

PEGATRON
和 碩 聯 合 科 技

TWSE 4938

2014 ANNUAL REPORT

Taiwan Stock Exchange Market Observation Post System
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Luxemburg Stock Exchange: <http://www.bourse.lu>

Singapore Stock Exchange: <http://www.sgx.com>

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<http://www.pegatroncorp.com>

This English version of the Pegatron Annual Report is a concise translation of the Mandarin version. This document is created for the sole purpose of the convenience for its non-Mandarin readers and is not an official document to represent the financial status of the Company per Taiwan laws.

Pegatron Corporation does not assure the accuracy of this translated document. Readers wishing to view the official audited version of Pegatron's financial reports can obtain a copy of the Pegatron Annual Report (Mandarin version) on the Pegatron Corporation website (www.pegatroncorp.com).

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1. Letter to Shareholders

Dear Shareholders,

Looking back at 2014, though economic slowdown in China partially fuelled uncertainty over global economy, recovery of U.S. economic and stronger U.S. dollar trend were in favor of the export of electronic products. In 2014, electronics industry continued undergoing vigorous changes in the environment where portable and mobile devices continued dominating the market, whilst traditional PC, after a few years of declining, had gradually stabilized. Being in a dynamic business environment, Pegatron remains at the forefront of the industry by carefully implementing diversification strategy and early deployment in portable and mobile devices. In 2014, the consolidated revenue of Pegatron exceeded one trillion New Taiwan dollars and reached historical high since listing on Taiwan Stock Exchange in 2010.

Financial Performance

The consolidated revenue of 2014 reached NT\$1,019.7 billion, grew by 7.4% from NT\$949.8 billion in 2013 with gross margin of 5.8%. Profit attributable to owners of the parent increased to NT\$14.7 billion, grew by NT\$5.1 billion from NT\$9.6 billion in the previous year. Consequently earning per share reached NT\$6.24 in 2014. Growth in revenue and profitability was mainly driven by better scale of economy and continuous improvement in product mix and operating efficiency. In 2014, revenue contributed by Communication segment outgrew that of Computing and Consumer Electronics segments, while revenue from the latter two segments declined slightly due to unfavorable industry trend.

Technical Capability and Operating Highlights

Pegatron is renowned for its solid foundation of research and development in its core technologies such as computing, communication, video, optics, etc. With the Company's worldwide manufacturing and service sites, we are able to offer our core competence and innovative service to customers at various locations and create more value-add to our customers. Apart from cultivating existing product lines, Pegatron is also actively searching for opportunities to expand into new areas. In 2014, Pegatron successfully entered the supply chain of wearable device and automotive industry where both segments are likely to be one of the growth drivers in the years to come. As manufacturing scale enlarges, Pegatron will maximize its lean strategy on efficiency improvement, quality control and business management, while investment in automation will continue in order to reduce its reliance on labors.

Awards and Social Responsibility

Corporate sustainability and continuous improvement have always been the Company's long term commitment to the community. Pegatron aims to become a top tier enterprise and fulfill its duty as a socially responsible corporation. Being a member of the corporate citizens, we highly value every unique quality of our employee and we take every step to ensure that their voices are heard and issues are addressed via diverse communication channels. We also encourage employees to realize ones fullest potential, strive for excellence and pursuit a sense of achievement at work place. In addition to treating our employees properly and fairly, we also cooperate with our customers and suppliers to integrate the essence of corporate social responsibility into the supply chain by avoiding use of conflict minerals, complying with business ethics and respecting labor rights. Pegatron actively participates in the sustainability of our environment by incorporating innovation and eco-friendly concept into product design and making every effort to reduce potential impact to the environment during production, dispatch and use. The Company releases Corporate Social Responsibility ("CSR") report every year to update the progress and development made in economic, environmental and social aspects. Our 2014 CSR report will also be audited by the professional third party. CSR report demonstrates the Company's determination and dedication in pursuing sustainable environment and responsible social development. The report also serves as a communication platform to allow stakeholders understanding the implementation of various projects associated with society, environment and occupational health & safety, as well as the goals the Company pursues.

Outlook

Looking forward to 2015, Pegatron will persist with the business strategy to pursue sustainable growth, carry on resource integration and achieve manufacturing excellency and operation efficiency based on the foundation of existing customers cross Computing, Consumer Electronics and Communication segments. For Computing and Consumer Electronic segments of which the growth momentum has slowed down, we will continue fostering relationship with existing customers as well as reaching out to new customers. For newly developed areas such as wearable, Internet of Things, automotive electronics, etc, we will enhance our technical capability and grow along the industry trend. For other product lines where fruitful result are yet to be seen, we will align and deploy resources based on the industry trend and consumer preference in order to maximize the benefit of synergy between core business and strategic investment. For people development, we will continue providing opportunities to our employees to enhance their skillset and inspire them to excel alongside the Company. Looking ahead in 2015, while we are accumulating strength for next growth momentum, we are also working hard to surpass the performance of the previous year and create higher value to our shareholders.

On behalf of all employees of Pegatron, we would like to express our appreciation for continuous support from our shareholders. With your unwavering trust and confidence in Pegatron, we will strive for better performance and share the fruitful result with all our shareholders, customers and employees.

Chairman T.H. Tung



President and CEO Jason Cheng



2.1 Company Profile

Date of Incorporation: June 2^{7th}, 2007

2.2 Company Milestones

June 2007	<ul style="list-style-type: none">● Pegatron Corporation (“the Company”) was incorporated with a paid-in capital of NT\$1 million.
Nov 2007	<ul style="list-style-type: none">● Increased paid-in capital to NT\$50 million by capital injection
Jan 2008	<ul style="list-style-type: none">● Increased paid-in capital to NT\$16,050 million by issuing 1,600,000,000 shares to inherit the DMS (design and manufacturing services) unit from Asustek Computer Inc (“Asustek”).
Apr 2008	<ul style="list-style-type: none">● Merged 100% owned subsidiary, Asusalpha Computer Inc., in order to streamline corporate resources.
Jun 2008	<ul style="list-style-type: none">● Became the member of EICC (Electronic Industry Code of Conduct)● Increased paid-in capital to NT\$18,846 million by issuing 279,628,141 shares in exchange for 100% ownership of Unihan Corporation with Asustek. After the share exchange, Unihan became the Company’s wholly owned subsidiary.
Dec 2008	<ul style="list-style-type: none">● The Company was awarded the Red Dot Award for its Just Draw It Power Management Device.● The Company was awarded the world’s first Energy using Product (EuP) certificate by DNV (DET NORSKE VERITAS).
Feb 2009	<ul style="list-style-type: none">● Acquired Top Quark Limited for US\$6.04 million in order to provide more comprehensive services of communication products to customers.
Mar 2009	<ul style="list-style-type: none">● The Company was awarded the iF Material Award in Germany for the application of bamboo and acetate fiber on computing products.
Apr 2009	<ul style="list-style-type: none">● Completed the world’s first Product Category Rule for Notebook PC products, which can be served as the key reference for Environmental Product Declaration (EPD) as officially announced on the website of Global TYPE III Environmental Product Declaration Network (GEDnet).
Jul 2009	<ul style="list-style-type: none">● Acquired 100% shareholding of Powtek (Shanghai) Co., Ltd so as to conduct business in mainland China and expand the market share in China.
Oct 2009	<ul style="list-style-type: none">● Assisted key customers received the world’s first TYPE III Environmental Product Declaration for N51V series Notebook PC awarded by Environment and Development Foundation (EDF).● Assisted key customers received the world first Carbon Footprint Certificate for N51V series Notebook PC awarded by DNV (DET NORSKE VERITAS).● The Company was awarded the iF Design Award in China for Mini PC (Cape 7), Digital Photo Frame (Orbit), and light bulbs products.
Nov 2009	<ul style="list-style-type: none">● Increased NT\$4,014 million through capitalization of profits and the paid-in capital amounted to NT\$22,861 million.
Dec 2009	<ul style="list-style-type: none">● In order to streamline organization structure and reduce management cost, a key subsidiary, Protek (Shanghai) Limited, merged with another key subsidiary, North Tec Asia (Shanghai) Limited, and the former one is the surviving company.● In order to expand business, a key subsidiary, Maintek Computer (Suzhou) Co., Ltd, increased capital of US\$34 million.● Assisted customers achieving key environmental certifications such as EPEAT, EU Flower and Taiwan Green Market. For more than 55 products.

