December 31, 2014	December 31, 2013
Financial liabilities at fair value through profit or loss:		
Financial liabilities held for trading	$ 39,310	11,382
Financial liabilities at amortized cost:		
Short-term borrowings	46,692,373	51,971,767
Notes and accounts payable	170,739,133	143,514,698
Notes and accounts payable to related parties	1,167,152	1,944,703
Other payables	12,962,736	10,633,590
Long-term liabilities due within one year	3,634,233	423,154
Long-term borrowings	20,504,301	14,107,367
	255,699,928	222,595,279
	$ 255,739,238	222,606,661

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2014 and 2013, the maximum amount exposed to credit risk amounted to $269,064,480 and $248,330,386, respectively.

3. Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments.

	Carrying Amount	Contractual cash flows	Within 1 year	1 ~ 2 years	Over 2 years
December 31, 2014					
Non-derivative financial liabilities					
Secured loans	$ 1,247,926	(1,247,926)	(611,988)	(209,375)	(426,563)
Unsecured loans	69,582,981	(69,582,981)	(49,714,618)	(12,508,363)	(7,360,000)
Accounts payable	171,906,285	(171,906,285)	(171,906,285)	-	-
Other payables	12,962,736	(12,962,736)	(12,962,736)	-	-
Derivative financial liabilities					
Currency swap contracts:	39,310				
Outflow		(951,300)	(951,300)	-	-
Inflow		911,970	911,970	-	-
	$ 255,739,238	(255,739,258)	(235,234,957)	(12,717,738)	(7,786,563)
December 31, 2013					
Non-derivative financial liabilities					
Secured loans	$ 2,630,946	(2,630,946)	(1,323,579)	(586,982)	(720,385)
Unsecured loans	63,871,342	(63,871,342)	(51,071,342)	(3,000,000)	(9,800,000)
Accounts payable	145,459,401	(145,459,401)	(145,459,401)	-	-
Other payables	10,633,590	(10,633,590)	(10,633,590)	-	-
Derivative financial liabilities					
Forward exchange contracts:	10,120				
Outflow		(780,696)	(780,696)	-	-
Inflow		770,383	770,383	-	-
Currency swap contracts:	1,262				
Outflow		(804,735)	(804,735)	-	-
Inflow		806,754	806,754	-	-
	$ 222,606,661	(222,603,573)	(208,496,206)	(3,586,982)	(10,520,385)

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(Continued)

4. Currency risk

(i) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2014			December 31, 2013		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD to TWD	$7,035,802	31.65	222,683,133	6,391,276	29.805	190,491,981
USD to CNY	13,771	6.204	435,036	42,714	6.0525	1,271,692
EUR to TWD	49,680	38.47	1,911,190	32,679	41.09	1,342,780
CNY to USD	2,573,699	0.1612	13,130,961	1,761,012	0.1652	8,670,846
Financial liabilities						
Monetary items						
USD to TWD	6,492,266	31.65	205,480,219	5,987,964	29.805	178,471,267
USD to CNY	37,146	6.204	1,173,471	58,921	6.0525	1,754,211
CNY to USD	2,324,827	0.1612	11,861,221	1,271,690	0.1652	6,261,529

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans and borrowings, accounts payable, and other payables that are denominated in foreign currency. Assuming all other variable factors remain constant, a strengthening (weakening) 5% of appreciation (depreciation) of the each major foreign currency against Group entities' functional currency as of December 31, 2014 and 2013, would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

	December 31, 2014	December 31, 2013
USD (against the TWD)		
Strengthening 5%	$ 806,146	601,036
Weakening 5%	(806,146)	(601,036)
USD (against the CNY)		
Strengthening 5%	(36,922)	(24,126)
Weakening 5%	36,922	24,126
EUR (against the TWD)		
Strengthening 5%	95,560	67,139
Weakening 5%	(95,560)	(67,139)
CNY (against the USD)		
Strengthening 5%	63,487	120,466
Weakening 5%	(63,487)	(120,466)

(Continued)

5. Interest rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

	Carrying amount	
	December 31, 2014	**December 31, 2013**
Fixed rate instruments:		
Financial assets	$ 48,163,580	40,820,537
Financial liabilities	(49,216,723)	(54,819,257)
	$ (1,053,143)	**(13,998,720)**
Variable rate instruments:		
Financial assets	$ 26,528,909	5,872,994
Financial liabilities	(21,614,184)	(11,683,031)
	$ 4,914,725	**(5,810,037)**

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the assets and liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of assets and liabilities outstanding at the reporting date were outstanding throughout the year. The rate of change is expressed as the interest rate increase or decrease by 0.25% when reporting to management internally, which also represents the assessment of the Group's management for the reasonably possible interval of interest rate change.

