

Phihong Technology Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2014 and 2013 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, 2014 and 2013, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. 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, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

March 13, 2015

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, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

ASSETS	2014		2013	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,467,220	14	\$ 953,564	10
Trade receivables (Notes 4 and 8)	1,270,558	12	1,148,515	12
Trade receivables from related parties (Notes 4, 8 and 25)	167,368	2	378,727	4
Other receivables	51,282	1	22,455	-
Other receivables from related parties (Note 25)	253,900	2	515,802	5
Inventories (Notes 4 and 9)	361,787	3	243,601	3
Other current assets	16,799	-	10,876	-
Total current assets	<u>3,588,914</u>	<u>34</u>	<u>3,273,540</u>	<u>34</u>
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 7)	66,568	1	79,703	1
Investments accounted for using equity method (Notes 4 and 10)	6,029,122	58	5,710,710	59
Property, plant and equipment (Notes 4 and 11)	691,630	7	566,503	6
Intangible assets (Notes 4 and 12)	27,878	-	28,511	-
Deferred tax assets (Notes 4 and 20)	43,611	-	47,423	-
Other non-current assets	11,042	-	13,704	-
Total non-current assets	<u>6,869,851</u>	<u>66</u>	<u>6,446,554</u>	<u>66</u>
TOTAL	<u>\$ 10,458,765</u>	<u>100</u>	<u>\$ 9,720,094</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term debt (Note 13)	\$ -	-	\$ 100,000	1
Trade payables	15,522	-	11,899	-
Trade payables to related parties (Note 25)	324,899	3	335,450	3
Other payables (Notes 15 and 25)	2,124,895	20	2,266,198	23
Current tax liabilities (Notes 4 and 20)	47,824	1	44,508	1
Current portion of long-term borrowings (Note 13)	-	-	8,333	-
Other current liabilities (Note 16)	79,732	1	81,541	1
Total current liabilities	<u>2,592,872</u>	<u>25</u>	<u>2,847,929</u>	<u>29</u>
NON-CURRENT LIABILITIES				
Bonds payable (Note 14)	1,429,189	13	-	-
Long-term borrowings (Note 13)	-	-	791,667	8
Deferred tax liabilities (Notes 4 and 20)	79,832	1	79,832	1
Accrued pension liabilities (Notes 4 and 17)	76,038	1	65,186	1
Total non-current liabilities	<u>1,585,059</u>	<u>15</u>	<u>936,685</u>	<u>10</u>
Total liabilities	<u>4,177,931</u>	<u>40</u>	<u>3,784,614</u>	<u>39</u>
EQUITY (Notes 4 and 18)				
Common stock	2,776,884	26	2,771,639	29
Capital surplus	1,026,456	10	949,615	10
Retained earnings				
Legal reserve	1,098,401	11	1,083,147	11
Special reserve	230,859	2	230,859	2
Unappropriated earnings	839,463	8	853,368	9
Total retained earnings	<u>2,168,723</u>	<u>21</u>	<u>2,167,374</u>	<u>22</u>
Other equity				
Exchange differences on translating foreign operations	345,970	3	73,280	1
Unrealized (loss) gain on available-for-sale financial assets	(37,199)	-	(26,428)	(1)
Total other equity	<u>308,771</u>	<u>3</u>	<u>46,852</u>	<u>-</u>
Total equity	<u>6,280,834</u>	<u>60</u>	<u>5,935,480</u>	<u>61</u>
TOTAL	<u>\$ 10,458,765</u>	<u>100</u>	<u>\$ 9,720,094</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, 2014 AND 2013 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2014		2013	
	Amount	%	Amount	%
NET SALES AND REVENUES (Notes 4 and 25)	\$ 11,556,917	100	\$ 11,132,298	100
COST OF GOODS SOLD (Notes 4, 9 and 25)	<u>10,698,372</u>	<u>93</u>	<u>10,191,618</u>	<u>91</u>
GROSS PROFIT	858,545	7	940,680	9
(UNREALIZED) REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	<u>(13,645)</u>	<u>-</u>	<u>40,038</u>	<u>-</u>
GROSS PROFIT AND REALIZED GAIN FROM SUBSIDIARIES AND ASSOCIATES	<u>844,900</u>	<u>7</u>	<u>980,718</u>	<u>9</u>
OPERATING EXPENSES				
Sales and marketing	212,850	2	191,787	2
General and administration	221,123	2	154,961	1
Research and development	<u>398,000</u>	<u>3</u>	<u>447,371</u>	<u>4</u>
Total operating expenses	<u>831,973</u>	<u>7</u>	<u>794,119</u>	<u>7</u>
INCOME FROM OPERATIONS	<u>12,927</u>	<u>-</u>	<u>186,599</u>	<u>2</u>
NONOPERATING INCOME (EXPENSES)				
Other income	109,957	1	122,418	1
Other gains and losses (Notes 7 and 19)	57,677	-	(1,322)	-
Finance costs	(24,288)	-	(7,703)	-
Share of the profit of subsidiaries and associates (Note 4)	<u>30,326</u>	<u>-</u>	<u>(100,565)</u>	<u>(1)</u>
Total nonoperating income (expenses), net	<u>173,672</u>	<u>1</u>	<u>12,828</u>	<u>-</u>
INCOME BEFORE INCOME TAX	186,599	1	199,427	2
INCOME TAX EXPENSE (Notes 4 and 20)	<u>(38,752)</u>	<u>-</u>	<u>(46,893)</u>	<u>(1)</u>
NET INCOME	<u>147,847</u>	<u>1</u>	<u>152,534</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange differences on translating foreign operations (Note 18)	272,690	2	221,641	2
Unrealized gain on available-for-sale financial assets (Note 18)	(10,771)	-	(10,825)	-