Jan 2010	<ul style="list-style-type: none"> The Company's Board of Directors, acting on behalf of the Company's AGM pursuant to the Company Law, approved the merger with Pegatron International. Upon the completion of the merger, the Company is the surviving company.
Mar 2010	<ul style="list-style-type: none"> The Company's application for being a public company was approved. The Company was awarded the German 2010 iF Material Award for the alloy of PLA and Recycled PC.
May 2010	<ul style="list-style-type: none"> The Company was awarded the German 2010 iF Communication Design Gold Award, 2010 iF Communication Design Award and 2010 red dot Communication Design Award for the tea packaging design, Dao Cha, and Cubicphile the promotion material.
Jun 2010	<ul style="list-style-type: none"> Approved the merger with Pegatron International by issuing 2,286,064 thousands shares after cancelling 2,286,054 thousands shares previously issued by Pegatron International. The paid-in capital amounted to NT\$22,861 million. The Company was officially listed on the Taiwan Stock Exchange.
Aug 2010	<ul style="list-style-type: none"> The Company issued GDRs on Luxemburg Stock Exchange
Sep 2010	<ul style="list-style-type: none"> DNV (DET NORSKE VERITA) awarded the Company with A+ certification for the 2009 CSR Report based on Global Reporting Initiative G3 format.
Nov 2010	<ul style="list-style-type: none"> The Company's Board of Directors approved the cancellation of 29,697,000 shares of treasury stock. Subsequently, the paid-in capital reduced to NT\$22,563,669 thousand dollars. Assisted key customers received the world first PAS 2050 and ISO 14067-1 Carbon Footprint Certificate awarded by DNV (DET NORSKE VERITA). The Company was awarded the German 2010 iF Product Design Award and the iF Product Design China for the Italia (frame-based notebook PC), the California (special production process notebook PC), Lucid (tablet PC), and the Joyoung Soymilk Maker.
Feb 2011	<ul style="list-style-type: none"> The Company was awarded the German 2011 iF Material Award, iF Packaging Design Award and iF Communication Design Award for the Paper PP Alloy, Tea Giving and Bloom, respectively.
Jul 2011	<ul style="list-style-type: none"> The Company was awarded the German Red Dot Award for Crease Light (Product Packaging Design).
Oct 2011	<ul style="list-style-type: none"> The Company was awarded the German iF Communication Design Award for Present Perfect (Exhibition Visual Communication Design).
Nov 2011	<ul style="list-style-type: none"> The Company was awarded for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey organized by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine.
Feb 2012	<ul style="list-style-type: none"> The Company issued the Euro Convertible Bonds of US\$300 million on Singapore Stock Exchange.
Mar 2012	<ul style="list-style-type: none"> The Company was awarded German Red Dot Product Design Award for New Age Ultrabook and Crease Light (Product Packaging Design).
Oct 2012	<ul style="list-style-type: none"> The Company, being the first of its peers in the DMS (design, manufacturing & service) industry, was awarded the 2011 National Sustainable Development Award by National Council for Sustainable Development, Executive Yuan.
Dec 2012	<ul style="list-style-type: none"> The Company was awarded German iF Communication Award for the exhibition display of "From Smart to Savvy" shown in 2012 Taipei Computex.
Jan 2013	<ul style="list-style-type: none"> Issuance of 33,938,000 restricted employees shares and paid-in capital increased to NT\$22,903 million.

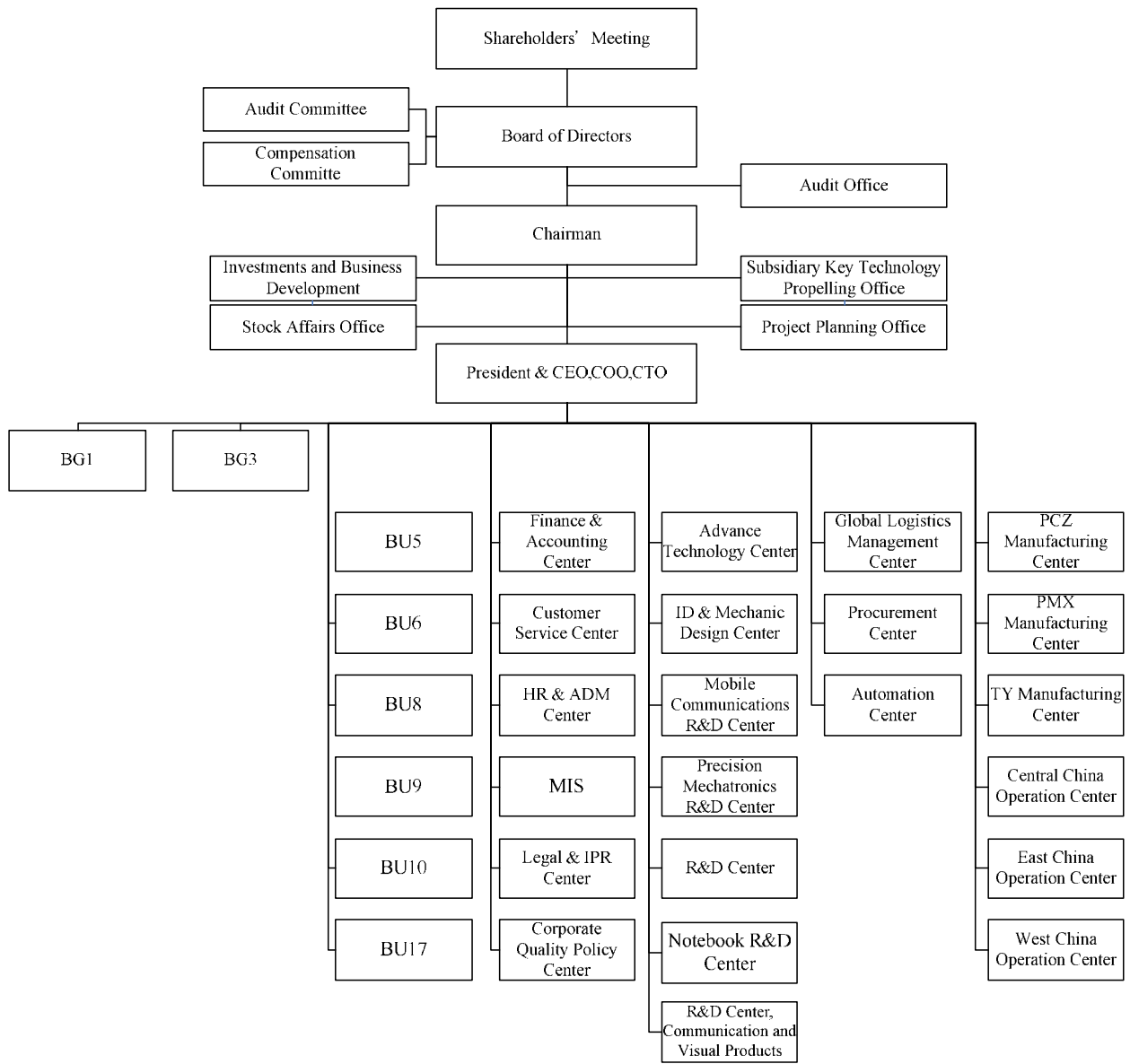
Jan 2013	<ul style="list-style-type: none"> • The Company's subsidiary "Casetek Holdings Limited" listed on Taiwan Stock Exchange.
Dec 2013	<ul style="list-style-type: none"> • The Company was awarded the 2013 Industrial Sustainable Excellence Award – Enterprise Class by Industrial Development Bureau, Ministry of Economic Affairs.
Dec 2013	<ul style="list-style-type: none"> • Merged 100% owned subsidiary, Unihan Corporation, in order to consolidate corporate resources, reduce operation cost and enhance operation efficiency.
Feb 2015	<ul style="list-style-type: none"> • The Company's Euro Convertible Bonds of US\$300 million were fully converted to 232,406,616 shares.

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 02/28/2015



Department Functions

Department	Main Responsibilities
Board of Directors	Establishing corporate business guiding principles and goals
Audit Office	Auditing and evaluating the compliance of internal policies, procedures and operations based on governing regulations
President and CEO	Board resolutions execution and general corporate affairs
COO	Managing and coordinating manufacturing and resource planning
CTO	Managing research & development resource and technology planning & integration
Investments & Business Development	Long term corporate investment planning and industry analysis
Stock Affairs Office	Coordinating board meetings, shareholders' meetings and stock affairs
Project Planning Office	Assisting project planning and execution
Subsidiary Key Technology Propelling Office	Assisting subsidiaries developing key technology, and setting up internal policies, procedures and resource
Central China Operation Center	Central China operation planning and management
East China Operation Center	East China operation planning and management
West China Operation Center	West China operation planning and management
TY Manufacturing Center	Planning and management of manufacturing, QA, and engineering
PCZ Manufacturing Center	Operation planning and management in Europe
PMX Manufacturing Center	Operation planning and management in America
Procurement Center	Management of raw material and facility procurement, cost plan, procurement system plan for resource coordination
Corporate Quality Policy Center	Quality control and management in accordance to internal policies and customer requests
Global Logistics Management Center	Global logistics planning and management
Automation Center	Improving and implementing of automation system, automation equipment for manufacture
Customer Service Center	Global customer service operation and providing the most comprehensive and prompt support to local customers via support network
R&D Center	Conducting simulations and developing technology shared among each business unit

