

Phihong Technology Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2015 and 2014 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Phihong Technology Co., Ltd.

We have audited the accompanying balance sheets of Phihong Technology Co., Ltd. (the "Company") as of December 31, 2015 and 2014, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

March 18, 2016

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

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

PHIHONG TECHNOLOGY CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

(In Thousands of New Taiwan Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,015,683	10	\$ 1,467,220	14
Trade receivables (Notes 4 and 8)	940,690	10	1,270,558	12
Trade receivables from related parties (Notes 4, 8 and 23)	100,498	1	167,368	2
Other receivables	49,065	-	51,282	1
Other receivables from related parties (Note 23)	418,908	4	253,900	2
Inventories (Notes 4 and 9)	246,445	3	361,787	3
Other financial assets - current (Note 6)	375,723	4	-	-
Other current assets	19,173	-	16,799	-
Total current assets	<u>3,166,185</u>	<u>32</u>	<u>3,588,914</u>	<u>34</u>
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 7)	54,215	1	66,568	1
Investments accounted for using equity method (Notes 4 and 10)	5,633,581	58	6,029,122	58
Property, plant and equipment (Notes 4 and 11)	838,659	9	691,630	7
Intangible assets (Notes 4 and 12)	25,143	-	27,878	-
Deferred tax assets (Notes 4 and 19)	45,976	-	43,611	-
Other non-current assets	17,929	-	11,042	-
Total non-current assets	<u>6,615,503</u>	<u>68</u>	<u>6,869,851</u>	<u>66</u>
TOTAL	<u>\$ 9,781,688</u>	<u>100</u>	<u>\$ 10,458,765</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payables	\$ 26,256	-	\$ 15,522	-
Trade payables to related parties (Note 23)	179,028	2	324,899	3
Other payables (Notes 15 and 23)	1,662,885	17	2,124,895	20
Current tax liabilities (Notes 4 and 19)	48,209	-	47,824	1
Current portion of long-term borrowings (Note 13)	50,000	1	-	-
Other current liabilities	69,336	1	79,732	1
Total current liabilities	<u>2,035,714</u>	<u>21</u>	<u>2,592,872</u>	<u>25</u>
NON-CURRENT LIABILITIES				
Bonds payable (Note 14)	1,266,468	13	1,429,189	13
Long-term borrowings (Note 13)	650,000	6	-	-
Deferred tax liabilities (Notes 4 and 19)	79,832	1	79,832	1
Accrued pension liabilities (Notes 4 and 16)	83,016	1	76,038	1
Total non-current liabilities	<u>2,079,316</u>	<u>21</u>	<u>1,585,059</u>	<u>15</u>
Total liabilities	<u>4,115,030</u>	<u>42</u>	<u>4,177,931</u>	<u>40</u>
EQUITY (Notes 4 and 17)				
Common stock	2,776,884	28	2,776,884	26
Capital surplus	1,026,456	10	1,026,456	10
Retained earnings				
Legal reserve	1,113,185	12	1,098,401	11
Special reserve	230,859	2	230,859	2
Unappropriated earnings	177,165	2	839,463	8
Total retained earnings	<u>1,521,209</u>	<u>16</u>	<u>2,168,723</u>	<u>21</u>
Other equity				
Exchange differences on translating foreign operations	294,758	3	345,970	3
Unrealized (loss) gain on available-for-sale financial assets	47,351	1	(37,199)	-
Total other equity	<u>342,109</u>	<u>4</u>	<u>308,771</u>	<u>3</u>
Total equity	<u>5,666,658</u>	<u>58</u>	<u>6,280,834</u>	<u>60</u>
TOTAL	<u>\$ 9,781,688</u>	<u>100</u>	<u>\$ 10,458,765</u>	<u>100</u>

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
NET SALES AND REVENUES (Notes 4 and 23)	\$ 9,052,657	100	\$ 11,556,917	100
COST OF GOODS SOLD (Notes 4, 9 and 23)	<u>8,187,802</u>	<u>90</u>	<u>10,698,372</u>	<u>93</u>
GROSS PROFIT	864,855	10	858,545	7
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	<u>6,426</u>	<u>-</u>	<u>(13,645)</u>	<u>-</u>
GROSS PROFIT AND REALIZED GAIN FROM SUBSIDIARIES AND ASSOCIATES	<u>871,281</u>	<u>10</u>	<u>844,900</u>	<u>7</u>
OPERATING EXPENSES				
Sales and marketing	219,697	2	212,850	2
General and administration	167,974	2	221,123	2
Research and development	<u>435,724</u>	<u>5</u>	<u>398,000</u>	<u>3</u>
Total operating expenses	<u>823,395</u>	<u>9</u>	<u>831,973</u>	<u>7</u>
INCOME FROM OPERATIONS	<u>47,886</u>	<u>1</u>	<u>12,927</u>	<u>-</u>
NONOPERATING INCOME (EXPENSES)				
Other income (Note 18)	176,035	2	109,957	1
Other gains and losses (Notes 7 and 18)	11,737	-	57,677	-
Finance costs	(30,207)	-	(24,288)	-
Share of the profit of subsidiaries and associates (Notes 4 and 10)	<u>(694,717)</u>	<u>(8)</u>	<u>30,326</u>	<u>-</u>
Total nonoperating (expenses) income, net	<u>(537,152)</u>	<u>(6)</u>	<u>173,672</u>	<u>1</u>
(LOSS) INCOME BEFORE INCOME TAX	(489,266)	(5)	186,599	1
INCOME TAX EXPENSE (Notes 4 and 19)	<u>(19,300)</u>	<u>-</u>	<u>(38,752)</u>	<u>-</u>
NET (LOSS) INCOME	<u>(508,566)</u>	<u>(5)</u>	<u>147,847</u>	<u>1</u>

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 16)	\$ (7,092)	-	\$ (11,105)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 19)	1,206	-	1,888	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 17)	(51,212)	(1)	272,690	2
Share of the other comprehensive income of associates accounted for using the equity method (Note 17)	<u>84,550</u>	<u>1</u>	<u>(10,771)</u>	<u>-</u>
Total other comprehensive income, net	<u>27,452</u>	<u>-</u>	<u>252,702</u>	<u>2</u>
TOTAL COMPREHENSIVE (LOSS) INCOME	<u>\$ (481,114)</u>	<u>(5)</u>	<u>\$ 400,549</u>	<u>3</u>
(LOSS) EARNINGS PER SHARE (Note 20)				
Basic	<u>\$ (1.83)</u>		<u>\$ 0.53</u>	
Diluted			<u>\$ 0.49</u>	