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2014		2013	
	Amount	%	Amount	%
Actuarial gain arising from defined benefit plans (Note 17)	\$ (11,105)	-	\$ 1,447	-
Income tax relating to components of other comprehensive income (Note 20)	<u>1,888</u>	<u>-</u>	<u>(246)</u>	<u>-</u>
Total other comprehensive income (loss), net	<u>252,702</u>	<u>2</u>	<u>212,017</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 400,549</u>	<u>3</u>	<u>\$ 364,551</u>	<u>3</u>
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 0.53</u>		<u>\$ 0.55</u>	
Diluted	<u>\$ 0.49</u>		<u>\$ 0.55</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, 2014 AND 2013
(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, 2013	\$ 2,771,639	\$ 949,615	\$ 1,052,192	\$ -	\$ 1,238,611	\$ (148,361)	\$ (15,603)	\$ 5,848,093
Appropriation of the 2012 net income (Note 18)								
Legal reserve	-	-	30,955	-	(30,955)	-	-	-
Cash dividend	-	-	-	-	(277,164)	-	-	(277,164)
Special reserve at first-time adoption of IFRSs (Note 18)	-	-	-	230,859	(230,859)	-	-	-
Net income for the year ended December 31, 2013	-	-	-	-	152,534	-	-	152,534
Other comprehensive income (loss) for the year ended December 31, 2013, net of income tax	-	-	-	-	1,201	221,641	(10,825)	212,017
Total comprehensive income (loss) for the year ended December 31, 2013	-	-	-	-	153,735	221,641	(10,825)	364,551
BALANCE, DECEMBER 31, 2013	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 18)								
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	<u>\$ 2,776,884</u>	<u>\$ 1,026,456</u>	<u>\$ 1,098,401</u>	<u>\$ 230,859</u>	<u>\$ 839,463</u>	<u>\$ 345,970</u>	<u>\$ (37,199)</u>	<u>\$ 6,280,834</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, 2014 AND 2013 (In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 186,599	\$ 199,427
Adjustments for:		
Impairment loss recognized (reversal of impairment loss) on trade receivables	150	(10,000)
Depreciation expense	52,849	51,279
Amortization expense	9,528	11,656
Interest expense	24,288	7,703
Interest income	(10,548)	(5,635)
Dividend revenue	(4,373)	(234)
Share of profit of subsidiaries and associates	(30,326)	100,565
Loss (gain) on disposal of property, plant and equipment	53	(422)
Gain on disposal of financial assets	-	(2,347)
Impairment loss recognized on held-to-maturity financial assets	4,600	-
Realized (unrealized) gain on transaction with subsidiaries	13,645	(40,038)
Net changes in operating assets and liabilities		
Trade receivables	(122,193)	271,146
Trade receivables from related parties	211,359	(187,019)
Other receivables	(27,636)	19,512
Other receivables from related parties	261,902	(26,524)
Inventories	(118,186)	75,895
Other current assets	(5,923)	330
Other non-current assets	(678)	-
Trade payables	3,623	(18,242)
Trade payables to related parties	(10,551)	(53,236)
Other payables	(140,627)	(177,505)
Other current liabilities	(1,809)	12,051
Reserve for retirement plan	(253)	(159)
Cash generated from operating activities	295,493	228,203
Interest paid	(11,020)	(7,065)
Interest received	9,357	5,641
Income tax paid	(29,736)	(77,039)
Net cash generated from operating activities	<u>264,094</u>	<u>149,740</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	-	31,092
Purchase of financial assets measured at cost	-	(49,996)
Net cash outflow on acquisition of subsidiaries	(60,760)	(461,363)
Payments for property, plant and equipment	(178,029)	(117,356)
Proceeds from disposal of property, plant and equipment	-	1,761
Payments for intangible assets	(8,895)	(6,478)
Decrease in refundable deposits	3,340	210

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PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In Thousands of New Taiwan Dollars)

	2014	2013
Dividend received	\$ 4,373	\$ 234
Decrease and return of capital from investments accounted for using equity method	20,948	3,285
Decrease and return of capital from investees of financial assets measured at cost	<u>8,535</u>	<u>16,796</u>
Net cash used in investing activities	<u>(210,488)</u>	<u>(581,815)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt	-	100,000
Repayments of short-term debt	(100,000)	-
Cash dividends paid	(137,281)	(277,164)
Proceeds from issue of convertible bonds	1,497,331	-
Proceeds from long-term borrowings	-	600,000
Repayments of long-term borrowings	<u>(800,000)</u>	<u>-</u>
Net cash generated from financing activities	<u>460,050</u>	<u>422,836</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	513,656	(9,239)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>953,564</u>	<u>962,803</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,467,220</u>	<u>\$ 953,564</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, 2014 AND 2013 (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 13, 2015.

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

- a. 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 not yet effective

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.