Department	Main Responsibilities
ID & Mechanic Design Center	Developing mechanical and industrial design and providing support to each business unit for technology needed for each project
Advance Technology Center	Focusing on development of advanced technologies and providing support to business units for relevant technology development
Notebook R&D Center	Developing technologies for NB products and providing support to business units for relevant technology development
Mobile Communications R&D Center	Developing technologies for handheld devices and providing support to business units for relevant technology development
R&D Center, Communication and Visual Products	Developing technologies for communication and visual products and providing support to business units for relevant technology development
Precision Mechatronics R&D Center	Developing technology for precision mechatronics, automation, optics and acoustics and providing support to business units for relevant technology development
HR & ADM Center	Corporate human resource administration, construction and maintenance, labor safety and health planning and execution
Finance & Accounting Center	Corporate finance, accounting and tax planning and execution
Legal & IPR Center	Corporate legal affairs, legal counseling, litigation, patents, licensing and other intellectual property management
MIS	Internal & external network system planning, integration and design
Business Group 1	Design, manufacturing and services of Notebook PCs
Business Group 3	Design, manufacturing and services of handheld devices and multimedia players
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 6	Design, manufacturing and services of communication and visual products
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 9	Design, manufacturing and services of metal casings and mold for products
Business Unit 10	Design, manufacturing and services of industrial PCs
Business Unit 17	Design, manufacturing and services of server products

3.2 Board of Directors and Management Team Background Information

3.2.1 Introduction of Board of Directors

Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Chairman T.H. Tung	R.O.C	05/18/2010	3	06/19/2013	91,717,309	4.00	92,217,309	3.89	6,074,490	0.26	-	-	<p>Master degree in Computer and Communication Engineering, National Taipei University of Technology</p> <p>Honorary PH.D in Engineering, National Taipei University of Technology</p> <p>Deputy General Manager of Asustek Computer Inc ("Asus")</p>	<p>Chairman of Pegatron Corp.</p> <p>Chairman of Kinsus Interconnect Technology Corp.</p> <p>Director of Asrock Incorporation</p> <p>Director of Ability Enterprise Co., Ltd.</p> <p>Chairman of Lumens Digital Optics Inc.</p> <p>Chairman of Asus Investment Co., Ltd.</p> <p>Chairman of Asustek Investment Co., Ltd.</p> <p>Chairman of Pegavision Corp.</p> <p>Director of Casetek Holdings Ltd.</p> <p>Director of AMA Holdings Ltd.</p> <p>Director of Asuspover Investment Co., Ltd.</p> <p>Director of Magnificent Brightness Ltd.</p> <p>Chairman of Casetek Holdings Limited (Cayman)</p> <p>Director of Protek Global Holdings Ltd.</p> <p>Director of The Esite Corporation</p> <p>Director of EZHi Technologies, Inc.</p> <p>Director of AzureWave Technologies, Inc.</p> <p>Director of Esilite Spectrum Corp.</p> <p>Director of The Alliance Cultural Foundation</p> <p>Director of Taiwan Public Television Service</p> <p>Chairman of Taipei Computer Association</p> <p>Chairman of Ri-Kuan Metal Corporation</p> <p>Director of Grand Upright Technology Limited</p> <p>Director of National Performing Arts Center</p> <p>Director of Chinese Television System Inc.</p> <p>Director of Koo Foundation Sun Yat-Sen Cancer Center</p>
Director Ted Hsu	R.O.C	05/18/2010	3	06/19/2013	56,153,713	2.45	56,353,713	2.38	13,146,829	0.56	-	-	<p>EMBA, National Chiao Tung University</p> <p>Deputy General Manager of Asus</p>	<p>Deputy Chairman of Pegatron Corp.</p> <p>Chairman of Asrock Incorporation.</p> <p>Chairman of Asuspover Investment Co., Ltd.</p> <p>Chairman of AzureWave Technologies, Inc.</p> <p>Chairman of eBizprise Inc.</p> <p>Director of Asuspover Corp.</p> <p>Chairman of Asiarock Technology Ltd.</p> <p>Director of Advantech Co. Ltd</p> <p>Director of ASMedia Technology Inc.</p>

Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Director Jason Cheng	R.O.C	05/18/2010	3	06/19/2013	2,054,773	0.09	2,754,773	0.12	54,250	0.00	-	-	Master degree in Electrical Engineering, University of Southern California Deputy General Manager of Asus	Director and CEO of Pegatron Corp. Director of Alcor Micro Corp. Director of Asus Investment Ltd. Director of Asustek Investment Ltd. Director of AzureWave Technologies, Inc. Director of Pegatron Czech s.r.o. Chairman of Pegatron USA Director of Pegatron Logistic Service Inc.
Director K.C. Liu	R.O.C.	05/18/2010	3	06/19/2013	161,490	0.01	161,490	0.01	-	-	-	-	Bachelor degree in Communication Engineering, National Chiao Tung University Founder of Advantech Corp	Chairman of Advantech Co. Ltd Chairman of Advantech foundation Chairman of Yan Hua Xing Ye Electronic(SHHQ) Chairman of Advantech Investment Fund - A Co., Ltd. (Advantech Fund - A) Chairman of Advansus Corporation Chairman of Advantech Technology (China) Company Ltd. (AKMC) Chairman of Shanghai Advantech Intelligent Services Co., Ltd. (AINS) Chairman of Xi'an Advantech Software Ltd. (AXA) Chairman of Advantech Intelligent Service (AiST) Chairman of ACA Digital Corporation Chairman of Advantech Japan Co.Ltd.(AJP) Director of AIDC Investment Corp. Chairman of K and M Investment Co., Ltd. Director of Advantech Europe B.V.(AEU) Director of Advantech Technology Co., Ltd.(ATC) Director of HK Advantech Technology Co., Ltd((HK) ATC) Director of Advantech Automation Corp.(BVI)(AAC(BVI)) Managing Director of Spring Foundation of NCTU

Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Director C.I. Chia	R.O.C	05/18/2010	3	06/19/2013	20,186	0.00	90,186	0.00	-	-	-	-	BBA, National Taiwan University MBA, University of Wisconsin-Madison Vice President, Citibank, N.A. Taipei Branch President, Individual Financial Services Group, Bank SinoPac	Director of Yangtze Associates Independent Director of Ardentec Corporation
Director C.V. Chen	R.O.C	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	LL.B., National Taiwan University LL.M., University of British Columbia LL.M., Harvard Law School S.J.D., Harvard Law School Vice Chairman & Secretary-general and Director of Straits Exchange Foundation (SEF) President of The Red Cross Society of The Republic of China	Chairman and Managing Partner of Lee and Li Attorneys-At-Law Adjunct Professor of Law at National Chengchi University Adjunct Professor of Law at Soochow University Director of Asia Cement Corporation Director of Novartis Taiwan
Independent Director C.B. Chang	R.O.C	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	B.S., Statistics, National Chengchi University Deputy General Manager of China Development Industrial Bank Manager of Far Eastern Textile Ltd.,	Honorary Chairman of Polytronic Technology Corp. Independent Director and Managing Director of Far Eastern International Bank Independent Director of Raydium Semiconductor Corp. Independent Director of Sciencetech Corp. Supervisor of Dynapack International Technology Corp.

Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Independent Director C. Lin	R.O.C	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	<p>Master degree in Department of Public Finance, National Chengchi University Ph.D. Economics, University of Illinois Director General, Bureau of Finance, Taipei City Government Minister, Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Minister of Finance of the R.O.C. Chairman of Vanguard International Semiconductor Corporation</p> <p>Adjunct Professor of Economics at National Taiwan University Director of AIG Taiwan Insurance Co., Ltd. Director of TTY Biopharm Independent Director of Casetek Holdings Limited (Cayman). Independent Director of Inotera Memories, Inc. Director of PharmaEngine, Inc.</p>	
Independent Director C.S. Yen	R.O.C.	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	<p>Group President of Landis Hotels and Resorts Director of NSFG Foundation Director of C. C. Social Welfare Foundation Director of Dwen An Social Welfare Foundation Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Andrew T. Huang Medical Education Promotion Foundation Director of Lung Yingtai Cultural Foundation Director of Long Yen Foundation Director of T.T.Chao Cultural & Educational Foundation, Independent Director of Shinkong Insurance Co., Ltd. Director of Wistro Foundation Chairman of The Alliance Cultural Foundation Director of eslite Foundation for culture and Arts Director of Kang Wen Culture & Education Foundation Director of USI Education Foundation Chairman of Junyi School for Innovative Learning</p> <p>Provincial Keelung Senior High School Country Manager of American Express Inc. Taiwan General Manager of the Grand Hotel Chairman of Taiwan Visitors Association Pacific Asia Travel Association (PATA) Young Presidents' Organization (YPO) Asia Conference. Chairman for Asia Pacific region of The Leading Hotels of The World</p>	

Note: Current shareholding included the restricted employee shares granted in 2012 and 2013, which are under the custody of the Trust.