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

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars)**

	Common Stock	Capital Surplus	Retained Earnings			Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	
BALANCE, JANUARY 1, 2014	\$ 2,771,639	\$ 949,615	\$ 1,083,147	\$ 230,859	\$ 853,368	\$ 73,280	\$ (26,428)	\$ 5,935,480
Appropriation of the 2013 net income (Note 17)								
Legal reserve	-	-	15,254	-	(15,254)	-	-	-
Cash dividend	-	-	-	-	(137,281)	-	-	(137,281)
Equity component of convertible bonds issued by the Company (Note 14)	-	71,878	-	-	-	-	-	71,878
Convertible bond converted to ordinary shares (Note 14)	5,245	4,963	-	-	-	-	-	10,208
Net income for the year ended December 31, 2014	-	-	-	-	147,847	-	-	147,847
Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax	-	-	-	-	(9,217)	272,690	(10,771)	252,702
Total comprehensive income (loss) for the year ended December 31, 2014	-	-	-	-	138,630	272,690	(10,771)	400,549
BALANCE, DECEMBER 31, 2014	2,776,884	1,026,456	1,098,401	230,859	839,463	345,970	(37,199)	6,280,834
Appropriation of the 2014 net income (Note 17)								
Legal reserve	-	-	14,784	-	(14,784)	-	-	-
Cash dividend	-	-	-	-	(133,062)	-	-	(133,062)
Net loss for the year ended December 31, 2015	-	-	-	-	(508,566)	-	-	(508,566)
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(5,886)	(51,212)	84,550	27,452
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	(514,452)	(51,212)	84,550	(481,114)
BALANCE, DECEMBER 31, 2015	<u>\$ 2,776,884</u>	<u>\$ 1,026,456</u>	<u>\$ 1,113,185</u>	<u>\$ 230,859</u>	<u>\$ 177,165</u>	<u>\$ 294,758</u>	<u>\$ 47,351</u>	<u>\$ 5,666,658</u>

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	\$ (489,266)	\$ 186,599
Adjustments for:		
Impairment loss recognized on trade receivables	450	150
Depreciation expense	52,121	52,849
Amortization expense	10,680	9,528
Interest expense	30,207	24,288
Interest income	(19,305)	(10,548)
Dividend revenue	(5,542)	(4,373)
Share of profit of subsidiaries and associates	694,717	(30,326)
Loss on disposal of property, plant and equipment	573	53
Gain on disposal of investment	(1,095)	-
Impairment loss recognized on held-to-maturity financial assets	-	4,600
Gain on buy-back of bonds payable	(11,245)	-
(Unrealized) realized gain on transaction with subsidiaries	(6,426)	13,645
Net changes in operating assets and liabilities		
Trade receivables	329,418	(122,193)
Trade receivables from related parties	66,870	211,359
Other receivables	4,153	(27,636)
Other receivables from related parties	(165,008)	261,902
Inventories	115,342	(118,186)
Other current assets	(2,180)	(5,923)
Trade payables	10,734	3,623
Trade payables to related parties	(145,871)	(10,551)
Other payables	(469,174)	(140,627)
Other current liabilities	(10,396)	(1,809)
Reserve for retirement plan	(114)	(253)
Cash (used in) generated from operating activities	(10,357)	296,171
Interest paid	(6,086)	(11,020)
Interest received	17,369	9,357
Income tax paid	(20,074)	(29,736)
Net cash (used in) generated from operating activities	<u>(19,148)</u>	<u>264,772</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash outflow on acquisition of subsidiaries	(467,995)	(60,760)
Payments for property, plant and equipment	(194,246)	(178,029)
Proceeds from disposal of property, plant and equipment	1,088	-
Payments for intangible assets	(7,945)	(8,895)
Decrease in refundable deposits	33	3,340
Purchase for other financial assets	(375,723)	-
Increase in prepayments for equipment	(6,920)	(678)
Dividend received	7,876	4,373

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PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
Decrease and return of capital from investments accounted for using equity method	\$ 206,249	\$ 20,948
Decrease and return of capital from investees of financial assets measured at cost	<u>13,448</u>	<u>8,535</u>
Net cash used in investing activities	<u>(824,135)</u>	<u>(211,166)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term debt	-	(100,000)
Proceeds from issue of convertible bonds	-	1,497,331
Repayments of convertible bonds	(175,192)	-
Cash dividends	(133,062)	(137,281)
Proceeds from long-term borrowings	700,000	-
Repayments of long-term borrowings	<u>-</u>	<u>(800,000)</u>
Net cash generated from financing activities	<u>391,746</u>	<u>460,050</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(451,537)	513,656
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,467,220</u>	<u>953,564</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,015,683</u>	<u>\$ 1,467,220</u>

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

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Thousands of New Taiwan Dollars, Except Unless Stated Otherwise)

1. GENERAL INFORMATION

Phihong Technology Co., Ltd. (the “Company”), which was formerly known as Phihong Enterprise Co., Ltd. was incorporated on December 12, 1972 under the laws of the Republic of China (“ROC”). Under a resolution approved in the stockholders’ meeting in June 2003, Phihong changed its name to Phihong Technology Co., Ltd. Phihong primarily manufactures and sells AC/DC power adapters, charger bases, power supply modules, UPS (uninterruptible power supply) for computers, ballasts, etc.

In February 2000, Phihong was authorized to have its stocks traded on the over-the-counter (OTC) securities exchange in Taiwan. In September 2001, Phihong’s stocks ceased to be OTC traded and Phihong later obtained authorization to have its stocks listed on the Taiwan Stock Exchange.

The functional currency of Phihong is New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 18, 2016.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Company should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 IFRSs version would not have any material impact on the Company’s accounting policies:

- 1) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive, please refer to Note 10 for related disclosures.

- 2) Revision to IAS 28 “Investments in Associates and Joint Ventures”

Revised IAS 28 requires when a portion of an investment in an associate meets the criteria to be classified as held for sale, that portion is classified as held for sale. Any retained portion that has not been classified as held for sale is accounted for using the equity method. Under current IAS 28, when a portion of an investment in associates meets the criteria to be classified as held for sale, the entire investment is classified as held for sale and ceases to apply the equity method.

3) IFRS 13 “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive, for example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 will be applied prospectively from January 1, 2015. Refer to Note 22 for related disclosures.

4) Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to IAS 1 requires items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

The Company retrospectively applied the above amendments starting from 2015. Item not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations, and share of the other comprehensive income (except the share of the remeasurements of the defined benefit plans) of associates accounted for using the equity method. However, the application of the above amendments will not result in any impact on the net profit for the year, other comprehensive income for the year, and total comprehensive income for the year.

5) IAS 19 “Employee Benefits”

The interest cost and expected return on plan assets used in current IAS 19 are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, the revised IAS 19 introduces certain changes in the presentation of the defined benefit plan, and also includes more extensive disclosures.

On the initial adoption of the revised IAS 19, the changes in cumulative employee benefit costs as of December 31, 2013, resulted from the retrospective adoption. However, there is no effect on total comprehensive income.

6) Amendments to IFRS 7 “Disclosure - Offsetting Financial Assets and Financial Liabilities”

The amendments to IFRS 7 require disclosure of information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting arrangements and similar arrangements.

7) Amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities”

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realization and settlement”.

8) Annual Improvements to IFRSs: 2009-2011 Cycle

Several standards including IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment”, IAS 32 “Financial Instruments: Presentation” and IAS 34 “Interim Financial Reporting” were amended in this annual improvement.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment and otherwise as inventory.

b. New IFRSs in issue but not yet endorsed by the FSC

On March 10, 2016, the FSC announced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and those with undetermined effective date. In addition, the FSC announced that the Company should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to 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, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Company's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

2) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Company is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

3) IFRIC 21 “Levies”

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Company accrues related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

4) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

5) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

6) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 “Property, Plant and Equipment” requires that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 “Intangible Assets” requires that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

- a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or
- b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

An entity should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

7) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

8) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Company expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Company should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the “Regulations”).