New, Amended and Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 “Embedded Derivatives”	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 “Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters”	July 1, 2010
Amendment to IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”	July 1, 2011

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New, Amended and Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note)
Amendment to IFRS 1 “Government Loans”	January 1, 2013
Amendment to IFRS 7 “Disclosure - Offsetting Financial Assets and Financial Liabilities”	January 1, 2013
Amendment to IFRS 7 “Disclosure - Transfer of Financial Assets”	July 1, 2011
IFRS 11 “Joint Arrangements”	January 1, 2013
IFRS 12 “Disclosure of Interests in Other Entities”	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance”	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 “Investment Entities”	January 1, 2014
IFRS 13 “Fair Value Measurement”	January 1, 2013
Amendment to IAS 1 “Presentation of Other Comprehensive Income”	July 1, 2012
Amendment to IAS 12 “Deferred Tax: Recovery of Underlying Assets”	January 1, 2012
IAS 19 (Revised 2011) “Employee Benefits”	January 1, 2013
IAS 27 (Revised 2011) “Separate Financial Statements”	January 1, 2013
IAS 28 (Revised 2011) “Investments in Associates and Joint Ventures”	January 1, 2013
Amendment to IAS 32 “Offsetting Financial Assets and Financial Liabilities”	January 1, 2014
IFRIC 20 “Stripping Costs in Production Phase of a Surface Mine”	January 1, 2013

(Concluded)

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

Except for the following, whenever applied, the initial application of the above 2013 IFRSs version and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers 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 than in the current standards.

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 than those required in the current standards. 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.

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 will retrospectively apply the above amendments starting from 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans and share of the actuarial gains (losses) arising from defined benefit plans of associates accounted for using the equity method. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations, unrealized gains (loss) on available-for-sale financial assets 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.

For the adoption of the revised IAS 19 in 2015, there is not any changes in equity but changes in cumulative employee benefit costs as of December 31, 2013, which resulting from the retrospective adoption. The adoption of the revised IAS 19 will result in \$57 thousand decrease in net profit and \$57 thousand increase in other comprehensive income for the year ended December 31, 2014. However, there is no effect on total comprehensive income for the year ended December 31, 2014.

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

The Company has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the financial statements were authorized for issue, the FSC has not announced their effective dates.

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 4)
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”	January 1, 2016 (Note 3)
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, 2017
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
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 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
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: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.

Note 4: 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.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group.

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

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, 2017.

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) Annual Improvements to IFRSs: 2012-2014 Cycle

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

9) Amendment to IAS 1 “Disclosure Initiative”

The amendment clarifies that the financial statements should be prepared for the purpose of disclosing material information. To improve the understandability of its financial statements, the Company should disaggregate the disclosure of material items into their different natures or functions, and disaggregate material information from immaterial information.

The amendment further clarifies that the Company should consider the understandability and comparability of its financial statements to determine a systematic order in presenting its footnotes.

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 parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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.

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

Investments in subsidiaries and associates are accounted for by the equity method.

1) Investment in subsidiaries

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.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. 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.

When the Company subscribes for additional new shares of the associate, at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate equals or exceeds its interest in that associate, (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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.

Gains or losses from derecognition of an intangible asset, which are measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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.

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.

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.

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. Financial 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. 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.

n. Retirement benefit costs

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method. All actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailement or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

o. 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.

p. 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. 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

	December 31	
	2014	2013
Cash on hand	\$ 728	\$ 618
Checking accounts and demand deposits	1,059,480	952,946
Time deposits with original maturities less than three months	367,037	-
Cash equivalent (repurchase agreements collateralized by bonds with original maturities less than three months)	<u>39,975</u>	<u>-</u>
	<u>\$ 1,467,220</u>	<u>\$ 953,564</u>

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:

	December 31	
	2014	2013
Demand deposits and time deposits	0.01%-3.25%	0.01%-0.60%
Repurchase agreements collateralized by bonds	0.58%	-

7. FINANCIAL ASSETS MEASURED AT COST, NON-CURRENT

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
<u>Unlisted stocks</u>		
Bao-Dian Venture Capital Co., Ltd.	\$ 6,124	\$ 9,015
Yuan-Jing Venture Capital Co., Ltd.	11,366	20,010
Han-Tong Venture Capital Co., Ltd.	48,396	49,996
Asiatech Taiwan Venture Fund	<u>682</u>	<u>682</u>
	<u>\$ 66,568</u>	<u>\$ 79,703</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.

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.

8. TRADE RECEIVABLE

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Trade receivable	\$ 1,275,190	\$ 1,152,997
Less: Allowance for doubtful accounts	<u>(4,632)</u>	<u>(4,482)</u>
	<u>1,270,558</u>	<u>1,148,515</u>
Trade receivable from related parties (Note 25)	167,368	378,727
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>167,368</u>	<u>378,727</u>
	<u>\$ 1,437,926</u>	<u>\$ 1,527,242</u>

The average credit period for sales of goods was 30-70 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, 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>

December 31, 2013

	Total Receivables	Not Overdue	Overdue under 60 Days	Overdue under 61 Days and Longer
Not overdue and not impaired	\$ 1,521,510	\$ 1,521,510	\$ -	\$ -
Not overdue but impaired	-	-	-	-
Overdue and not impaired	5,732	-	3,826	1,906
Overdue but impaired	<u>4,482</u>	<u>-</u>	<u>-</u>	<u>4,482</u>
	<u>\$ 1,531,724</u>	<u>\$ 1,521,510</u>	<u>\$ 3,826</u>	<u>\$ 6,388</u>

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

	For the Year Ended December 31	
	2014	2013
Balance at January 1	\$ 4,482	\$ 22,067
Reversed impairment loss on receivables		(10,000)
Increase in allowance for doubtful accounts	150	-
Amounts written off as uncollectible	<u>-</u>	<u>(7,585)</u>
Balance at December 31	<u>\$ 4,632</u>	<u>\$ 4,482</u>

9. INVENTORIES

	December 31	
	2014	2013
Raw materials	\$ 2,176	\$ 3,596
Work-in-process	107	478
Merchandise	<u>359,504</u>	<u>239,527</u>
	<u>\$ 361,787</u>	<u>\$ 243,601</u>

As of December 31, 2014 and 2013, allowance of inventory devaluation were all the same at \$53,327 thousand.