3.2.2 Professional Qualifications and Independence Analysis of the Board Directors

As of 02/28/2015

Criteria	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience						Independence Criteria(Note)						Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director	
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9		10
Name														
T.H. Tung	-	-	V											0
Ted Hsu	-	-	V											0
Jason Cheng	-	-	V											0
K.C. Liu	-	-	V											0
C.I. Chia	-	-	V											1
C.V. Chen	V	V	V											0
C.B. Chang	-	-	V											3
C. Lin	V	-	V											2
C.S. Yen	-	-	V											1

Note 1: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

- Not an employee of the Company or any of its affiliates.
- Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- Not been a person of any conditions defined in Article 30 of the Company Law.
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.3 Introduction of the Management Team

As of 02/28/2015

Title / Name	Nationality	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
			Shares	%	Shares	%	Shares	%		
Group CEO T.H. Tung	R.O.C.	01/01/2008	92,217,309	3.89	6,074,490	0.26	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary Ph.D in Engineering, National Taipei University of Technology Deputy General Manager of Asus	Refer to Introduction of Board of Directors
Deputy Group CEO Ted Hsu	R.O.C.	01/01/2008	56,353,713	2.38	13,146,829	0.56	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asus	Refer to Introduction of Board of Directors
President and CEO Jason Cheng	R.O.C.	01/01/2008	2,754,773	0.12	54,250	0.00	-	-	Master degree in Electrical Engineering, University of Southern California Deputy General Manager of Asus	Refer to Introduction of Board of Directors
Senior Vice President and Chief Technical Officer Hsu-Tien Tung	R.O.C.	08/01/2008	144,000	0.01	-	-	-	-	Bachelor degree in Electrical Engineering National Taiwan University Associate Vice President of Asus	Director of Ability Enterprise Co., Ltd. Chairman of Top Quark Ltd. Director of Digitek (Chongqing) Ltd.
Senior Vice President and Chief Operating Officer Syh-Jang Liao	R.O.C.	11/02/2012	791,856	0.03	6,093	0.00	-	-	Bachelor degree in Industrial and Business Management, Tatung Institute of Technology Senior Vice President of Unihan Corp.	Vice Chairman of Ability Enterprise Co., Ltd. President of Pegatron Japan Inc. Director of AMA Precision Inc.
Vice President Yeau-Jen Shue	R.O.C.	08/01/2008	403,432	0.02	4,175	0.00	-	-	Ph.D. Electrical Engineering University of Florida Associate Vice President of Asus	None

Title / Name	Nationality	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
			Shares	%	Shares	%	Shares	%		
Vice President Te-Tzu Yao	R.O.C.	08/01/2008	398,109	0.02	1,000	0.00	-	-	M.S. Psychology, National Taiwan University MBA in International Management, Thunderbird, The American Graduate School of International Management Chief Staff, CEO Office, Asus Vice President of Material Management, Wistron Corp General Auditor, Chief Logistic Officer, AVP of Global Operation, Acer Inc College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asus None	None
Vice President Kuo-Yen Teng	R.O.C.	08/01/2008	347,309	0.01	-	-	-	-	College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asus None	None
Vice President Tsong-Jen Ku Lai	R.O.C.	08/01/2008	548,278	0.02	6,991	0.00	-	-	Bachelor degree in Industrial Engineering Tunghai University Associate Vice President of Asus None	None
Vice President En-Bair Chang	R.O.C.	02/01/2008	387,213	0.02	-	-	-	-	Master degree in Industrial Design Pratt Institute Associate Vice President of Asus Director of Kaedar Trading Ltd. Director of Kaedar Holdings Ltd. Chairman of Slitek Holdings Ltd. Chairman of AMA Precision Inc. Supervisor of Ability Enterprise Co. Ltd. Director of Ri-Kuan Metal Corporation. Director of Casetek Holdings Limited (Cayman) Director of Ri Teng Computer Accessory (Shanghai) Co., Ltd. Director of Ri-Gui Precision Model(Shanghai)Co., Ltd. Director of Ri Ming Computer Accessory (Shanghai) Co., Ltd. Director of Sheng Rui Electronic Technology (Shanghai) Co., Ltd. None	None
Vice President Shih-Chi Hsu	R.O.C.	08/01/2008	99,621	-	-	-	-	-	Bachelor degree in Mechanical Engineering National Taiwan Institute of Technology Associate Vice President of Asus None	None
Vice President Ming-Tung Hsu	R.O.C.	08/01/2008	292,624	0.01	8,219	0.00	-	-	College degree in Industrial Engineering National Taipei Institute of Technology Associate Vice President of Asus None	None

Title / Name	Nationality	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
			Shares	%	Shares	%	Shares	%		
Vice President Kuang-Chih Cheng	R.O.C.	08/01/2008	140,946	0.01	5,324	0.00	-	-	Master degree in Computer Science and Information Engineering Tamkang University Associate Vice President of Asus	None
Vice President Tian-Bao Chang	R.O.C.	08/01/2008	493,101	0.02	-	-	-	-	College degree in Transportation Management Chungyu Institute of Technology Senior Manager of Asus	Director of Protek (Shanghai) Ltd. Director of Powtek (Shanghai) Co., Ltd. Director of Runtop (Shanghai) Co., Ltd. Director of Core-Tek (Shanghai) Ltd. Supervisor of Pegavisision Corp.
Vice President Chih-Hsiung Chen	R.O.C.	07/01/2010	625,609	0.03	-	-	-	-	Master in Electrical Engineering Tufts University Vice President of Asus	None
Vice President Pei-Chin Wang	R.O.C.	10/03/2011	337,949	0.01	-	-	-	-	Master degree in Electrical Engineering, National Taiwan University Vice President of Asus	None
Chief Financial Officer Chiu-Tan Lin	R.O.C.	02/01/2008	144,000	0.01	-	-	-	-	Master degree in Business Administration Tunghai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of Digttek (Chongqing) Ltd. Supervisor of Speedtech Corp. Ltd
Vice President Hsi-Wen Lee	R.O.C.	08/01/2012	128,390	0.01	-	-	-	-	Master degree in Mechanical Engineering, National Taiwan University Senior Manager of Asus	None
Vice President Chung Yu Huang	R.O.C.	11/02/2012	245,630	0.01	-	-	-	-	Ph. D. Electrical Engineering, University of Southern California Associate Vice President of Asus	None
Vice President Chen-Yu Feng	R.O.C.	08/01/2014	327,795	0.01	30,000	0.00	-	-	Master degree in Computer Science, National Chiao Tung University Associate Vice President of Unihan Corp. Senior Director of Asus	None
Vice President Shaing-Shaing Wu	R.O.C.	07/01/2014	-	-	-	-	-	-	Master degree in Business Administration, University of St. Thomas Vice Chairman of OFCO Industrial Corp.	Director of Kinsus Interconnect Technology Corp. Director of Kinsus Investment Co., Ltd. Director of OFCO Industrial Corp. Director of PIHSIANG Machinery MFG. Co., Ltd.

Note: Current shareholding included the restricted employee shares granted in 2012 and 2013, which are under the custody of the Trust.

3.2.4 Remuneration of Directors, the President, and Vice President

3.2.4.1 Remuneration of Directors

Unit: NT\$ thousands; Shares

Title/ Name	Remuneration						Relevant remuneration received by directors who are also employees						Ratio of total compensation (A+B+C+D+E+F+G) to net income(%)		Compensation paid to directors from an invested company other than the company's subsidiary											
	Base Compensation(A)		Severance Pay(B)		Bonus to Directors(C) (Note)		Allowances(D)		Ratio of total remuneration (A+B+C+D) to net income (%)		Salary, Bonuses, and Allowances (E)		Severance Pay (F)			Profit Sharing- Employee Bonus (G)		Exercisable Employee Stock Options (H)		Number of Restricted Employee Shares(I)						
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report		Cash	Stock	The company	Stock	The company	Companies in the financial report	The company	Companies in the financial report			
Chairman T.H. Tung																										
Director Ted Hsu																										
Director Jason Cheng																										
Director K.C. Liu																										
Director C.I. Chia																										
Director C.V. Chen	0	1,000	0	0	110,690	116,606	0	261	0.76%	30,818	30,818	0	0	9,360	0	9,360	0	0	1,400,000	1,400,000					0	
Independent Director C.B. Chang																										
Independent Director C. Lin																										
Independent Director C.S. Yen																										

Note : Number of restricted employees shares included the shares granted in 2012 and 2013, which are under the custody of the Trust.