Assuming all other variable factors remaining constant, if the interest rate had increased or decreased by 0.25%, the impacts to the net profit before tax would be as follows for the years ended December 31, 2014 and 2013, which would be mainly resulted from the bank savings and borrowings with variable interest rates.

	2014	**2013**
Interest increased by 0.25%	$ 12,287	(14,525)
Interest decreased by 0.25%	$ (12,287)	14,525

6. Fair value

(i) Fair value and carrying amount

The management of the Group believes that the carrying amounts of the financial assets and liabilities in the consolidated financial statements measured at amortized cost to be a reasonable approximation of fair value.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

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(ii) Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for 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 (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

		Level 1	Level 2	Level 3	Total
December 31, 2014					
Financial assets at fair value through profit or loss					
Derivative instruments not used for hedging	$	-	184,093	-	184,093
Available-for-sale financial assets					
Stocks listed on domestic markets (including stocks acquired via private placement)		7,283,412	-	2,270,000	9,553,412
Stocks listed on foreign markets		618,783	-	-	618,873
Stocks unlisted on domestic markets		-	-	2,249,404	2,249,404
Stocks unlisted on foreign markets		-	-	24,858	24,858
		7,902,285	184,093	4,544,262	12,630,640
Financial liabilities at fair value through profit or loss					
Derivative instruments not used for hedging		-	39,310	-	39,310
	$	**7,902,285**	**144,783**	**4,544,262**	**12,591,330**
December 31, 2013					
Financial assets at fair value through profit or loss					
Derivative instruments not used for hedging	$	-	83,772	-	83,772
Available-for-sale financial assets					
Stocks listed on domestic markets (including stocks acquired via private placement)		5,641,288	-	7,000,000	12,641,288
Stocks listed on foreign markets		597,274	-	-	597,274
Stocks unlisted on domestic markets		-	-	1,514,297	1,514,297
Stocks unlisted on foreign markets		-	-	23,053	23,053
		6,238,562	83,772	8,537,350	14,859,684
Financial liabilities at fair value through profit or loss					
Derivative instruments not used for hedging		-	11,382	-	11,382
	$	**6,238,562**	**72,390**	**8,537,350**	**14,848,302**

(Continued)

There were no transfers from one level to another in the years ended December 31, 2014 and 2013.

The following table shows a movement in fair value measurements under Level 3 of the fair value hierarchy for the years ended December 31, 2014 and 2013:

		Available-for-sale financial assets
Balance on January 1, 2014	$	8,537,350
Total gains and losses recognized:		
In profit or loss		(4,742,195)
In other comprehensive income		(90,094)
Increase due to share exchange		985,592
Purchased		879
Cost of disposal		(78,671)
Proceeds of capital reduction of investments		(68,599)
Balance on December 31, 2014	**$**	**4,544,262**
Balance on January 1, 2013	$	8,680,155
Total gains and losses recognized:		
In other comprehensive income		(85,080)
Purchased		22,702
Proceeds of capital reduction of investments		(80,427)
Balance on December 31, 2013	**$**	**8,537,350**

The aforementioned total gains and losses related to the assets held during the years ended December 31, 2014 and 2013 were as follows:

		Year ended December 31, 2014	Year ended December 31, 2013
Total gains and losses recognized:			
In profit or loss before tax (as "impairment loss" and "other revenue")	**$**	**(4,742,195)**	**-**
In other comprehensive income, before tax (as "unrealized gains and losses on available-for-sale financial assets")	**$**	**(90,094)**	**(85,080)**

(Continued)

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

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

A. The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated on the basis of the result of a valuation technique. The estimations, hypotheses and discount rate refer to those used by financial instruments as a reference.