For the years ended December 31, 2014 and 2013, the cost of inventories recognized as cost of goods sold was \$10,698,372 thousand and \$10,191,618 thousand, respectively.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2014	2013
Investments in subsidiaries	\$ 5,870,982	\$ 5,532,860
Investments in associates	<u>158,140</u>	<u>177,850</u>
	<u>\$ 6,029,122</u>	<u>\$ 5,710,710</u>

a. Investments in subsidiaries:

	December 31	
	2014	2013
<u>Unlisted stocks</u>		
Phihong International Corp.	\$ 3,727,136	\$ 3,509,203
Phitek International Co., Ltd.	507,376	474,055
Ascent Alliance Ltd.	426,154	432,051
Phihong USA Corp.	864,927	769,953
American Ballast Corp.	16,743	15,756
Phihong Technology Japan Co., Ltd.	81,069	77,256
Guan-Lai Investment Co., Ltd.	<u>247,577</u>	<u>254,586</u>
	<u>\$ 5,870,982</u>	<u>\$ 5,532,860</u>

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

	December 31	
	2014	2013
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 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, 2014 and 2013 were based on the subsidiaries' financial statements audited by auditors for the same years.

The Company had made additional investments of \$60,760 thousand and \$295,391 thousand in cash in Phihong International Corp. in 2014 and 2013, respectively.

The Company had made additional investment of \$106,488 thousand in cash in Ascent Alliance Ltd. in 2013.

b. Investments in associates:

	December 31	
	2014	2013
<u>Unlisted stocks</u>		
Hao-Xuan Venture Capital Co., Ltd.	\$ 28,773	\$ 40,208
H&P Venture Capital Co., Ltd.	<u>129,367</u>	<u>137,642</u>
	<u>\$ 158,140</u>	<u>\$ 177,850</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	
	2014	2013
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%

In 2014, Hao-Xuan Venture Capital Co., Ltd.'s board of directors approved to decrease and return its capital in the amount of \$84,926 thousand. The Company received the returned capital of \$20,948 thousand.

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.

The summarized financial information in respect of the Company's associates was set out below:

	December 31	
	2014	2013
Total assets	<u>\$ 523,033</u>	<u>\$ 594,657</u>
Total liabilities	<u>\$ 5,348</u>	<u>\$ 4,959</u>
	For the Year Ended December 31	
	2014	2013
Revenue for the period	<u>\$ 114,551</u>	<u>\$ 5,867</u>
Profit (loss) for the period	<u>\$ 12,453</u>	<u>\$ (9,901)</u>
Other comprehensive income for the period	<u>\$ 387</u>	<u>\$ (85,680)</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, 2014 and 2013 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, 2013	\$ 207,436	\$ 295,212	\$ 138,485	\$ 188,707	\$ 1,265	\$ 831,105
Additions	-	-	5,748	39,859	71,875	117,482
Disposals	-	(101)	(3,803)	(7,216)	-	(11,120)
Others	-	-	657	-	(1,008)	(351)
Balance at December 31, 2013	<u>\$ 207,436</u>	<u>\$ 295,111</u>	<u>\$ 141,087</u>	<u>\$ 221,350</u>	<u>\$ 72,132</u>	<u>\$ 937,116</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2013	\$ -	\$ 121,187	\$ 86,542	\$ 121,386	\$ -	\$ 329,115
Disposals	-	(15)	(2,550)	(7,216)	-	(9,781)
Depreciation expense	-	10,750	12,746	27,783	-	51,279
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 131,922</u>	<u>\$ 96,738</u>	<u>\$ 141,953</u>	<u>\$ -</u>	<u>\$ 370,613</u>
Carrying amounts at December 31, 2013	<u>\$ 207,436</u>	<u>\$ 163,189</u>	<u>\$ 44,349</u>	<u>\$ 79,397</u>	<u>\$ 72,132</u>	<u>\$ 566,503</u>
<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>

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 26 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, 2013	\$ 58,994
Additions	6,478
Disposals	<u>(158)</u>
Balance at December 31, 2013	<u>\$ 65,314</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2013	\$ 25,305
Depreciation expense	11,656
Disposals	<u>(158)</u>
Balance at December 31, 2013	<u>\$ 36,803</u>
Carrying amounts at December 31, 2013	<u>\$ 28,511</u>
<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>

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

13. BORROWINGS

Short-term Debt

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
<u>Unsecured loan</u>		
Bank borrowings	\$ <u> -</u>	\$ <u>100,000</u>
Interest rate	<u> -</u>	<u>1.32%</u>