Bracket	Name of Directors					
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)		Companies in the financial report	The company
	The company	Companies in the financial report	The company	Companies in the financial report		
Below NT\$ 2,000,000	-	-	-	-	-	-
NT\$2,000,000(Included) ~ NT\$5,000,000(Excluded)	-	-	-	-	-	-
NT\$5,000,000 (Included) ~ NT\$10,000,000(Excluded)	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	C.B. Chang C. Lin C.S. Yen Ted Hsu Jason Cheng	C.B. Chang C. Lin C.S. Yen Jason Cheng	C.B. Chang C. Lin C.S. Yen Jason Cheng	C.B. Chang C. Lin C.S. Yen	C.B. Chang C. Lin C.S. Yen	
NT\$15,000,000 (Included)~ NT\$30,000,000(Excluded)	T.H. Tung	T.H. Tung Ted Hsu	T.H. Tung Ted Hsu	Ted Hsu	Ted Hsu	
NT\$30,000,000 (Included)~ NT\$50,000,000(Excluded)	-	-	-	T.H. Tung Jason Cheng	T.H. Tung Jason Cheng	
NT\$50,000,000(Included) ~ NT\$100,000,000(Excluded)	-	-	-	-	-	
Over NT\$100,000,000	-	-	-	-	-	
Total	9	9	9	9	9	9

3.2.4.2 Remuneration of the President and Vice President

Unit: NT\$ thousands; Shares

Title/Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)			Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Number of Restricted Employee Shares (Note 2)		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	Cash	Stock	The company	Companies in the financial report	The company	Companies in the financial report		
Group CEO T.H. Tung																
Deputy Group CEO Ted Hsu																
President and CEO Jason Cheng																
Senior Vice President and Chief Technical Officer Hsu-Tien Tung																
Senior Vice President and Chief Operating Officer Syh-Jang Liao	71,198	76,812	0	0	36,834	36,922	54,854	0	54,854	0	1.11%	0	0	5,610,000	5,610,000	240
Vice President Yean-Jen Shue																
Vice President Te-Tzu Yao																
Vice President Tsung-Jen Ku Lai																
Vice President Kuo-Yen Teng																
Vice President Er-Bair Chang																
Vice President Shih-Chi Hsu																

Title/Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Number of Restricted Employee Shares (Note 2)		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Cash	Stock	The company	Cash	Stock	The company	Companies in the financial report	The company	Companies in the financial report	
Vice President Kuang-Chi Cheng	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Tian-Bao Chang	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Ming-Tung Hsu	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Chih-Hsiung Chen	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Pei-Chin Wang	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Chung Yu Huang	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Hsi-Wen Lee	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Shaing-Shaing Wu (Note1)	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Chen-Yu Feng (Note1)	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above

Note 1: Ms. Shaing-Shaing Wu and Mr. Chen-Yu Feng new position effective on 01/07/2014 and 01/08/2014 respectively.

Note 2: Number of restricted employee shares included the shares granted in 2012 and 2013 are under the custody of the Trust.

Bracket	Name of President and Vice President	
	The company	Companies in the financial report
Below NT\$ 2,000,000	-	-
NT\$2,000,000(Included)~ NT\$5,000,000(Excluded)	Shaing-Shaing Wu	Shaing-Shaing Wu
NT\$5,000,000(Included) ~ NT\$10,000,000(Excluded)	T.H. Tung, Ted Hsu, Tsung-Jen Ku Lai, Kuang-Chi Cheng, Ming-Tung Hsu, Kuo-Yen Teng, En-Bair Chang, Tian-Bao Chang, Shih-Chi Hsu, Chen-Yu Feng, His-Wen Lee, Hsu-Tien Tung, Yean-Jen Shue, Te-Tzu Yao, Chih-Hsiung Chen, Pei-Chin Wang, Chung-Yu Huang	T.H. Tung, Ted Hsu, Hsu-Tien Tung, Tsung-Jen Ku Lai, Kuang-Chi Cheng, Ming-Tung Hsu, Kuo-Yen Teng, En-Bair Chang, Tian-Bao Chang, Shih-Chi Hsu, Chen-Yu Feng, His-Wen Lee, Yean-Jen Shue, Chih-Hsiung Chen, Pei-Chin Wang, Chung-Yu Huang
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	Syh-Jang Liao	Syh-Jang Liao, Te-Tzu Yao
NT\$15,000,000(Included) ~ NT\$30,000,000(Excluded)	Jason Cheng	Jason Cheng
NT\$30,000,000(Included) ~ NT\$50,000,000(Excluded)	-	-
NT\$50,000,000(Included)~NT\$100,000,000(Excluded)	-	-
Over NT\$100,000,000	-	-
Total	20	20

3.2.4.4 Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total	Ratio of Total Amount to Net Income (%)
Group CEO	T.H. Tung	0	57,194	57,194	0.39%
Deputy Group CEO	Ted Hsu				
President and CEO	Jason Cheng				
Senior Vice President and Chief Technical Officer	Hsu-Tien Tung				
Senior Vice President and Chief Operating Officer	Syh-Jang Liao				
Vice President	Chen-Yu Feng (Note)				
Vice President	Ming-Tung Hsu				
Vice President	Kuang-Chih Cheng				
Vice President	Kuo-Yen Teng				
Vice President	Tsung-Jen Ku Lai				
Vice President	Te-Tzu Yao				
Vice President	Shih-Chi Hsu				
Vice President	Yean-Jen Shue				
Vice President	En-Bair Chang				
Vice President	Tian-Bao Chang				
Vice President	Chih-Hsiung Chen				
Vice President	Shaing-Shaing Wu (Note)				
Vice President	Pei-Chin Wang				
Chief Financial Officer	Chiu-Tan Lin				
Vice President	Chung Yu Huang				
Vice President	Hsi-Wen Lee				

Note 1: Ms. Shaing-Shaing Wu and Mr. Chen-Yu Feng new position effective on 01/07/2014 and 01/08/2014 respectively.

3.2.4.5 Compare and state the ratio of total remuneration paid to the Company's Directors, Supervisors, President and Vice Presidents by the company and the companies in the consolidated financial statements to net income in the past two years. Please also describe the policy, criteria, packages and rules relating to the remuneration, as well as its relation to business performance and future risks.

Total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company are as follows:
 Net Income of year 2013: NT\$ 9,554,496 thousand dollars
 Net Income of year 2014: NT\$14,658,138 thousand dollars

NT\$ thousands; %

Year	Total remuneration paid to directors, supervisors, presidents and vice presidents		Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2013	220,416	254,049	2.31%	2.66%
2014	273,575	291,084	1.87%	1.99%

The ratio of remuneration paid to directors, supervisors, presidents and vice presidents of the Company and the companies in the consolidated financial statements in the last two years to the net income was 2.31% and 2.66% in 2013 and 1.87% and 1.99% in 2014, respectively.

Pursuant to Article 14-6 of Securities and Exchange Act, our Board of Directors approved the establishment of Compensation Committee, appointment of committee members and related internal regulations on August 25, 2011. Before the establishment of Compensation Committee, remuneration to directors and supervisors was appropriated according to the Articles of Incorporation and the approval of shareholders at the annual shareholders' meeting after proposed by the Board of Directors. Remuneration to the president and vice presidents includes salary, bonus, employee profit sharing, etc., and is decided upon the responsibility of each individual role with reference to the salary level per industry average. Factors such as industry outlook and business performance of the company are also taken into consideration when determining remuneration amounts. Since the establishment of Compensation Committee, members of the committee shall exercise the utmost good faith and perform the following duties:

- a. Prescribe and periodically conduct performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers.
- b. Periodically evaluate and prescribe the remuneration of directors, supervisors, and managerial officers.

Remuneration and dividend distribution of directors, supervisors, and managerial

officers shall be proposed by the Compensation committee to Board of Directors for resolution.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 7 (A) meetings of the Board of Directors were held in 2014. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks
Chairman	T.H. Tung	7	0	100.0%	Pegatron's 3 rd session of Board of Directors was elected at 2013 Annual Shareholders' Meeting. All directors continue in office. Tenure of the session is from 19 th June, 2013 to 18 th June, 2016.
Director	Ted Hsu	7	0	100.0%	
Director	Jason Cheng	7	0	100.0%	
Director	K.C. Liu	4	0	57.1%	
Director	C.I. Chia	7	0	100.0%	
Director	C.V. Chen	6	0	85.7%	
Independent Director	C. Lin	6	1	85.7%	
Independent Director	C.S. Yen	7	0	100.0%	
Independent Director	C.B. Chang	6	0	85.7%	
Remarks:					
1. There were no circumstances referred to Article 14-3 of Securities and Exchange Act, nor resolutions objected by independent directors in writing, on record or subject to qualified opinions in 2014.					
2. There were no recusals of directors due to conflict of interest in 2014.					
3. Measures taken to strengthen the functionality of the Board: The Board complies with the "Rules Governing the Conduct of Board Meetings" which has been established according to statutory regulations. Chief Internal Audit and Chief Financial Officer also report to the Board regarding the status of internal audit and finance and relevant reports are provided to the directors for their reference.					

3.3.2 Audit Committee

A total of 5 (A) meetings of the audit committee were held in 2014. The independent directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks
Independent Director	C. Lin	5	0	100%	Pegatron's 2013 Annual Shareholders' Meeting approved to establish Audit Committee to replace Supervisors.
Independent Director	C.B. Chang	4	0	80%	
Independent Director	C.S. Yen	5	0	100%	

Remarks:

1. There were no circumstances referred to in Article 14-5 of Securities and Exchange Act, nor agendas which were not approved by the Audit Committee but otherwise resolved by two thirds or more of all directors in 2014.
2. There were no recusals of independent directors due to conflicts of interests in 2014.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2014:
 - (1) The head of internal audit attended every Audit Committee and presented the findings and materials to committee members where necessary.
 - (2) The Company's independent auditors have presented their findings and reviewed on the Company's financial result of the 2nd and 4th quarter. The communication channel among the Audit Committee, internal auditors and independent auditors functioned well.