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are 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); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements of each individual company entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries and associates in other countries or currencies used are different from the functional currency of the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investments accounted for using equity method

1) Investment in subsidiaries

Investments in subsidiaries are accounted for by the equity method.

Subsidiaries (including special purpose entities) are the entities controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

When testing for impairment, the cash-generating unit is determined based on the financial statements as a whole by comparing its recoverable amount with its carrying amount. If the recoverable amount of the asset subsequently increases, the reversal of the impairment loss is recognized as a gain, but the increased carrying amount of an asset after a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized on the asset in prior years. An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and side stream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

2) Investment in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of equity of associates.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a company entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

g. Property, plant and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

h. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible assets before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

i. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

ii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes Repurchase agreements collateralized by bonds with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments and the delayed payments in the portfolio past the average credit period.

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

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

c) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Company is classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company is recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

All financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4) Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company is classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

k. Provision

Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The Company has accrued provision for product guarantee at a certain percentage of current sales.

l. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced by the amount of estimated customer returns, rebates and other similar allowances.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

m. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

2) The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

n. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than as stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

p. Employee share options

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of employee share options that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the employee share options is recognized as an expense in full at the grant date when the share options granted vest immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforward, research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Income tax

Due to the unpredictability of future profitability, the reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such reversal takes place.

b. Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. The fair value of financial instruments

The Company applies valuation techniques commonly used by market participants. For derivative financial instruments, assumptions were based on quoted market rates adjusted for specific features of the instruments. The estimated fair value of unlisted equity instruments is based on the analysis of the financial position and operation result of investee. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

d. The impairment and useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Equipment impairment amount is based on the recoverable amount of the equipment (i.e., the higher of the fair value less the costs to sell of the asset or its value in use). Changes in market prices and future cash flows will affect the recoverability of these assets and may result in recognition of additional impairment loss or reversal of impairment loss.

e. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

f. Impairment of investment in the associate

The Company immediately recognizes impairment loss on its net investment in the associate when there is any indication that the investment may be impaired and the carrying amount may not be recoverable. The Company's management evaluates the impairment based on the estimated future cash flow expected to be generated by the associate, including the assumptions about the growth rate of sale and capacity of production facilities estimated by the associate's management, etc. The Company also takes into consideration the market conditions and industry development to evaluate the appropriateness of assumptions.

g. Recognition of defined benefit plans

The pension expenses and pension liability recognized in defined benefit plans are determined using the Projected Unit Credit Method. The actuarial assumptions used in the valuation of defined benefit plans include discount rate, employee turnover rates and employee salary increase rate. Changes in the market and economic condition may have a material impact on the amount of pension expense and pension liability.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2015	2014
Cash on hand	\$ 1,024	\$ 728
Checking accounts and demand deposits	760,346	1,059,480
Cash equivalent (investments with original maturities less than three months)		
Time deposits	154,470	367,037
Repurchase agreements collateralized by bonds	<u>99,843</u>	<u>39,975</u>
	<u>\$ 1,015,683</u>	<u>\$ 1,467,220</u>

As of December 31, 2015, the time deposits with original maturities more than three months was \$375,723 thousand, which has been reclassified to "other financial assets - current".

The ranges of market rates of demand deposits, time deposits and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	<u>December 31</u>	
	2015	2014
Demand deposits and time deposits	0.001%-4.28%	0.01%-3.25%
Repurchase agreements collateralized by bonds	0.42%	0.58%

7. FINANCIAL ASSETS MEASURED AT COST, NON-CURRENT

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Unlisted stocks</u>		
Bao-Dian Venture Capital Co., Ltd.	\$ 5,137	\$ 6,124
Yuan-Jing Venture Capital Co., Ltd.	-	11,366
Han-Tong Venture Capital Co., Ltd.	48,396	48,396
Asiatech Taiwan Venture Fund	<u>682</u>	<u>682</u>
	<u>\$ 54,215</u>	<u>\$ 66,568</u>
<u>Classified according to financial assets</u>		
Available-for-sale financial assets	<u>\$ 54,215</u>	<u>\$ 66,568</u>

Management believed that the fair value of the above unlisted equity investments held by the Company cannot be reliably measured due to the very wide range of reasonable fair value estimates; therefore they were measured at cost less impairment at the end of reporting period.

For the year ended December 31, 2014, the Company recognized an impairment loss of \$1,600 thousand, \$1,400 thousand and \$1,600 thousand on the investment of Yuan-Jing Venture Capital Co., Ltd., Bao-Dian Venture Capital Co., Ltd. and Han-Tong Venture Capital Co., Ltd. in 2014, respectively, which were presented under other gains and losses.

For the year ended December 31, 2015, the Company received \$12,461 thousand of capital return from Yuan-Jing Venture Capital Co., Ltd. in 2015. Moreover, the Company recognized \$1,095 thousand, receipts in excess of book value of investments, as gains on disposal of investment, presented under gains and losses at December 31, 2015.

8. TRADE RECEIVABLE

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Trade receivable	\$ 941,503	\$ 1,275,190
Less: Allowance for doubtful accounts	<u>(813)</u>	<u>(4,632)</u>
	<u>940,690</u>	<u>1,270,558</u>
Trade receivable from related parties (Note 25)	100,498	167,368
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>100,498</u>	<u>167,368</u>
	<u>\$ 1,041,188</u>	<u>\$ 1,437,926</u>

The average credit period for sales of goods was 60-90 days. In determining the recoverability of trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts was recognized against trade receivable based on estimated irrecoverable amounts determined by reference to credit risk level of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Company did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

December 31, 2015

	Total Receivables	Not Overdue	Overdue under 60 Days	Overdue under 61 Days and Longer
Not overdue and not impaired	\$ 1,031,135	\$ 1,031,135	\$ -	\$ -
Not overdue but impaired	-	-	-	-
Overdue and not impaired	10,053	-	6,581	3,472
Overdue but impaired	<u>813</u>	<u>-</u>	<u>-</u>	<u>813</u>
	<u>\$ 1,042,001</u>	<u>\$ 1,031,135</u>	<u>\$ 6,581</u>	<u>\$ 4,285</u>

December 31, 2014

	Total Receivables	Not Overdue	Overdue under 60 Days	Overdue under 61 Days and Longer
Not overdue and not impaired	\$ 1,429,421	\$ 1,429,421	\$ -	\$ -
Not overdue but impaired	-	-	-	-
Overdue and not impaired	8,505	-	7,824	681
Overdue but impaired	<u>4,632</u>	<u>-</u>	<u>-</u>	<u>4,632</u>
	<u>\$ 1,442,558</u>	<u>\$ 1,429,421</u>	<u>\$ 7,824</u>	<u>\$ 5,313</u>

Movements in the allowance for doubtful accounts recognized on trade receivable were as follows:

	<u>For the Year Ended December 31</u>	
	2015	2014
Balance at January 1	\$ 4,632	\$ 4,482
Increase in allowance for doubtful accounts	450	150
Amounts written off as uncollectible receivables	<u>(4,269)</u>	<u>-</u>
Balance at December 31	<u>\$ 813</u>	<u>\$ 4,632</u>

9. INVENTORIES

	<u>December 31</u>	
	2015	2014
Raw materials	\$ 2,953	\$ 2,176
Work-in-process	1,024	107
Merchandise	<u>242,468</u>	<u>359,504</u>
	<u>\$ 246,445</u>	<u>\$ 361,787</u>

As of December 31, 2015 and 2014 and January 1, 2014, allowance of inventory devaluation were all the same at \$53,327 thousand.