Long-term Debt

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
<u>Unsecured loan</u>		
Medium-term loan		
Repayable from March 13, 2013 to March 13, 2015; interest rate was 1.42% on December 31, 2013. Interest is paid monthly and principal is due on March 13, 2015. Principal was fully repaid in June 2014.	\$ -	\$ 100,000
Medium-term loan		
Repayable from August 13, 2013 to August 13, 2015; interest rate was 1.42% on December 31, 2013. Interest is paid monthly and principal is due on August 13, 2015. Principal was fully repaid in June 2014.	-	100,000
Medium-term secured loan		
Repayable from December 11, 2013 to December 11, 2015; interest rate was 1.39% on December 31, 2013. Interest is paid monthly and principal is due on December 11, 2015. Principal was fully repaid in June 2014.	-	250,000
<u>Secured loan</u>		
Medium-term secured loan		
Repayable from December 11, 2013 to December 11, 2015; interest rate was 1.39% on December 31, 2013. Interest is paid monthly and principal is due on December 11, 2015. Principal was fully repaid in June 2014.	-	250,000
Medium-term secured loan		
Repayable from August 13, 2013 to November 19, 2015; interest rate was 1.48% on December 31, 2012. Interest is due monthly and principal is repaid monthly from December 19, 2014. Principal was fully repaid in June 2014.	<u>-</u>	<u>100,000</u>
	-	800,000
Less: Long-term loans payable - current portion	<u>-</u>	<u>(8,333)</u>
	<u>\$ -</u>	<u>\$ 791,667</u>

For pledged properties and endorsements/guarantees, please see Notes 25 and 26 to the financial statements.

14. BONDS PAYABLE

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Unsecured domestic convertible bonds	<u>\$ 1,429,189</u>	<u>\$ -</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 9, 2014, the conversion price has been adjusted to \$19.9. 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>

15. OTHER PAYABLES

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Payable for salaries and bonus	\$ 167,195	\$ 148,181
Compensation payable to employees and directors and supervisors	26,612	27,456
Payable for annual leave	13,473	11,775
Materials payable and procurement	1,380,344	1,377,449
Other payable to related parties (Note 25)	202,624	274,984
Others	<u>334,647</u>	<u>426,353</u>
	<u>\$ 2,124,895</u>	<u>\$ 2,266,198</u>

16. PROVISION (RECORDED AS OTHER CURRENT LIABILITIES)

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Warranties	\$ 6,016	\$ 5,943
Export losses	<u>49,052</u>	<u>49,052</u>
	<u>\$ 55,068</u>	<u>\$ 54,995</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under local regulations on sale of goods.

The provision of export loss represents the possible product returns and rebates; the amount was estimated based on historical experience, management's judgments and other known reasons.

17. 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 Company adopted the defined benefit plan under the Labor Standards Law, under which 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.

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investments are conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Regulations for Revenues, Expenditure, Safeguard and Utilization of the Labor Retirement Fund, the return generated by employees' pension contributions should not be below the interest rate for a 2-year time deposit with local banks.

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

	December 31	
	2014	2013
Discount rates	1.875%	1.875%
Expected return on plan assets	2.000%	2.000%
Expected rates of salary increase	3.500%	3.205%

The assessment of the overall expected rate of return was based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation, by reference to the expected use of the plan assets and the impact of the related minimum return.

Amounts recognized in profit or loss in respect of these defined benefit plans were as follows:

	For the Year Ended December 31	
	2014	2013
Current service cost	\$ 855	\$ 1,204
Interest cost	2,062	1,839
Expected return on plan assets	<u>(919)</u>	<u>(894)</u>
	<u>\$ 1,998</u>	<u>\$ 2,149</u>
An analysis by function		
Operating cost	\$ 197	\$ 201
Marketing expenses	385	296
Administration expenses	282	280
Research and development expenses	<u>1,134</u>	<u>1,372</u>
	<u>\$ 1,998</u>	<u>\$ 2,149</u>

Actuarial losses and gains recognized in other comprehensive income for the years ended December 31, 2014 and 2013 was \$9,217 thousand of losses and \$1,201 thousand of gains, respectively. The cumulative amount of actuarial losses and gains recognized in other comprehensive income as of December 31, 2014 and 2013 was \$2,306 thousand of losses and \$6,911 thousand of gains, respectively.

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

	December 31	
	2014	2013
Present value of funded defined benefit obligation	\$ 124,183	\$ 109,995
Fair value of plan assets	<u>(48,145)</u>	<u>(44,809)</u>
Net liability arising from defined benefit obligation	<u>\$ 76,038</u>	<u>\$ 65,186</u>

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2014	2013
Opening defined benefit obligation	\$ 109,995	\$ 113,180
Current service cost	855	1,204
Interest cost	2,062	1,839
Actuarial losses/(gains)	11,271	(1,728)
Benefits paid	<u>-</u>	<u>(4,500)</u>
Closing defined benefit obligation	<u>\$ 124,183</u>	<u>\$ 109,995</u>

Movements in the fair value of the plan assets were as follows:

	For the Year Ended December 31	
	2014	2013
Opening fair value of plan assets	\$ 44,809	\$ 46,388
Expected return on plan assets	919	894
Actuarial gains/(losses)	166	(281)
Contributions from the employer	2,251	2,308
Benefits paid	<u>-</u>	<u>(4,500)</u>
Closing fair value of plan assets	<u>\$ 48,145</u>	<u>\$ 44,809</u>

The actual return on plan assets for the years ended December 31, 2014 and 2013 was \$1,085 thousand and \$613 thousand, respectively.