B. The fair value of listed shares and convertible bonds is based on the financial assets traded in active markets. The fair value is determined based on quoted market prices.

C. The fair value of unlisted shares without an active market is assessed using P/E ratio approach and earnings multiple approach.

D. The fair value of stocks listed on domestic markets acquired via private placement is based on the same stocks traded in active markets and adjusted by impact of restriction on transferring regulated by laws. For the measurement of fair value of CPT shares, please refer to note (6)(c).

(x) Financial risk management

1. Briefings

The Group is exposed to the following risks arising from financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

In this note expressed the information on risk exposure and objectives, policies and procedures of risk measurement and management. For detailed information, please refer to the related notes of each risk.

2. Structure of risk management

The Group's finance management department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations.

(Continued)

The Group minimizes the risk exposure through derivative financial instruments. The Board of Directors regulated the use of derivative financial instruments in accordance with the Group's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Group continue with the review of the amount of the risk exposure in accordance with the Group's policies and the risk management policies and procedures. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

3. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment in securities.

(i) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically.

The Group's customers are mainly from the high-tech industry. The Group does not concentrate on a specific customer and the sales regions are widely spread, thus there should be no concern on the significant concentrations of accounts receivable credit risk. And in order to mitigate accounts receivable credit risk, the Group constantly assesses the financial status of the customers.

(ii) Investments

The credit risks exposure in the bank deposits, investments with fixed income and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and the contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore, no significant credit risk.

(iii) Guarantees

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to subsidiaries and companies that the Group has business with. As of December 31, 2014 and 2013, the guarantees provided to the subsidiaries amounted to $7,190,141 and $6,530,317, respectively.

(Continued)

4. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities which be settled by delivering cash or another financial asset.

The Group manages and maintains sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements. Please refer to notes (6)(k) and (6)(l) for unused credit lines of short-term and long-term borrowings as of December 31, 2014 and 2013.

5. Market risk

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

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Group. The currencies used in these transactions are primarily denominated in TWD, CNY, USD and EUR.

As for other monetary assets and liabilities denominated in other foreign currencies, when short-term imbalance takes place, the Group buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

(ii) Interest rate risk

The Group borrows funds with bearing fixed and variable interest rates, which has a risk exposure to changes in fair value and cash flow. Therefore, the Group manages the interest rates risk by maintaining an adequate combination of fixed and variable interest rates.

(iii) Other price risk

The Group is exposed to equity price risk arising from investments in convertible bonds and listed equity securities.

(Continued)

(y) Capital management

The policy of capital management made by the Board of Directors is to maintain a strong capital base so as to stabilize the confidence of the investors, creditors and the public market and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, retained earnings and non-controlling interests. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group monitors the capital structure by way of periodical review the debt ratio. As of December 31, 2014 and 2013, the debt ratio was as follows:

	December 31, 2014	December 31, 2013
Total liabilities	$ 272,743,566	236,140,542
Total assets	$ 378,750,718	336,102,814
Debt ratio	72%	70%

The Group could purchase its own shares in the public market in accordance with the corresponding rules and regulations. The timing of the purchases depends on market prices. The main purpose to purchase treasury stock is to transfer to employees.

As of December 31, 2014, there were no changes in the Group's approach of capital management.

(7) Related-party transactions

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Transactions with key management personnel

Key management personnel compensation comprised:

	2014	2013
Short-term employee benefits	$ 706,366	491,517
Post-employment benefits	7,121	6,997
Share-based payments	95,609	36,722
	$ 809,096	535,236

There are no termination benefits and other long-term benefits. Please refer to note (6)(r) for explanations related to share-based payments.

(Continued)

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Notes to Consolidated Financial Statements

(c) Significant related-party transactions

1. Sale of goods and services provided to related parties

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

	2014	2013
Associates	$ 2,571,887	211,627

Sales prices for related parties were similar to those of the third-party customers. The collection period was 40~120 days for related parties.