For the years ended December 31, 2015 and 2014, the cost of inventories recognized as cost of goods sold was \$8,187,802 thousand and \$10,698,372 thousand, respectively.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	2015	2014
Investments in subsidiaries	\$ 5,494,392	\$ 5,870,982
Investments in associates	<u>139,189</u>	<u>158,140</u>
	<u>\$ 5,633,581</u>	<u>\$ 6,029,122</u>

a. Investments in subsidiaries:

	<u>December 31</u>	
	2015	2014
Phihong International Corp.	\$ 3,506,667	\$ 3,727,136
Phitek International Co., Ltd.	382,001	507,376
Ascent Alliance Ltd.	439,616	426,154
Phihong USA Corp.	919,846	864,927
American Ballast Corp.	905	16,743
Phihong Technology Japan Co., Ltd.	89,109	81,069
Guan-Lai Investment Co., Ltd.	<u>156,248</u>	<u>247,577</u>
	<u>\$ 5,494,392</u>	<u>\$ 5,870,982</u>

At the end of the reporting period, the percentages of ownership and voting rights in subsidiaries held by the Company were as follows:

	<u>December 31</u>	
	2015	2014
Phihong International Corp.	100%	100%
Phitek International Co., Ltd.	100%	100%
Ascent Alliance Ltd.	100%	100%
Phihong USA Corp.	100%	100%
American Ballast Corp.	100%	100%
Phihong Technology Japan Co., Ltd.	100%	100%
Guan-Lai Investment Co., Ltd.	100%	100%

The Company provided financial guarantee for Phitek International Co., Ltd.'s and Phihong USA Corp.'s bank borrowing. As of December 31, 2015, there was \$78,864 thousand and 98,580 thousand including in the carrying amounts of investments in subsidiaries, due to the financial guarantee.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2015 and 2014 were based on the subsidiaries' financial statements audited by auditors for the same years.

b. Investments in associates:

	December 31	
	2015	2014
<u>Unlisted stocks</u>		
Hao-Xuan Venture Capital Co., Ltd.	\$ 16,132	\$ 28,773
H&P Venture Capital Co., Ltd.	<u>123,057</u>	<u>129,367</u>
	<u>\$ 139,189</u>	<u>\$ 158,140</u>

At the end of the reporting period, the percentages of ownership and voting rights in associates held by the Company were as follows:

	December 31	
	2015	2014
Hao-Xuan Venture Capital Co., Ltd.	24.67%	24.67%
H&P Venture Capital Co., Ltd.	32.26%	32.26%
Phihong PWM Brasil Ltda.	60.00%	60.00%
First International Computer Do Brasil Ltda.	33.85%	33.85%

Phihong's investments in Brazil include 60% ownership interest of Phihong PWM Brasil Ltda. and 33.85% ownership interest of First International Computer Do Brasil Ltda. Additionally, Phihong PWM Brasil Ltda. also holds 21.15% ownership interest of First International Computer Do Brasil Ltda. The other 40% ownership interest of Phihong PWM Brasil Ltda. is held by the local management team. According to cooperation mode between the Company and the local management team and under Brazilian local laws, the Company has no controlling power over Phihong PWM Brasil Ltda. Because the recoverability of the investments in Phihong PWM Brasil Ltda. and First International Computer Do Brasil Ltda. is considered remote, the Company reduced the carrying value of both investments to zero.

All the associates are accounted for using equity method.

Summarized financial information in respect of each of the Company's material associates is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

Hao-Xuan Venture Capital Co., Ltd.

	December 31	
	2015	2014
Current assets	\$ 5,558	\$ 27,347
Non-current assets	59,948	94,499
Current liabilities	(103)	(5,197)
Non-current liabilities	<u>-</u>	<u>-</u>
Equity	<u>\$ 65,403</u>	<u>\$ 116,649</u>
Proportion of the Company's ownership	24.67%	24.67%
Equity attributable to the Company	<u>\$ 16,132</u>	<u>\$ 28,773</u>
Carrying amount	<u>\$ 16,132</u>	<u>\$ 28,773</u>

	For the Year Ended December 31	
	2015	2014
Operating revenue	<u>\$ 59,988</u>	<u>\$ 79,592</u>
Net profit for the year	\$ (62,808)	\$ 10,183
Other comprehensive income	<u>69,453</u>	<u>28,387</u>
Total comprehensive income for the year	<u>\$ 6,645</u>	<u>\$ 38,570</u>
Dividends received from Hao-Xuan Venture Capital Co., Ltd.	<u>\$ 2,334</u>	<u>\$ -</u>

H&P Venture Capital Co., Ltd.

	December 31	
	2015	2014
Current assets	\$ 17,345	\$ 233,408
Non-current assets	364,282	167,779
Current liabilities	(151)	(151)
Non-current liabilities	<u>-</u>	<u>-</u>
Equity	<u>\$ 381,476</u>	<u>\$ 401,036</u>
Proportion of the Company's ownership	32.26%	32.26%
Equity attributable to the Company	<u>\$ 123,057</u>	<u>\$ 129,367</u>
Carrying amount	<u>\$ 123,057</u>	<u>\$ 129,367</u>

	For the Year Ended December 31	
	2015	2014
Operating revenue	<u>\$ 114,762</u>	<u>\$ 34,959</u>
Net profit for the year	\$ 17,328	\$ 2,270
Other comprehensive income	<u>203,702</u>	<u>(28,000)</u>
Total comprehensive income for the year	<u>\$ 221,030</u>	<u>\$ (25,730)</u>

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2015 and 2014 were based on the associates' financial statements audited by auditors for the same years.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>						
Balance at January 1, 2014	\$ 207,436	\$ 295,111	\$ 141,087	\$ 221,350	\$ 72,132	\$ 937,116
Additions	-	738	5,957	43,932	127,402	178,029
Disposals	-	-	(3,784)	(16,039)	-	(19,823)
Balance at December 31, 2014	<u>\$ 207,436</u>	<u>\$ 295,849</u>	<u>\$ 143,260</u>	<u>\$ 249,243</u>	<u>\$ 199,534</u>	<u>\$ 1,095,322</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2014	\$ -	\$ 131,922	\$ 96,738	\$ 141,953	\$ -	\$ 370,613
Disposals	-	-	(3,742)	(16,028)	-	(19,770)
Depreciation expense	-	8,829	12,794	31,226	-	52,849
Balance at December 31, 2014	<u>\$ -</u>	<u>\$ 140,751</u>	<u>\$ 105,790</u>	<u>\$ 157,151</u>	<u>\$ -</u>	<u>\$ 403,692</u>
Carrying amounts at December 31, 2014	<u>\$ 207,436</u>	<u>\$ 155,098</u>	<u>\$ 37,470</u>	<u>\$ 92,092</u>	<u>\$ 199,534</u>	<u>\$ 691,630</u>
<u>Cost</u>						
Balance at January 1, 2015	\$ 207,436	\$ 295,849	\$ 143,260	\$ 249,243	\$ 199,534	\$ 1,095,322
Additions	-	11,024	15,595	57,635	116,751	201,005
Disposals	-	-	(7,842)	(1,083)	-	(8,925)
Others	-	203,360	1,462	829	(205,845)	(194)
Balance at December 31, 2015	<u>\$ 207,436</u>	<u>\$ 510,233</u>	<u>\$ 152,475</u>	<u>\$ 306,624</u>	<u>\$ 110,440</u>	<u>\$ 1,287,208</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ -	\$ 140,751	\$ 105,790	\$ 157,151	\$ -	\$ 403,692
Disposals	-	-	(6,194)	(1,070)	-	(7,264)
Depreciation expense	-	5,246	14,271	32,604	-	52,121
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 145,997</u>	<u>\$ 113,867</u>	<u>\$ 188,685</u>	<u>\$ -</u>	<u>\$ 448,549</u>
Carrying amounts at December 31, 2015	<u>\$ 207,436</u>	<u>\$ 364,236</u>	<u>\$ 38,608</u>	<u>\$ 117,939</u>	<u>\$ 110,440</u>	<u>\$ 838,659</u>