The major categories and related percentage of the fair value of plan assets at the balance sheet date were as follows:

	December 31	
	2014	2013
Equity instruments	48.46%	43.64%
Debt instruments	11.53%	9.83%
Deposit in financial institutions	18.82%	22.17%
Others	<u>21.19%</u>	<u>24.36%</u>
	<u>100.00%</u>	<u>100.00%</u>

The Group chose to disclose the history of experience adjustments as the amounts determined for each accounting period prospectively from the date of transition to IFRSs (January 1, 2012):

	December 31			January 1
	2014	2013	2012	2012
Present value of defined benefit obligation	<u>\$ 124,183</u>	<u>\$ 109,995</u>	<u>\$ 113,180</u>	<u>\$ 131,560</u>
Fair value of plan assets	<u>\$ 48,145</u>	<u>\$ 44,809</u>	<u>\$ 46,388</u>	<u>\$ 58,290</u>
Deficit	<u>\$ 76,038</u>	<u>\$ 65,186</u>	<u>\$ 66,792</u>	<u>\$ 73,270</u>
Experience adjustments on plan liabilities	<u>\$ (7,662)</u>	<u>\$ 4,068</u>	<u>\$ 7,536</u>	<u>\$ -</u>
Experience adjustments on plan assets	<u>\$ 166</u>	<u>\$ (281)</u>	<u>\$ (656)</u>	<u>\$ -</u>

The Company expects to make a contribution of \$2,094 thousand and \$1,998 thousand to the defined benefit plans during the annual period beginning after 2014 and 2013.

18. EQUITY

Share Capital

	December 31	
	2014	2013
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>277,164</u>
Shares issued	<u>\$ 2,776,884</u>	<u>\$ 2,771,639</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, 2014, the company has not actually issued restricted stock shares.

Capital Surplus

	December 31	
	2014	2013
Issuance of common shares	\$ 226,556	\$ 226,556
Conversion of bonds	667,058	661,582
Treasury share transactions	48,234	48,234
Interest payable of bond conversion	13,243	13,243
Convertible bonds	<u>71,365</u>	<u>-</u>
	<u>\$ 1,026,456</u>	<u>\$ 949,615</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 Pihong's Articles of Incorporation, 10% of Pihong's annual earnings, net of tax and any deficit, should first be appropriated as legal reserve until such reserve equals to the amount of Pihong'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 Pihong 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.

For the years ended December 31, 2014 and 2013, the bonus to employees was \$23,951 thousand and \$24,710 thousand, respectively, and the remuneration to directors and supervisors was \$2,661 thousand and \$2,746 thousand, respectively. The bonus to employees and remuneration to directors and supervisors were expensed based on estimated percentage of net income (net of the bonus and remuneration). 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. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", a company should appropriate to special reserve. Any special reserve appropriate may be reversed to the extent that the net debt balance reverses and thereafter distributed.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital surplus. 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.

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 2013 and 2012 had been approved in stockholders' meetings held on June 19, 2014 and June 14, 2013, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2013	For Year 2012	For Year 2013	For Year 2012
Legal reserve	\$ 15,254	\$ 30,955	\$ -	\$ -
Cash dividends	137,281	277,164	0.5	1.0

The bonus to employees and the remuneration to directors and supervisors for 2013 and 2012 had been approved in the stockholders' meetings held on June 19, 2014 and June 14, 2013, respectively. Related amounts were as follows:

	For the Year Ended 2013		For the Year Ended 2012	
	Cash Dividends	Stock Dividends	Cash Dividends	Stock Dividends
Bonus to employees	\$ 24,710	\$ -	\$ 50,148	\$ -
Remuneration of directors and supervisors	2,746	-	5,572	-

The appropriations of earnings for 2012 were proposed according to the Company's financial statements for the year ended December 31, 2012, which were prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and ROC GAAP, and by reference to the balance sheet as of December 31, 2012, which was prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (revised) and International Financial Reporting Standards.

There was no difference between the amounts accrued and the amounts approved in the stockholders' meetings with respect to bonus to employees and remuneration to directors and supervisors. The appropriations of earnings for 2014 had been proposed by the Company's board of directors on March 13, 2015. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 14,785	\$ -
Cash dividends	133,062	0.479
Bonus to employees	23,951	-
Remuneration of directors and supervisors	2,661	-

The appropriations of earnings, the bonus to employees, and the remuneration to directors and supervisors for 2014 are subject to the resolution in the shareholders' meeting to be held on June 11, 2015.

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.

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

	For the Year Ended December 31	
	2014	2013
Balance at January 1	\$ 73,280	\$ (148,361)
Exchange differences arising on translating foreign operations	<u>272,690</u>	<u>221,641</u>
Balance at December 31	<u>\$ 345,970</u>	<u>\$ 73,280</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

	For the Year Ended December 31	
	2014	2013
Balance at January 1	\$ (26,428)	\$ (15,603)
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	-	(1,875)
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>(10,771)</u>	<u>(8,950)</u>
Balance at December 31	<u>\$ (37,199)</u>	<u>\$ (26,428)</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.