Service revenue arising from the Group providing service to associates amounted to $43,925 and $147,100, respectively, for the years ended December 31, 2014 and 2013. There was no similar service provided to third-party customers to compare with. The collection period was approximately 90 days.

2. Purchase of goods from related parties

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

	2014	2013
Associates	$ 5,078,117	4,342,927
Other related parties	459,089	476,820
Joint venture	34,981	166,285
	$ 5,572,187	4,986,032

Purchase prices from related parties were similar to those from third-party suppliers. The payment period was 50~150 days for related parties.

3. Receivables due from related parties

The receivables arising from the transactions mentioned above and others on behalf of related parties as of December 31, 2014 and 2013, were as follows:

(Continued)

Account	Category of Related party	December 31, 2014	December 31, 2013
Notes and accounts receivable	Associates	$ 343,030	214,854
Other receivables	Associates	-	117,100
Other receivables	Joint venture	457	110
		$ 343,487	332,064

4. Payables to related parties

The payables to related parties as of December 31, 2014 and 2013, were as follows:

Account	Category of Related party	December 31, 2014	December 31, 2013
Notes and accounts payable	Associates	$ 918,314	1,674,244
Notes and accounts payable	Other related parties	244,091	205,582
Notes and accounts payable	Joint venture	4,747	64,877
		$ 1,167,152	1,944,703

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged Assets	Object	December 31, 2014	December 31, 2013
Accounts receivable	Guarantee for short-term borrowings	$ 149,193	900,425
Other current assets – time deposits	Guarantee of post-release duty payment to the Customs	512	506
Other current assets	Bail for court mandatory execution	18,600	18,600
Property, plant and equipment	Long-term borrowings (including current portion)	1,640,745	1,769,733
		$ 1,809,050	2,689,264

(9) Commitments and contingencies

The details of commitments and contingencies were as follows:

(a) In order to assist the investee companies Compal Precision Module China Holdings Limited ("Compal Precision Module") and Compal Precision Module (Jiansu) Company Limited to apply for a general banking facility, the Company issued Letters of Support under which the Company undertakes to provide all necessary assistance to assure the business operation and adherence to the contracts of the above investee companies. Meanwhile, the Company committed to hold a specific portion of the outstanding shares of Compal Precision Module for a specific period.

(b) The Group entered into various patent license agreements with third parties, and was required to make royalty payments of a predetermined amount periodically.

(c) As of December 31, 2014 and 2013, the unused balance of the Group's letters of credit was $25,255 and $12,378, respectively.

(d) As of December 31, 2014 and 2013, the Group's signed commitments to purchase property, plant and equipment amounted to $1,503,305 and $862,818, respectively.

(e) On January 9, 2013, TPK Technology (Xiamen) Co., Ltd. sued CCI Nanjing, a subsidiary of CCI, for patent infringement with a request for indemnity of approximately $127,841 (CNY 26,910 thousand). The Group had received court documents on January 18, 2013 and engaged a lawyer to reply to such claim. On November 25, 2014, TPK Technology (Xiamen) Co., Ltd. filed an application to withdraw the case and gained the court's approval on November 28, 2014.

(f) Please refer to note (6)(n) for the rental payables in the future years, which are calculated based on the agreements signed by the Group for the office and plant under operating lease.

(10) Losses due to major disasters: none

(11) Subsequent events: none

(12) Other

The employee benefits, depreciation and amortization expenses by categorized function are summarized as follows.

(Continued)

By function / By item	2014			2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	15,201,930	11,090,519	26,292,449	10,425,545	9,483,018	19,908,563
Labor and health insurance	428,306	652,278	1,080,584	219,426	608,973	828,399
Pension	739,974	390,141	1,130,115	316,686	368,544	685,230
Others	2,529,428	543,085	3,072,513	1,296,540	467,462	1,764,002
Depreciation	4,813,509	524,545	5,338,054	4,458,792	493,377	4,952,169
Amortization	27,961	670,849	698,810	20,961	582,605	603,566

(13) Segment information:

(a) General information

The Group’s segment divisions for the year of 2014 are different from those for the year of 2013 due to organization adjustment. After the adjustment, the reportable segments are the IT Product Segment and the Strategically Integrated Product Segment. The Group has recompiled the segment information for the year of 2013 accordingly for comparison purpose. The IT Product Segment engages mainly in the R&D, manufacturing and sales of IT and telecommunication products, and the Strategically Integrated Product Segment engages mainly in the R&D, manufacturing and sales of wireless networking products.