The above items of property, plant and equipment were depreciated on a straight-line basis over the following estimated useful life:

Buildings	
Main building	50 years
Engineering system	10 years
Machinery and equipment	3-10 years
Other equipment	3-5 years

Refer to Note 24 for the carrying amount of property, plant and equipment that had been pledged by the Company to secure long-term loans.

12. OTHER INTANGIBLE ASSETS

	Computer Software
<u>Cost</u>	
Balance at January 1, 2014	\$ 65,314
Additions	8,895
Disposals	<u>(5,445)</u>
Balance at December 31, 2014	<u>\$ 68,764</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2014	\$ 36,803
Depreciation expense	9,528
Disposals	<u>(5,445)</u>
Balance at December 31, 2014	<u>\$ 40,886</u>
Carrying amounts at December 31, 2014	<u>\$ 27,878</u>
<u>Cost</u>	
Balance at January 1, 2015	\$ 68,764
Additions	7,945
Disposals	<u>(2,841)</u>
Balance at December 31, 2015	<u>\$ 73,868</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2015	\$ 40,886
Depreciation expense	10,680
Disposals	<u>(2,841)</u>
Balance at December 31, 2015	<u>\$ 48,725</u>
Carrying amounts at December 31, 2015	<u>\$ 25,143</u>

The above items of intangible assets were depreciated on a straight-line basis over estimated useful life of 2 to 5 years.

13. BORROWINGS

Long-term Debt

	<u>December 31</u>	
	2015	2014
<u>Unsecured loan</u>		
Medium-term loan		
Repayable from August 4, 2015 to May 15, 2017; interest rate was 1.2019% on December 31, 2015. Interest is paid monthly and principal is due on May 15, 2017.	\$ 100,000	\$ -
Repayable from August 27, 2015 to February 23, 2017; interest rate was 1.2019% on December 31, 2015. Interest is paid monthly and principal is due on February 23, 2017.	50,000	-
Repayable from December 29, 2015 to December 29, 2017; interest rate was 1.60% on December 31, 2015. Interest is paid monthly and principal is due on December 29, 2017.	100,000	-
Repayable from September 7, 2015 to March 7, 2018; interest rate was 1.23% on December 31, 2015. Interest is paid monthly and principal is due on March 7, 2018. \$50,000 thousand principal was repaid on March 7, 2016.	300,000	-
<u>Secured loan</u>		
Medium-term loan		
Repayable from July 2, 2015 to July 2, 2017; interest rate was 1.12% on December 31, 2015. Interest is paid monthly and principal is due on July 2, 2017.	50,000	-
Repayable from August 27, 2015 to August 27, 2017; interest rate was 1.12% on December 31, 2015. Interest is due monthly and principal is due on August 27, 2017.	<u>100,000</u>	<u>-</u>
	700,000	-
Less: Long-term loans payable - current portion	<u>(50,000)</u>	<u>-</u>
	<u>\$ 650,000</u>	<u>\$ -</u>

For pledged properties and endorsements/guarantees, please see Notes 23 and 24 to the financial statements.

14. BONDS PAYABLE

	<u>December 31</u>	
	2015	2014
Unsecured domestic convertible bonds	<u>\$ 1,266,468</u>	<u>\$ 1,429,189</u>

On June 4, 2014, the Company issued 15 thousand units of \$100 thousand 0% NT unsecured convertible bonds in Taiwan, with an aggregate principal of \$1,500,000 thousand, proceeds from issue was \$1,503,000 thousand.

Each bond entitles the holder to convert into ordinary shares of the Company at a conversion price of \$20.4. If the Company changes its capital or pays cash dividends, the conversion price will be adjusted by the formula set up in the prospectus. After August 5, 2015, the conversion price has been adjusted to \$19. Conversion may occur at any time between July 5, 2014 and May 25, 2017. If the bonds are not converted, they will be redeemed on June 4, 2017 at \$100 thousand each.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus. The effective interest rate of the liability component was 1.7% per annum on initial recognition.

Proceeds from issue (less transaction costs \$5,669 thousand)	\$ 1,497,331
Equity component (less transaction costs allocated to the equity component of \$272 thousand)	<u>(71,878)</u>
Liability component at the date of issue	1,425,453
Interest charged at an effective interest rate of 1.70%	13,944
Conversion to common shares	<u>(10,208)</u>
 Liability component at December 31, 2014	 <u>\$ 1,429,189</u>
 Liability component at January 1, 2015	 \$ 1,429,189
Interest charged at an effective interest rate of 1.70%	23,716
Redemption of bonds payable	<u>(186,437)</u>
 Liability component at December 31, 2015	 <u>\$ 1,266,468</u>

For the year ended December 31, 2015, the Company buy back unsecured convertible bonds from open market, and recognized gain on buy-back of bonds payable of \$11,245 thousand, which were presented under other gains and losses, and reclassified \$9,191 thousand “capital surplus - convertible bonds” to “capital surplus - treasury share transactions”, please see Notes 17 and 18 to the financial statements.

15. OTHER PAYABLES

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Payable for salaries and bonus	\$ 91,309	\$ 167,195
Compensation payable to employees and directors and supervisors	-	26,612
Payable for annual leave	16,684	13,473
Materials payable and procurement	1,142,488	1,380,344
Other payable to related parties (Note 23)	117,087	202,624
Others	<u>295,317</u>	<u>334,647</u>
	<u>\$ 1,662,885</u>	<u>\$ 2,124,895</u>

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2015	2014
Present value of defined benefit obligation	\$ 127,869	\$ 124,183
Fair value of plan assets	<u>(44,853)</u>	<u>(48,145)</u>
Net defined benefit liability	<u>\$ 83,016</u>	<u>\$ 76,038</u>