19. NET PROFIT FROM CONTINUING OPERATIONS

- a. Other gains and losses

	For the Year Ended December 31	
	2014	2013
(Loss) gain on disposal of property, plant and equipment	\$ (53)	\$ 422
Exchange gain (loss), net	68,263	(3,717)

(Continued)

	For the Year Ended December 31	
	2014	2013
Gain on disposal of investment	\$ -	\$ 2,347
Impairment loss	(4,600)	-
Others	<u>(5,933)</u>	<u>(374)</u>
	<u>\$ 57,677</u>	<u>\$ (1,322)</u>
		(Concluded)

b. Depreciation and amortization

	For the Year Ended December 31	
	2014	2013
Property, plant and equipment	\$ 52,849	\$ 51,279
Computer software	<u>9,528</u>	<u>11,656</u>
	<u>\$ 62,377</u>	<u>\$ 62,935</u>
An analysis of depreciation by function		
Operating costs	\$ 1,750	\$ 1,709
Operating expenses	<u>51,099</u>	<u>49,570</u>
	<u>\$ 52,849</u>	<u>\$ 51,279</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>9,528</u>	<u>11,656</u>
	<u>\$ 9,528</u>	<u>\$ 11,656</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2014	2013
Post-employment benefits (Note 17)		
Defined contribution plans	\$ 17,969	\$ 16,635
Defined benefit plans	<u>1,998</u>	<u>2,149</u>
	19,967	18,784
Short-term employee benefits	<u>533,904</u>	<u>501,487</u>
	<u>\$ 553,871</u>	<u>\$ 520,271</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 60,024	\$ 49,340
Operating expenses	<u>493,847</u>	<u>470,931</u>
	<u>\$ 553,871</u>	<u>\$ 520,271</u>

The Company had 436 and 389 employees as of December 31, 2014 and 2013, respectively.

20. 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	
	2014	2013
Current tax		
In respect of the current period	\$ 33,052	\$ 41,444
In respect of prior periods	-	4,556
Additional tax at 10% of unappropriated earnings	<u>-</u>	<u>143</u>
	33,052	46,143
Deferred tax		
In respect of the current period	<u>5,700</u>	<u>750</u>
Total income tax expense recognized in the current period	<u>\$ 38,752</u>	<u>\$ 46,893</u>

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

	For the Year Ended December 31	
	2014	2013
Income tax expense at statutory rate	\$ 33,052	\$ 41,444
Income tax on unappropriated earnings	<u>-</u>	<u>143</u>
Current income tax expense	33,052	41,587
Deferred income tax assets (liabilities)		
Temporary difference	5,700	750
Adjustments to prior year's income tax expense	<u>-</u>	<u>4,556</u>
Total income tax expense recognized in the current period	<u>\$ 38,752</u>	<u>\$ 46,893</u>

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

As the status of 2014 appropriations of earnings is uncertain, the potential income tax consequences of 2014 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2014	2013
<u>Deferred tax</u>		
In respect of the current year:		
Actuarial gains and losses on defined benefit plan	\$ <u>1,888</u>	\$ <u>(246)</u>
Total income tax recognized in other comprehensive income	<u>\$ 1,888</u>	<u>\$ (246)</u>

c. Current tax liabilities

	For the Year Ended December 31	
	2014	2013
Current tax liabilities		
Income tax payable	<u>\$ 47,824</u>	<u>\$ 44,508</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, 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>

For the year ended December 31, 2013

	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	10,160	740	-	10,900
Unrealized gross profit	11,100	(2,570)	-	8,530
Deferred pension costs	10,280	(10)	-	10,270
Others	<u>7,809</u>	<u>1,090</u>	<u>(246)</u>	<u>8,653</u>
	<u>\$ 48,419</u>	<u>\$ (750)</u>	<u>\$ (246)</u>	<u>\$ 47,423</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized gain on financial instruments	\$ <u>79,832</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>79,832</u> (Concluded)

e. Information on integrated income tax was as follows:

	<u>For the Year Ended December 31</u>	
	2014	2013
Unappropriated earnings		
Generated before January 1, 1998	\$ -	\$ -
Generated on and after January 1, 1998	<u>839,463</u>	<u>853,368</u>
	<u>\$ 839,463</u>	<u>\$ 853,368</u>
Imputation credit accounts	<u>\$ 205,538</u>	<u>\$ 205,517</u>
	<u>For the Year Ended December 31</u>	
	<u>2014 (Expected)</u>	<u>2013 (Actual)</u>
Creditable ratio for distribution of earning	28.05%	26.92%

f. Income tax assessments

The latest income tax returns through 2012 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

	Income After Tax (Attributed to Owners of the Company)	Number of Common Shares Outstanding (In Thousands)	Earnings Per Share (NT\$)
<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> (Continued)

	Income After Tax (Attributed to Owners of the Company)	Number of Common Shares Outstanding (In Thousands)	Earnings Per Share (NT\$)
<u>For the year ended December 31, 2013</u>			
Basic earnings per share			
Net income	\$ 152,534	277,164	<u>\$ 0.55</u>
Effect of dilutive potential common shares			
Employee share option	-	-	
Employee bonus	<u>-</u>	<u>1,316</u>	
Diluted earnings per share			
Net income attributed to holders of common shares plus the effect of dilutive potential common shares	<u>\$ 152,534</u>	<u>278,480</u>	<u>\$ 0.55</u> (Concluded)

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.

22. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

No share options were guaranteed during the year ended December 31, 2013.