3.3.3 Status of Compensation Committee:

Pursuant to Article 14-6 of Securities and Exchange Act, listed companies shall establish a compensation committee. In 2013, after the election of new session of directors, the Compensation Committee was comprised of three independent directors, Dr. C. Lin, Mr. C. B. Chang and Mr. C.S. Yen. Dr. C. Lin is the Chairman of the Compensation Committee. The Compensation Committee Charter is available on Market Observation Post System of Taiwan Stock Exchange.

Title	Criteria	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience			Independence Criteria(Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director	Remarks (Note 2)	
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10			
Independent Director	C. Lin	V	-	V	V	V	V	V	V	V	V	V	V	V	V	2	-
Independent Director	C. B. Chang	-	-	V	V	V	V	V	V	V	V	V	V	V	V	3	-
Independent Director	C.S. Yen	-	-	V	V	V	V	V	V	V	V	V	V	V	V	0	-

Note1: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Article 30 of Company Act shall not apply.

Note2: If members of the committee are also serving as Board directors, please specify if the Company complies with Item 5, Article 6 of "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded over the Counter".

Tenure of the second session of Compensation committee is from 20th June, 2013 to 18th June, 2016.

A total of 4 (A) meetings of the Compensation Committee were held in 2014. The status of attendance is as follows:

1. The Compensation Committee comprised of 3 members.
2. The tenure of office is from 2013/06/20 to 2016/6/18. The committee convened 4 meetings in 2014.

Title	Position	Name	Attendance in person (B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Chairman	Independent Director	C. Lin	4	0	100	Members of the second session of compensation committee. Period of the post will be the same as that of the third session of the Board of Directors.
Member	Independent Director	C. B. Chang	3	1	75	
Member	Independent Director	C.S. Yen	4	0	100	

Other Information to be disclosed:

1. If Board of Directors did not adopt or revise the proposal made by the Compensation Committee, please specify the date, session, agendas and resolutions of the Board of Directors meeting and how the Company handled the proposal made by the Compensation Committee (If amount of the compensation approved by the Board of Directors is higher than that proposed by the Compensation Committee, please specify the reasons and differences in proposals.)
None.
2. If any members of the Compensation Committee were against or reserved their opinions towards the resolutions, please specify the date, session, agendas, opinions of all members and how the opinions were handled.
None.

3.3.4 Corporate Governance Implementation Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
1. If the Company established and disclosed Corporate Governance Principles in accordance with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies?	V		The Company established Corporate Governance Principles and disclosed them on the corporate website and Market Observation Post System.	None
2. Shareholding Structure & Shareholders' Rights (1) If the Company established internal procedures to handle shareholder suggestions, proposals, complaints and litigation and execute accordingly?	V		The Company established internal procedures and assigned designated departments to handle shareholder suggestions, proposals, complaints and disputes. Shall there be any legal issue, our legal department and outside counsel will involve and handle the issues.	None
(2) If the Company maintained of a list of major shareholders and a list of ultimate owners of these major shareholders?	V		The Company maintains a good relationship with major shareholders and keeps an updated list of the major shareholders.	
(3) If risk management mechanism and “firewall” between the Company and its affiliates are in place?	V		The Company established appropriate internal policies and assigned designated personnel to handle risk management mechanism and “firewall” between the Company and its affiliates.	
(4) If the Company established internal policies that forbid insiders from trading based on non-disclosed information?	V		The Company established Ethical Corporate Management Policy and Codes of Ethical Conduct and disclosed both policies on the corporate website.	

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
3. Structure of Board of Directors and its responsibility (1) If the Board consisted of members from diverse background?	V		None
(2) If the Company established any other functional committee in addition to Compensation Committee, Audit Committee as required by law?	V		The Company established Compensation Committee and Audit Committee and its policies and procedures. Apart from the above mentioned committees, the Company has not established any other functional committee.
(3) If the Company established methods and procedures to assess the performance of the Board and conduct assessment on annual basis?	V		The Company's Compensation Committee takes all factors such as participation in the operation of the Company, etc. into consideration when conducting evaluation on each Board member. The evaluation is usually carried out in the second half of each year.
(4) If the Company assess the independence of CPA periodically?	V		Each year, the Company evaluates the independence of CPA based on KPMG's Statement of Independence and items stated in Article 46 & 47 of Certified Public Accountant Act.
4. If the Company established communication channel with stakeholders and disclosed key corporate social responsibility issues frequently enquired by stakeholders on the designated area of the corporate website?	V		The Company set up <u>Honest_Box@pegatroncorp.com</u> on the designated area of the corporate website for communication with stakeholders. Designated personnel are assigned to handle all enquiries and respond to any key issues raised by stakeholders.

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
5. If the Company engaged professional transfer agent to host annual general shareholders' meeting?	V		The Company engaged Registrar & Transfer Agency Department of KGI Securities Co. Ltd. to host annual general shareholders' meeting.	None
6. Information Disclosure (1) If the Company set up a corporate website to disclose information regarding the Company's finance, business and corporate governance? (2) If the Company adopted any other information disclosure channels (e.g., maintaining an English-language website, appointing designated personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?	V		To ensure transparency of information, the Company set up Investor Relations section on the corporate website and disclose information regarding finance, business and corporate governance. In addition to the role of spokesperson, the Company also has designated departments to collect and disclose information. Information disclosed on the corporate website is presented in both Chinese and English, while quarter result and webcast of investor conference are available on the corporate website as soon as applicable.	None
7. If the Company had other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		Employee rights and wellness are stated in internal policies as required by relevant laws and regulations. The Company maintains good relationship with customers and suppliers and fulfills its duties as a responsible corporate citizen. Internal control, auditing and self-evaluation procedures are in place, while the Company also purchases insurance coverage for its directors.	None
8. If the Company implemented a self-evaluation on corporate governance or authorized any other professional organization to conduct such evaluation (if yes, please	V		The Company reported to the Board of Directors in January 2015 regarding the result of self-evaluation and its improvement plans to rectify non-compliance items.	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
state if the Board of Directors provided any comment and what was the evaluation result along with its major deficiencies, suggestions and improvement plan)?				