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2014	<u>\$ 109,995</u>	<u>\$ (44,809)</u>	<u>\$ 65,186</u>
Service cost			
Current service cost	855	-	855
Net interest expense (income)	<u>2,062</u>	<u>(919)</u>	<u>1,143</u>
Recognized in profit or loss	<u>2,917</u>	<u>(919)</u>	<u>1,998</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(166)	(166)
Actuarial (gain) loss - changes in demographic assumptions	1	-	1
Actuarial (gain) loss - changes in financial assumptions	3,608	-	3,608
Actuarial (gain) loss - experience adjustments	<u>7,662</u>	<u>-</u>	<u>7,662</u>
Recognized in other comprehensive income	<u>11,271</u>	<u>(166)</u>	<u>11,105</u>
Contributions from the employer	-	(2,251)	(2,251)
Benefits paid	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2014	<u>\$ 124,183</u>	<u>\$ (48,145)</u>	<u>\$ 76,038</u> (Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2015	<u>\$ 124,183</u>	<u>\$ (48,145)</u>	<u>\$ 76,038</u>
Service cost			
Current service cost	751	-	751
Net interest expense (income)	<u>2,328</u>	<u>(924)</u>	<u>1,404</u>
Recognized in profit or loss	<u>3,079</u>	<u>(924)</u>	<u>2,155</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(319)	(319)
Actuarial (gain) loss - changes in demographic assumptions	3,836	-	3,836
Actuarial (gain) loss - changes in financial assumptions	3,809	-	3,809
Actuarial (gain) loss - experience adjustments	<u>(234)</u>	<u>-</u>	<u>(234)</u>
Recognized in other comprehensive income	<u>7,411</u>	<u>(319)</u>	<u>7,092</u>
Contributions from the employer	-	(2,269)	(2,269)
Benefits paid	<u>(6,804)</u>	<u>6,804</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ 127,869</u>	<u>\$ (44,853)</u>	<u>\$ 83,016</u> (Concluded)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the (government/corporate) bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2015	2014
Discount rate(s)	1.625%	1.875%
Expected rate(s) of salary increase	3.500%	3.500%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2015	2014
Discount rate(s)		
0.25% increase	<u>\$ (3,911)</u>	<u>\$ (3,708)</u>
0.25% decrease	<u>\$ 4,079</u>	<u>\$ 3,867</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 3,938</u>	<u>\$ 3,742</u>
0.25% decrease	<u>\$ (3,797)</u>	<u>\$ (3,608)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2015	2014
The expected contributions to the plan for the next year	<u>\$ 2,274</u>	<u>\$ 2,255</u>
The average duration of the defined benefit obligation	12.6 years	12.2 years

17. EQUITY

Share Capital

	December 31	
	2015	2014
Number of shares authorized (in thousands)	<u>600,000</u>	<u>600,000</u>
Shares authorized	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>277,688</u>	<u>277,688</u>
Shares issued	<u>\$ 2,776,884</u>	<u>\$ 2,776,884</u>

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

On June 19, 2014, Phihong Technology Co., Ltd.'s board of stockholders resolved to issue 5,000 thousand restricted stock shares, with a par value of NT\$10 each, or \$50,000 thousand total. Each share's exercise value is NT\$0. Except for restrictions against the transfer of shares, the rights and obligations of these common stocks (including allotment, dividend, shareholders' voting right, and capital injection right, etc.) before the employees fulfill the vesting conditions, are the same with other outstanding common stocks. As of the date December 31, 2015, the Company has not actually issued restricted stock shares.

Capital Surplus

	December 31	
	2015	2014
Issuance of common shares	\$ 226,556	\$ 226,556
Conversion of bonds	667,058	667,058
Treasury share transactions	57,425	48,234
Interest payable of bond conversion	13,243	13,243
Convertible bonds	<u>62,174</u>	<u>71,365</u>
	<u>\$ 1,026,456</u>	<u>\$ 1,026,456</u>

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares, conversion of bonds and treasury share transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital and once a year).

The capital surplus from long-term investments, employee share options and share warrants may not be used for any purpose.

Retained Earnings and Dividend Policy

Under the Company Law of the ROC and Phihong's Articles of Incorporation, 10% of Phihong's annual earnings, net of tax and any deficit, should first be appropriated as legal reserve until such reserve equals to the amount of Phihong's capital, and then a special reserve should be appropriated as required by laws or local authorities. Any remaining earnings plus unappropriated earnings accumulated in prior years, unless to be retained partially by Phihong or resolved otherwise by the stockholders, should be appropriated as follows:

- a. Not greater than 2% as remuneration to directors and supervisors;
- b. Not less than 10% as bonuses to employees; and
- c. The remaining as dividends, of which at least 10% should be cash dividends.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments to the Company's Articles of Incorporation had been proposed by the Company's board of directors on March 18, 2016 and are subject to the resolution of the shareholders in their meeting to be held on June 8, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to d. employee benefits expense in Note 18.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2014 and 2013 had been approved in stockholders' meetings held on June 11, 2015 and June 19, 2014, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Year 2014</u>	<u>For Year 2013</u>	<u>For Year 2014</u>	<u>For Year 2013</u>
Legal reserve	\$ 14,784	\$ 15,254	\$ -	\$ -
Cash dividends	133,062	137,281	0.48	0.5

Special Reserves Appropriated Following First-time Adoption of IFRSs

The Company transferred unrealized revaluation increment and cumulative translation differences to retained earnings at the amount of \$10,968 thousand and \$250,296 thousand, respectively. The increase in retained earnings that resulted from all IFRSs adjustments was smaller than the total revaluation and translation differences; therefore, the Company appropriated to the special reserve an amount of \$230,859 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

Other Equity Items

- a. Exchange differences on translation foreign operations

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Balance at January 1	\$ 345,970	\$ 73,280
Exchange differences arising on translating foreign operations	<u>(51,212)</u>	<u>272,690</u>
Balance at December 31	<u>\$ 294,758</u>	<u>\$ 345,970</u>

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (i.e. New Taiwan dollars) were recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

- b. Unrealized gain (loss) on available for-sale financial assets

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Balance at January 1	\$ (37,199)	\$ (26,428)
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>84,550</u>	<u>(10,771)</u>
Balance at December 31	<u>\$ 47,351</u>	<u>\$ (37,199)</u>

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

18. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2015	2014
Interest income	\$ 19,305	\$ 10,548
Dividends	5,542	4,373
Others	<u>151,188</u>	<u>95,036</u>
	<u>\$ 176,035</u>	<u>\$ 109,957</u>

b. Other gains and losses

	For the Year Ended December 31	
	2015	2014
Loss on disposal of property, plant and equipment	\$ (573)	\$ (53)
Exchange (loss) gain, net	(13)	68,263
Gain on disposal of investment	1,095	-
Gain on buy-back of bonds payable	11,245	-
Impairment loss	-	(4,600)
Others	<u>(17)</u>	<u>(5,933)</u>
	<u>\$ 11,737</u>	<u>\$ 57,677</u>

c. Depreciation and amortization

	For the Year Ended December 31	
	2015	2014
Property, plant and equipment	\$ 52,121	\$ 52,849
Computer software	<u>10,680</u>	<u>9,528</u>
	<u>\$ 62,801</u>	<u>\$ 62,377</u>
An analysis of depreciation by function		
Operating costs	\$ 2,204	\$ 1,750
Operating expenses	<u>49,917</u>	<u>51,099</u>
	<u>\$ 52,121</u>	<u>\$ 52,849</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>10,680</u>	<u>9,528</u>
	<u>\$ 10,680</u>	<u>\$ 9,528</u>

d. Employee benefits expense

	For the Year Ended December 31	
	2015	2014
Post-employment benefits (Note 16)		
Defined contribution plans	\$ 20,514	\$ 17,969
Defined benefit plans	<u>2,155</u>	<u>1,998</u>
	22,669	19,967
Short-term employee benefits	<u>459,996</u>	<u>533,904</u>
	<u>\$ 482,665</u>	<u>\$ 553,871</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 36,581	\$ 60,024
Operating expenses	<u>446,084</u>	<u>493,847</u>
	<u>\$ 482,665</u>	<u>\$ 553,871</u>

The Company had 470 and 436 employees as of December 31, 2015 and 2014, respectively.