(b) Information of profit or loss of the reporting segments, assets and liabilities of segments and the basis of measurement

Accounting policies for the operating segments correspond with those stated in note (4). The profit or loss of the Group’s operating segments is measured by the profit or loss before tax, which is considered as the basis for performance measurement.

The amounts of the Group’s reportable segments correspond with the amounts in the reports used by the chief operating decision maker. The Group did not allocate assets and liabilities to the reportable segments for performance measurement made by the chief operating decision maker.

The operating segment information was as follows:

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	2014			
	IT Product Segment	**Strategically Integrated Product Segment**	**Adjustment & Elimination**	**Total**
Revenue				
Revenue from external customers	$ 828,277,429	17,423,323	-	845,700,752
Revenue from segments	-	4,712	(4,712)	-
Total revenue	**$ 828,277,429**	**17,428,035**	**(4,712)**	**845,700,752**
Interest revenue	$ 1,009,093	14,643	-	1,023,736
Interest expense	$ 993,326	26,178	-	1,019,504
Depreciation and amortization	$ 5,752,934	283,930	-	6,036,864
Investment gain (loss)	$ 980,179	(2,226)	-	977,953
Other significant non-cash items:				
Impairment of assets	$ (4,777,920)	-	-	(4,777,920)
Reportable segment profit	**$ 8,883,629**	**853,343**	**-**	**9,736,972**
Reportable segment assets				$ 378,750,718
Reportable segment liabilities				$ 272,743,566

	2013			
	IT Product Segment	**Strategically Integrated Product Segment**	**Adjustment & Elimination**	**Total**
Revenue				
Revenue from external customers	$ 673,788,397	18,959,896	-	692,748,293
Revenue from segments	-	12,306	(12,306)	-
Total revenue	**$ 673,788,397**	**18,972,202**	**(12,306)**	**692,748,293**
Interest revenue	$ 621,338	7,119	-	628,457
Interest expense	$ 472,698	20,944	-	493,642
Depreciation and amortization	$ 5,271,875	283,837	-	5,555,712
Investment gain (loss)	$ (1,105,212)	(2,489)	-	(1,107,701)
Other significant non-cash items:				
Impairment of assets	$ (4,909,772)	-	-	(4,909,772)
Reportable segment profit	**$ 3,653,991**	**706,391**	**-**	**4,360,382**
Reportable segment assets				$ 336,102,814
Reportable segment liabilities				$ 236,140,542

(Continued)

(c) Information about products and services

Information about revenue from external customers is as follows:

Products and services	2014	2013
5C electronic products	$ 842,462,845	688,986,559
Others	3,237,907	3,761,734
	$ 845,700,752	692,748,293

(d) Geographic information

Stated below are the geographic information on the Group's revenues presented by the geographical location of sales and non-current assets presented by the geographical location of assets.

1. Revenue from external customers:

Country	2014	2013
United States	$ 279,786,968	205,363,252
Mainland China	104,294,464	121,894,107
Germany	29,609,430	20,653,005
Netherlands	86,759,300	83,614,344
Japan	46,373,567	39,352,317
Others	298,877,023	221,871,268
	$ 845,700,752	692,748,293

2. Non-current assets:

Country	2014	2013
Mainland China	$ 15,884,293	13,401,420
Taiwan	8,983,162	8,643,430
Others	1,804,807	1,496,146
	$ 26,672,262	23,540,996

(Continued)

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(e) Sales to individual customers constituting over 10% of the total revenue in the consolidated statements of comprehensive income of for the years ended December 31, 2014 and 2013, are summarized as follows:

		2014	2013
Customer:			
B Company	$	79,762,228	97,670,133
C Company		102,730,381	36,792,516
D Company		254,615,227	273,066,004
E Company		130,230,357	141,561,923
A Company		113,261,171	22,290,204
	$	**680,599,364**	**571,380,780**