3.3.5 Implementation of Corporate Social Responsibility

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>1. Exercising Corporate Governance (1) If the Company established corporate social responsibility ("CSR") policy or system and reviewed its implementation and effectiveness?</p>	V	<p>PureCSR management system has been established to oversee the Company's corporate social responsibility, environmental and occupational health, and implementation of safety measures. Based on the management system, CSR, environmental, safety, and health issues can be monitored and addressed. The Company not only sets up CSR objectives and targets, but also performs internal & external audits. After each audit, proposals containing corrective and preventive actions are reviewed by the management to ensure compliance.</p> <p>PureCSR Policy is as follows:</p> <ol style="list-style-type: none"> 1. Abide by all environmental protection, labor, safety and health laws. 2. Conserve natural resources, and actively prevent pollution. 3. Reduce environmental impact and safety risks. 4. Fulfill customer requirements and become a green enterprise. 5. Enable company-wide promotion of corporate social responsibility. 6. Encourage full participation from employees and conduct continuous improvement. <p>The policy is disclosed on the Company's intranet and corporate website. http://pegatroncorp.com/sustainability/policyorTarget.php</p>	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(2) If the Company conducted CSR related trainings?	V		CSR trainings are conducted in accordance with internal management procedures and legal requirements. There are lectures and on-line trainings, including occupational safety & health trainings, CSR audit trainings and CSR management system introduction trainings.	None
(3) If the Company set up a unit exclusively or concurrently to execute CSR policies and if the Board appointed member(s) of management team to supervise and report its implementation status to the Board?		V	CEO leads PureCSR committee and members of the committee include CQPC, HR&ADM, Procurement, Customer Service, Stock Office, each BU/FU and CSR teams from each site. Bi-weekly committee meetings are held to discuss each member's progress on CSR issues. The results are reported to CEO.	CSR implementation status is periodically reported to the CEO. Going forward, we will evaluate the necessity and applicability of reporting CSR implementation status to the Board.
(4) If the Company adopted appropriate remuneration policies, integrated employee performance appraisal with CSR policies, and established a clear and effective incentive and discipline system	V		Compensation paid to workers complies with all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits. Adjustment will be made with reference to the country economic index and industrial salary level. Regulations concerning employee evaluation, performance appraisal, and incentive and discipline system are fully disclosed internally and full time employees are required to participate in the performance appraisal periodically.	None
2. Fostering a Sustainable Environment (1) If the Company endeavored to utilize resources more efficiently and utilized renewable materials which have a lower impact on the environment?	V		From product design, use of green materials, manufacturing to waste material management, reducing environmental impact has always been one of our guiding principles. We apply the principles to the research and development and manufacturing of	None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(2) If the Company established proper environment management system based on the characteristics of the industry where the Company belongs to?	V		consumer electronics with an effort to reduce environmental impact. The Company complies with customers' product specification and quality requirements for the use of renewable materials. An international environmental management system, ISO 14001, is in place and certified by a third party periodically.
(3) If the Company monitored the impact of climate change on the Company's business operations, checked greenhouse gas inventory and established corporate strategies on energy conservation and reduction on carbon and greenhouse gas emission?	V		The risk of global climate change is addressed and the impacts on the business operations are evaluated. The Company actively takes steps to reduce the emissions of greenhouse gas (GHG) by performing GHG inventory, and conducting internal and external verification every year. The target is to reduce greenhouse gas emissions by 21% and electricity consumption by 24% in year 2020 per million revenue compared to that of year 2009.
3. Preserving Public Welfare (1) If the Company followed relevant labor laws, and internationally recognized human rights principal, and established appropriate management policies and procedures?	V		As a corporate citizen and one of Electronic Industry Citizenship Coalition (EICC) members, the Company complies with EICC Code of Conduct, including international human right, labor standards, environmental & safety laws, ethics and confidentiality requirements. The internal CSR management system and audit process are implemented to ensure compliance.
(2) If the Company established grievance channel for employees and handled complaints appropriately?	V		One of the employee communication channels, i-PEGA BOX, is available and dedicated personnel are assigned
			None
			None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>(3) If the Company provided safe and healthy working environment to employees and conducted relevant training on safety and health management to employees periodically?</p> <p>(4) If the Company established a periodical communication mechanism to employees and notified employees of significant changes that may impact the Company's operation in a proper manner?</p> <p>(5) If the Company provided career planning, relevant training and skill development for employees?</p>			
	V		None
	V		None
	V		None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(6) If the Company established any consumer protection measures with regard to the process of research and development, procurement, production, operations and services and its grievance channels?	V		<p>implement the plan to become mature in their occupational filed. Through IDP, supervisors can support corresponding resources and assistances in profession or work skills according to the employees' needs. Moreover, employees can set their own targets and develop skills by participating multidimensional learning activities.</p> <p>The Company is dedicated in design, manufacturing and service (DMS), and does not have direct contact with consumers. Customer complaints are handled properly in accordance with the requirements of quality and CSR management system.</p> <p>None</p>
(7) If the Company followed relevant laws and regulations and international guidelines on marketing and labeling of products and services?	V		<p>The Company is dedicated in design, manufacturing and service (DMS), and does not have direct contact with consumers. For the labeling and marketing, the Company follows international regulations and customers' requirements.</p> <p>None</p>
(8) Prior to engaging commercial dealings, if the Company assessed whether the supplier had track record o negative impact on the environment and society?	V		<p>The Company is a member of EICC (Electronic Industry Citizenship Coalition), and follows its code of conduct. In addition, the Company promotes EICC to our supply chain to ensure our suppliers being responsible to the society and environment. Major suppliers are required to sign Pegatron's Supplier Code of Conduct and commit that their operations are in accordance with PureCSR policy. Besides, we have also put CSR related contents, including environmental protection and international</p> <p>The evaluation process includes partial PureCSR contents at present. From the middle of 2015, the compliance of CSR legal requirements will be added into the necessary information of new suppliers.</p>

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(9) If the contracts with major suppliers stipulated a clause that allowed the Company to terminate or rescind the contract at any time shall the suppliers violate CSR policies and cause significant impact to the environment and society?	V	human right into supplier self-evaluation checklist. CSR contents are included in the contract between the Company and suppliers, such as the compliance of environmental laws, forbidden of illegal labor force and the avoidance of hiring child labor. Besides, for designated suppliers, we perform supplier CSR audit. If suppliers violate EICC Code of Conduct, the suppliers will be regarded as disqualified suppliers. If the violations are significant, the contract will be terminated when necessary.	The contract includes partial CSR contents at present. From 2015, all PureCSR requirements will be added into the contract.
4. Enhancing Information Disclosure If the Company disclosed CSR report and other relevant information on its corporate website and Market Observation Post System?	V	CSR report is published on annual basis with the chapters of corporate governance, social, economic and environmental performances. It is disclosed on corporate website and Market Observation Post System by the request from the Authority. (http://www.pegatroncorp.com/sustainability/csrReport.php)	None
5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation: PureCSR management system has been founded to meet "EICC Code of Conduct" and "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM-Listed Companies".			
6. Other material information that helps to understand the operation of corporate social responsibility: There is a specific CSR section on the corporate website containing CSR policy, target and management procedures. (http://www.pegatroncorp.com)			
7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: The 2014 CSR report of the Company will be verified by 3rd party with the international verification standard of AA 1000. The verification statement will be attached in the CSR report after the verification is completed.			

3.3.6 Implementation of Ethical Corporate Management Best Practice Principles:

Items	Implementation Status		Non-implementation and its reason(s)	
	Y	N		
<p>1. Ethical Corporate Management Policy (1) If the Company clearly specified ethical corporate management and process in its internal policies and external document? If the Board of Directors and the management team committed to enforce such policies rigorously and thoroughly?.</p> <p>(2) If the Company established any measures to prevent unethical conduct and clearly prescribed the specific ethical management practice including operational procedures, guiding principles, penalties and grievance channels? Please describe the status of execution.</p> <p>(3) If the Company adopted any preventive measures against business activities specified in the second paragraph of Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSE Listed Companies or in other business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct?</p>	V		<p>The Board of Directors approved Ethical Corporate Management Policy and Codes of Ethical Conduct on Nov 10, 2014. Both policy and code of conduct include:</p> <ol style="list-style-type: none"> Ethical Corporate Management Policy is clearly stated in the internal policy and external documents. Board of Directors and management team are fully committed to implement such policies rigorously and thoroughly on internal management and external business dealings. The Company established and stipulated preventive measures of unethical conduct, penalties in the Code of Business Ethics and Business Gifts and Entertainment Policy. All employees shall follow these guiding principles with integrity, confidentiality and respect. The Company adopted preventive measures against business activities within the business scope which are possibly at higher risks of being involved in an unethical conduct. 	None
<p>2. Implementation of Ethical Corporate Management (1) If the Company checked whether the respective counterparty holds any record of unethical misconduct and if the contract terms required the compliance of</p>	V		<p>Prior any business engagement, the Company checks the counterparty's legitimacy and record of unethical conduct. All vendors are required to sign "Statement of Integrity"</p>	None

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
ethical corporate management policy?			which stipulated the contractual liability for violation of ethical conduct.
(2) If the Company set up a unit, under the direct supervision of the Board of Directors, to handle the implementation of ethical corporate management and reported to the Board of Directors periodically?	V		The Company values the great significance of integrity and ethical business conduct. Therefore relevant department has been assigned to establish Ethical Corporate Management Policy and its prevention system. Designated personnel report to the Board of Directors the implementation and compliance of the policy.
(3) If the Company established a policy on prevention of conflict of interests, provided appropriate reporting channel and executed rigorously and thoroughly?.	V		The Company established measures to prevent conflict of interests and an appropriate reporting channel is provided to report any potential risks of conflict of interest.
(4) If the Company established an effective accounting system and internal control system and if internal auditing department or external accounting firm conducted periodic auditing?	V		The Company established an accounting system and internal control system to evaluate business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct. Internal Audit would plan its annual audit scope based on the assessment of risks and report to the Board of Directors.
(5) If the Company organized training and awareness programs on ethical corporate management to internal and external parties?	V		The Company organizes training on ethical corporate management each year.
3.Implementation of whistleblowing system (1) If the Company established a whistleblowing and	V		The Company set forth penalties for violation of ethical conduct and provides whistleblowing system for reporting of
			None

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
reward system? Upon receiving a reported case, is there a dedicated personnel handling the reported case?			any violations. Internal Audit will be handling any reported cases.
(2) If the Company established standard operational procedures and relevant information confidentiality policy for investigation of reported cases?	V		The Company established operational procedures for handling reported cases and the identity of the whistleblower as well as the content of the reported case are handled in confidentiality.
(3) If the Company established any measures for protecting whistleblowers from inappropriate disciplinary actions?	V		The Company provides protection to whistleblower and personnel involved in the investigation against any unfair treatment or retaliation.
4. Information Disclosure (1) If the Company disclosed ethical corporate management policy and its status of implementation via corporate website or Market Observation Post System?	V		Ethical corporate management policy was disclosed on the corporate website and Market Observation Post System. The Company also set up a designated area on the corporate website to promote ethical business conduct and implement measures such as declarations of ethical business conduct made by management team and the emphasis on disciplines and honor. The content of the website is updated from time to time.
5. If the Company established any guideline of ethical business conduct in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation? None.			None
6. If any other information that helped to understand the operation of ethical business conduct and its implementation. (ie. Declarations, trainings and conventions held with vendor to promote ethical business conduct)? None.			

3.3.7 Corporate Governance Guideline and Regulations:

Pegatron has established corporate governance guideline and relevant regulations and disclosed on the corporate website and Market Observation Post System.