The existing Articles of Incorporation of the Company stipulate to distribute bonus to employees and remuneration to directors and supervisors at the rates 10% and 2%, respectively, of net income (net of the bonus and remuneration). For the year ended December 31, 2014, the bonus to employees and the remuneration to directors and supervisors were \$23,951 thousand and \$2,661 thousand, respectively, of the base net income.

To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 10% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The Company did not estimate the bonus to employees and the remuneration to directors and supervisors because it did not has net profit before income tax in 2015.

Material differences between such estimated amounts and the amounts proposed by the board of directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

The bonuses to employees and remuneration to directors and supervisors for 2014 and 2013 which have been approved in the shareholders' meetings on June 11, 2015 and June 19, 2014, respectively, were as follows:

	For the Year Ended 2014		For the Year Ended 2013	
	Cash	Stock	Cash	Stock
	Dividends	Dividends	Dividends	Dividends
Bonus to employees	\$ 23,951	\$ -	\$ 24,710	\$ -
Remuneration of directors and supervisors	2,661	-	2,746	-

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors proposed by the board of directors approved in the shareholders' meetings on June 11, 2015 and June 19, 2014 and the amounts recognized in the consolidated financial statements for the years ended December 31, 2014 and 2013, respectively.

Information on the bonus to employees, directors and supervisors proposed by the Company's board of directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

- e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2015	2014
Foreign exchange gains	\$ 16,581	\$ 73,380
Foreign exchange losses	<u>(16,594)</u>	<u>(5,117)</u>
	<u>\$ (13)</u>	<u>\$ 68,263</u>

19. INCOME TAXES RELATING TO CONTINUING OPERATIONS

- a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2015	2014
Current tax		
In respect of the current period	\$ 32,599	\$ 33,052
In respect of prior periods	<u>(12,140)</u>	<u>-</u>
Deferred tax	20,459	33,052
In respect of the current period	<u>(1,159)</u>	<u>5,700</u>
Total income tax expense recognized in the current period	<u>\$ 19,300</u>	<u>\$ 38,752</u>

Accounting income and current income tax expense were reconciled as follows:

	For the Year Ended December 31	
	2015	2014
Income tax expense at statutory rate	\$ 32,599	\$ 33,052
Income tax on unappropriated earnings	<u>-</u>	<u>-</u>
Current income tax expense	32,599	33,052
Deferred income tax assets (liabilities)		
Temporary difference	(1,159)	5,700
Adjustments to prior year's income tax expense	<u>(12,140)</u>	<u>-</u>
Total income tax expense recognized in the current period	<u>\$ 19,300</u>	<u>\$ 38,752</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company in ROC.

b. Income tax recognized in other comprehensive income

	<u>For the Year Ended December 31</u>	
	2015	2014
<u>Deferred tax</u>		
In respect of the current year:		
Actuarial gains and losses on defined benefit plan	\$ <u>1,206</u>	\$ <u>1,888</u>
Total income tax recognized in other comprehensive income	\$ <u>1,206</u>	\$ <u>1,888</u>

c. Current tax liabilities

	<u>For the Year Ended December 31</u>	
	2015	2014
Current tax liabilities		
Income tax payable	\$ <u>48,209</u>	\$ <u>47,824</u>

d. Deferred tax assets and liabilities

The Company has offset certain deferred tax assets with deferred tax liabilities which met the offset criteria.

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory devaluation losses	\$ 9,070	\$ -	\$ -	\$ 9,070
Allowance for doubtful accounts	10,460	-	-	10,460
Unrealized gross profit	6,610	(1,090)	-	5,520
Deferred pension costs	10,240	20	-	10,260
Others	<u>7,231</u>	<u>2,229</u>	<u>1,206</u>	<u>10,666</u>
	<u>\$ 43,611</u>	<u>\$ 1,159</u>	<u>\$ 1,206</u>	<u>\$ 45,976</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>

For the year ended December 31, 2014

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory devaluation losses	\$ 9,070	\$ -	\$ -	\$ 9,070
Allowance for doubtful accounts	10,900	(440)	-	10,460
Unrealized gross profit	8,530	(1,920)	-	6,610
Deferred pension costs	10,270	(30)	-	10,240
Others	<u>8,653</u>	<u>(3,310)</u>	<u>1,888</u>	<u>7,231</u>
	<u>\$ 47,423</u>	<u>\$ (5,700)</u>	<u>\$ 1,888</u>	<u>\$ 43,611</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>

e. Information on integrated income tax was as follows:

	<u>For the Year Ended December 31</u>	
	2015	2014
Unappropriated earnings		
Generated before January 1, 1998	\$ -	\$ -
Generated on and after January 1, 1998	<u>177,165</u>	<u>839,463</u>
	<u>\$ 177,165</u>	<u>\$ 839,463</u>
Imputation credit accounts	<u>\$ 189,835</u>	<u>\$ 205,538</u>
	<u>For the Year Ended December 31</u>	
	2015 (Expected)	2014 (Actual)
Creditable ratio for distribution of earning	33.87%	28.05%

f. Income tax assessments

The latest income tax returns through 2013 have been assessed by the tax authorities.

20. EARNINGS PER SHARE

	Income After Tax (Attributed to Owners of the Company)	Number of Common Shares Outstanding (In Thousands)	(Loss) Earnings Per Share (NT\$)
<u>For the year ended December 31, 2015</u>			
Basic earnings per share			
Net loss	<u>\$ (508,566)</u>	277,688	<u>\$ (1.83)</u>
<u>For the year ended December 31, 2014</u>			
Basic earnings per share			
Net income	\$ 147,847	277,344	<u>\$ 0.53</u>
Effect of dilutive potential common shares			
Employee bonus	-	1,859	
Convertible bonds	<u>11,574</u>	<u>43,390</u>	
Diluted earnings per share			
Net income attributed to holders of common shares plus the effect of dilutive potential common shares	<u>\$ 159,421</u>	<u>322,593</u>	<u>\$ 0.49</u>

If the Company can settle the bonuses to employees by cash or shares, the Company presumes that the entire amount of the bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

21. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Company is not subject to any externally imposed capital requirements.

22. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Financial assets</u>		
Loans and receivables		
Cash and cash equivalents	\$ 1,015,683	\$ 1,467,220
Trade receivables	940,690	1,270,558
Trade receivables from related parties	100,498	167,368
Other receivables	49,065	51,282
Other receivables from related parties	418,908	253,900
Refundable deposits (recorded as other non-current assets)	10,331	10,364
<u>Financial liabilities</u>		
Measured at amortized cost		
Trade payable	26,256	15,522
Trade payable to related parties	179,028	324,899
Other payables	1,662,885	2,124,895
Current portion of long-term debts	50,000	-
Bonds payable	1,266,468	1,429,189
Long-term debts	650,000	-

b. Financial risk management objectives and policies

The Company's major financial instruments included cash and cash equivalents, trade receivables, trade receivables from related parties, other receivables, other receivables from related parties, refundable deposits, trade payable, trade payable to related parties, other payables, short-term debts, long-term debts and bonds payable. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

1) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Assessment of the Company's foreign currency assets and liabilities, it has no significant exposure to foreign currency risk, the Company without additional hedge processing, so no application of the relevant hedge accounting.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are presented in Note 26.