Information on employee share options was as follows:

	<u>For the Year Ended December 31, 2013</u>	
	Number of Options (In Thousand Shares)	Weighted- average Exercisable Price (NT\$)
Balance at January 1	4,515	\$ 18.20
Options exercised	-	
Options expired	<u>(4,515)</u>	
Balance at December 31	<u>-</u>	
Options exercisable, end of period	<u>-</u>	

As of December 31, 2013, all outstanding options were expired.

23. CAPITAL MANAGEMENT

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Company. Key management personnel of the Company review the capital structure periodically. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to stockholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value of financial instruments not carried at fair value

Except for the financial assets carried at cost, of which fair values can not be reliably measured, the management of the Company considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

2) Fair value measurements recognized in the balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b) Level 2 fair value measurements are those derived from 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
- c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable:

3) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices. When such prices are not available, valuation techniques are applied. The estimates and assumptions used by the Company are consistent with those that market participants would use in setting a price for the financial instrument.

b. Categories of financial instruments

	December 31	
	2014	2013
<u>Financial assets</u>		
Loans and receivables		
Cash and cash equivalents	\$ 1,467,220	\$ 953,564
Trade receivables	1,270,558	1,148,515
Trade receivables from related parties	167,368	378,727
Other receivables	51,282	22,455
Other receivables from related parties	253,900	515,802
Refundable deposits (recorded as other non-current assets)	10,364	13,704
<u>Financial liabilities</u>		
Measured at amortized cost		
Short-term debts	-	100,000
Trade payable	15,522	11,899
Trade payable to related parties	324,899	335,450
Other payables	2,124,895	2,266,198
Current portion of long-term debts	-	8,333
Bonds payable	1,429,189	-
Long-term debts	-	791,667

c. 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 28.

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 increase 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	
	2014	2013
Profit or loss	\$ 7,289	\$ 3,974

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	
	2014	2013
Fair value interest rate risk		
Financial liabilities	\$ -	\$ 600,000
Cash flow interest rate risk		
Financial liabilities	-	300,000

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.

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, 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>

December 31, 2013

	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 2,613,547	\$ -	\$ -	\$ 2,613,547
Variable interest rate instrument	8,333	291,667	-	300,000
Fixed interest rate instrument	<u>100,000</u>	<u>500,000</u>	-	<u>600,000</u>
	<u>\$ 2,721,880</u>	<u>\$ 791,667</u>	<u>\$ -</u>	<u>\$ 3,513,547</u>

b) Financing facilities

	<u>December 31</u>	
	2014	2013
Unused bank financing facilities	<u>\$ 2,519,760</u>	<u>\$ 1,089,300</u>

25. 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

(Continued)

<u>Related Party</u>	<u>Relationship with the Company</u>
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
Heng Hui Co., Ltd.	Other related parties

(Concluded)

b. Trading transactions

	For the Year Ended December 31	
	2014	2013

Sales

Subsidiaries	<u>\$ 3,896,489</u>	<u>\$ 3,937,704</u>
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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.

	For the Year Ended December 31	
	2014	2013

Purchase of goods

Subsidiaries	<u>\$ 10,683,958</u>	<u>\$ 10,049,289</u>
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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	
	2014	2013

Accounts receivables from related parties

Subsidiaries	<u>\$ 167,368</u>	<u>\$ 378,727</u>
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Accounts payable to related parties

Subsidiaries	\$ 323,048	\$ 334,713
Other related parties	<u>1,851</u>	<u>737</u>
	<u>\$ 324,899</u>	<u>\$ 335,450</u>

	December 31	
	2014	2013
<u>Other receivables from related parties</u>		
Subsidiaries	\$ 253,900	\$ 515,802

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

	December 31	
	2014	2013
<u>Other payables</u>		
Subsidiaries	\$ 107,362	\$ 169,769
Other related parties	<u>95,262</u>	<u>105,215</u>
	<u>\$ 202,624</u>	<u>\$ 274,984</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	
	2014	2013
Short-term benefits	\$ 59,014	\$ 52,767
Post-employment benefits	<u>514</u>	<u>323</u>
	<u>\$ 59,528</u>	<u>\$ 53,090</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, 2013. The amounts of the guarantees was \$900,000 thousand.

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	December 31	
	2014	2013
Freehold land	\$ 197,586	\$ 112,450
Buildings	<u>141,991</u>	<u>149,409</u>
	<u>\$ 339,577</u>	<u>\$ 261,859</u>

27. CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2014, the Company had guaranteed US\$5,000 thousand loan of Pihong USA Corp.

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

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31					
	2014			2013		
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)
<u>Financial assets</u>						
Monetary items						
USD	\$ 113,101	31.7100	\$ 3,586,433	\$ 122,181	29.9000	\$ 3,653,212
JPY	183,866	0.2639	48,522	405,948	0.2836	115,127
HKD	2,764	4.0874	11,297	3,190	3.8557	12,300
RMB	1,275	5.1793	6,601	-	-	-
Investments accounted for by the equity method						
USD	174,782	31.7100	5,542,336	174,745	29.9000	5,224,891
JPY	307,198	0.2639	81,069	277,193	0.2836	78,612
<u>Financial liabilities</u>						
Monetary items						
USD	90,116	31.7100	2,857,581	108,889	29.9000	3,255,781
JPY	7,419	0.2639	1,958	4,179	0.2836	1,185
HKD	5,395	4.0874	22,050	4,808	3.8557	18,538

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

29. SEGMENT INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements for the year ended December 31, 2014.