Sensitivity analysis

The Company was mainly exposed to the currency USD.

The following table details the Company's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an decrease in pre-tax profit when New Taiwan dollars strengthen by 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	Currency USD Impact	
	For the Year Ended December 31	
	2015	2014
Profit or loss	\$ 5,959	\$ 7,289

b) Interest rate risk

The Company was exposed to fair value risk and cash flow interest rate risk from short-term loans, long-term loans, at both fixed and floating interest rates.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2015	2014
Cash flow interest rate risk		
Financial liabilities	\$ 700,000	\$ -

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk approximates the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of customers in view of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2015 and 2014, the Company had available unutilized short-term bank loan facilities set out in (b) below.

3) Liquidity risk

a) Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods:

December 31, 2015

	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 1,868,169	\$ 1,266,468	\$ -	\$ 3,134,637
Variable interest rate instrument	50,000	650,000	-	700,000
Fixed interest rate instrument	-	-	-	-
	<u>\$ 1,918,169</u>	<u>\$ 1,916,468</u>	<u>\$ -</u>	<u>\$ 3,834,637</u>

December 31, 2014

	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 2,465,316	\$ 1,429,189	\$ -	\$ 3,894,505
Variable interest rate instrument	-	-	-	-
Fixed interest rate instrument	-	-	-	-
	<u>\$ 2,465,316</u>	<u>\$ 1,429,189</u>	<u>\$ -</u>	<u>\$ 3,894,505</u>

b) Financing facilities

	<u>December 31</u>	
	2015	2014
Unused bank financing facilities	<u>\$ 2,296,660</u>	<u>\$ 2,519,760</u>

23. RELATED-PARTY TRANSACTIONS

a. Names and relationships of the related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
Phihong USA Corp.	Subsidiary
Phihong International Corp.	Subsidiary
Phitek International Co., Ltd.	Subsidiary
Ascent Alliance Ltd.	Subsidiary
American Ballast Corp.	Subsidiary
Phihong Technology Japan Co., Ltd.	Subsidiary
Guang-Lai Investment Co., Ltd.	Subsidiary
Phihong (Dongguan) Electronics Co., Ltd.	Subsidiary
Dongguan Phitek Electronics Ltd.	Subsidiary
Phihong Electronics (Suzhou) Co., Ltd.	Subsidiary
Jin-Sheng Hong (Jiangxi) Electronics Co., Ltd.	Subsidiary
Dongguan Shuang-Ying Electronics Co., Ltd.	Subsidiary
Yanghong Trading (Shanghai) Co., Ltd.	Subsidiary
Peter Lin	The Company's chairman
Xu Sheng Technology Co., Ltd. ("Xu Sheng")	Other related parties
Shine Tech Ltd.	Other related parties
Red Sun Metal Industry Co., Ltd.	Other related parties
Hua Jung Co., Ltd.	Other related parties
Hong Ding Educational Technology Co., Ltd.	Other related parties
Heng Hui Co., Ltd.	Other related parties
Zero Distance Corporation	Other related parties
Redsun Trading (Nan Tong) Co., Ltd.	Other related parties
Nantong Chun-Yuan Electronics Ind. Co., Ltd.	Other related parties

b. Trading transactions

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Sales</u>		
Subsidiaries	\$ 3,242,921	\$ 3,896,489
Other related parties	<u>658</u>	<u>189</u>
	<u>\$ 3,243,579</u>	<u>\$ 3,896,678</u>

The price of the finished goods sold by the Company is based on negotiations and consideration of the product type, cost and market price, etc.

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Purchase of goods</u>		
Subsidiaries	\$ 8,032,449	\$ 10,683,958
Other related parties	<u>4,298</u>	<u>3,837</u>
	<u>\$ 8,036,747</u>	<u>\$ 10,687,795</u>

The price of the finished goods purchased by the Company is based on negotiations and consideration of the product type, cost and market price, etc.

	December 31	
	2015	2014
<u>Accounts receivables from related parties</u>		
Subsidiaries	\$ <u>100,498</u>	\$ <u>167,368</u>
<u>Accounts payable to related parties</u>		
Subsidiaries	\$ 177,770	\$ 323,048
Other related parties	<u>1,258</u>	<u>1,851</u>
	<u>\$ 179,028</u>	<u>\$ 324,899</u>
<u>Other receivables from related parties</u>		
Subsidiaries	\$ <u>418,908</u>	\$ <u>253,900</u>

Other receivables were the Company's temporary payments for materials procured on behalf of related parties.

	December 31	
	2015	2014
<u>Other payables</u>		
Subsidiaries	\$ 67,278	\$ 107,362
Other related parties	<u>49,809</u>	<u>95,262</u>
	<u>\$ 117,087</u>	<u>\$ 202,624</u>

Other payables were the temporary payments for materials procurement made by related parties on behalf of the Company.

c. Compensation of key management personnel

The types and amounts of the remuneration of directors and other members of key management personnel were as follows:

	For the Year Ended December 31	
	2015	2014
Short-term benefits	\$ 31,130	\$ 59,014
Post-employment benefits	<u>432</u>	<u>514</u>
	<u>\$ 31,562</u>	<u>\$ 59,528</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

d. Other transactions with related parties

The Company's chairman has guaranteed the payments of the loans of the Company as of December 31, 2015. The amounts of the guarantees was \$550,000 thousand.

24. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Freehold land	\$ 197,586	\$ 197,586
Buildings	<u>336,316</u>	<u>141,991</u>
	<u>\$ 533,902</u>	<u>\$ 339,577</u>

25. CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2015, the Company had guaranteed US\$5,000 thousand and US\$2,400 thousand loan of Pihong USA Corp. and Phitek International Co., Ltd., respectively.

26. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 62,725	32.86000	\$ 2,061,131
JPY	81,846	0.27263	22,314
HKD	3,973	4.23987	16,843
CNY	104,800	5.06356	530,662
Investments accounted for by the equity method			
USD	159,739	32.86000	5,249,035
JPY	326,849	0.27263	89,109
<u>Financial liabilities</u>			
Monetary items			
USD	44,589	32.86000	1,465,211
JPY	6,040	0.27263	1,647
HKD	5,095	4.23987	21,602

December 31, 2014

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 113,101	31.71000	\$ 3,586,433
JPY	183,866	0.26390	48,522
HKD	2,764	4.08738	11,297
CNY	1,275	5.17934	6,601
Investments accounted for by the equity method			
USD	174,782	31.71000	5,542,336
JPY	307,198	0.26390	81,069
<u>Financial liabilities</u>			
Monetary items			
USD	90,116	31.71000	2,857,581
JPY	7,419	0.26390	1,958
HKD	5,395	4.08738	22,051

Note: Exchange rate represents the amount of New Taiwan dollars for which one foreign currency could be exchanged.

27. SEGMENT INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements for the year ended December 31, 2015.