3.3.8 Other Important Information Regarding Corporate Governance: None

3.3.9 Internal Control System:

- **Declaration of internal control:** Please refer to page 43.
- **If the Company is requested by the SEC to retain CPA's service for examining internal control system, the Independent Auditor's Report must be disclosed:** None

Pegatron Corporation
Statement of Internal Control System

Date: March 23, 2015

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2014:

1. Pegatron is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to operating effectiveness and efficiency (including profitability, performance and safeguarding of assets), reliability of financial reporting and compliance of applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Pegatron contains self-monitoring mechanism and Pegatron takes corrective actions whenever a deficiency is identified.
3. Pegatron evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. Pegatron has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Pegatron believes that, as of December 31, 2014, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with the applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be integral part of Pegatron's Annual Report for the year 2014 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 23, 2015 with zero of eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

H.T. Tung
Chairman



Jason Cheng
President and Chief Executive Officer



3.3.10 The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report :

In 2014 and as of the date of this annual report, one staff is subject to internal disciplinary action and legal actions.

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

3.3.11.1 Major Resolutions of Shareholders' Meeting:

Pegatron's 2014 Annual General Shareholder Meeting was held in Taipei on June 18, 2014. At the meeting, shareholders presented in person or by proxy approved the following agendas:

- (1) The 2013 Business Report and Financial Statements
- (2) The proposal of 2013 Earning Distribution
- (3) Amendment to the Procedures for Acquisition or Disposal of Assets
- (4) Adoption of the issuance of restricted stocks for employees

3.3.11.2 Implementation of Resolutions

All resolutions of the Shareholders' Meeting have been implemented in accordance with the resolutions.

3.3.11.3 Major Resolutions of Board Meetings

Date	Major resolutions
01.23.2014	<ul style="list-style-type: none"> ● Approved the endorsement for Grand Upright Technology Limited's credit line with bank ● Approved the endorsement for Kaedar Trading Ltd.'s credit line with bank
03.07.2014	<ul style="list-style-type: none"> ● Approved the disposal of shares of Casetek Holdings Limited with the volume no more than 35,000,000 shares
03.24.2014	<ul style="list-style-type: none"> ● Approved 2013 business report and financial statements ● Approved the endorsement for STARLINK ELECTRONICS CORP's credit line with bank ● Approved the endorsement for Asuspowers Corporation's credit line with bank ● Approved the amendment to Procedures for Acquisition or Disposal of Assets ● Approved an indirect USD49,000,000 investment in China ● Approved the scheduling of 2014 Annual General Shareholders' Meeting
05.08.2014	<ul style="list-style-type: none"> ● Approved the 1st quarter of 2014 consolidated financial report ● Approved earnings distribution of year 2013 ● Approved factoring AR from Client X ● Approved to apply for permission to issue 40,000,000 units of restricted employee shares in 2014
08.11.2014	<ul style="list-style-type: none"> ● Approved the 2nd quarter of 2014 consolidated financial report ● Approved the endorsement for Kaedar Trading Ltd.'s credit line with bank ● Approved to extend the period of credit line for factoring AR from Client 1 and Client 2 ● Approved to extend the period of credit line for factoring AR ● Approved the record date for distribution of year 2013 dividend

11.10.2014	<ul style="list-style-type: none"> ● Approved the 3rd quarter 2014 consolidated financial report ● Approved to increase the credit line for factoring AR from Client 1 ● Approved the endorsement for the credit line of Boardtek Computer (Suzhou) Co., Ltd. with bank ● Approved Pegatron's Corporate Governance Best Practice Principles ● Approved Pegatron's Ethical Corporate Management Best Practice ● Approved Pegatron's Guidelines for the Adoption of Codes of Ethical Conduct
03.23.2015	<ul style="list-style-type: none"> ● Approved 2014 business report and financial statements ● Approved earnings distribution of year 2014 ● Approved the scheduling of 2015 Annual General Shareholders' Meeting

3.3.12 Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors in 2014 and to the date of the annual report: None.

3.3.13 Resignation or Dismissal of Personnel Involved in the Company : None

3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Ulyos K.J. Maa	Charlotte W.W. Lin	Jan 1, 2014 ~ Dec 31, 2014	

Unit: NT\$ thousands

Amount Bracket		Items of CPAs fee	Auditing Fees	Non-Auditing Fees	Total
1	Below 2,000 thousand				
2	2,000 thousand (included) ~ 4,000 thousand(excluded)			v	
3	4,000 thousand (included) ~ 6,000 thousand(excluded)				
4	6,000 thousand (included) ~ 8,000 thousand(excluded)				
5	8,000 thousand (included) ~ 10,000 thousand(excluded)		v		
6	Over 10,000 thousand (included)				v

Service Items included in the CPA fees

Unit: NT\$ thousands

CPA Firm	CPA	Fees	Non-Auditing Fees					Auditing Period	Note
			System Design	Industrial and commercial registration	HR	Others	Total		
KPMG	Ulyos K.J. Maa Charlotte W.W. Lin	8,760	0	242	0	2,810	3,052	2014/1/1~2014/12/31	Non-auditing services include transfer pricing, R&D investment tax credit and tax consultant.

3.5 Information on Change of CPA: None

3.6 If the chairman, president, and financial or accounting manager of the Company who had worked for the independent auditor or the related party in the most recent year, the name, title, and the term with the independent auditor or the related party must be disclosed:
None.

3.7 Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Department Heads and Shareholders of 10% Shareholding or More:

3.7.1 Information on Net Change in Shareholding

Unit: Share

Title	2014		01/01/2015-03/23/2015	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	-	-	-	-
Director and Deputy Group CEO Ted Hsu	-	-	-	-
Director and President and CEO Jason Cheng	-	-	-	-
Director K.C. Liu	-	-	-	-
Director C.I. Chia	-	-	-	-
Director C.V. Chen	-	-	-	-
Independent Director C.B. Chang	-	-	-	-
Independent Director C. Lin	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	-	-	-	-

Note1: Net changes in shareholding included the restricted employee shares granted in 2012 and 2013 which are under the custody of the Trust.

3.7.2 Information of Shares Transferred: None.

3.7.3 Information of Equity Pledged: None

3.8 The Relations of the Top Ten Shareholders as Defined in the Finance Standard Article 6:

As of 09/14/2014

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks %
	Shares	%	Shares	%	Shares	%	Name	Relation	
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	19.11	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
T.H. Tung	91,917,309	3.92	6,074,490	0.26					
Nan Shan Life Insurance Company, Ltd.	77,286,000	3.29	-	-	-	-	-	-	-
Jonney Shih	67,032,290	2.86	-	-	-	-	Asustek Computer Inc.	Chairman	-
Ted Hsu	56,233,713	2.40	13,146,829	0.56	-	-	-	-	-
Infinity Grow International Limited	38,967,000	1.66	-	-	-	-	-	-	-
Morgan Stanley & Co. International Plc	36,765,145	1.57	-	-	-	-	-	-	-
JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	36,432,094	1.55	-	-	-	-	-	-	-
Saudi Arabian Monetary Agency - Causeway Capital Management LLC as external fund manager	33,809,000	1.44	-	-	-	-	-	-	-
GDR – Pegatron Corporation	31,889,165	1.36	-	-	-	-	-	-	-

3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2014

Long-Term Investment	Ownership by Pegatron (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Asustek Investment Co., Ltd.	946,278	100.00	-	0	946,278	100.00
Asuspower Investment Co., Ltd.	932,845	100.00	-	0	932,845	100.00
Asus Investment Co., Ltd.	979,255	100.00	-	0	979,255	100.00
AMA Precision Inc.	33,500	100.00	-	0	33,500	100.00
Pegatron USA, Inc.	50	100.00	-	0	50	100.00
Pegatron Holland Holding B.V.	-	100.00	-	0	-	100.00
Pegatron Holding Ltd.	767,906	100.00	-	0	767,906	100.00
Unihan Holding Ltd.	199,110	100.00	-	0	199,110	100.00
AzureWave Technologies, Inc.	35,750	27.53	13,697	10.55	49,447	38.08
Ability Enterprise Co., Ltd	55,236	11.68	11	0	55,247	11.68

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

As of 03/23/2015

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,515,473,553	484,526,447	3,000,000,000	Listed

4.1.2 Share Capital

As of 03/23/2015

Month/ Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares (1,000)	Amount (NT\$1,000)	Shares (1,000)	Amount (NT\$1,000)	Sources of Capital	Capital Increased by Assets Other than Cash	Date of Approval and Document No.
03/2014	10	2,500,000	25,000,000	2,320,805	23,208,045	Cancellation of restricted employee shares NT\$3,510 thousand and issuing of Employee Stock Option NT\$7,210 thousand	-	Note 1
05/2014	10	2,500,000	25,000,000	2,322,796	23,227,961	Cancellation of restricted employee shares NT\$2,624 thousand and issuing of Employee Stock Option NT\$22,540 thousand	-	Note 2
08/2014	10	2,500,000	25,000,000	2,328,127	23,281,267	Cancellation of restricted employee shares NT\$954 thousand and issuing of Employee Stock Option NT\$54,260 thousand	-	Note 3
12/2014	10	2,500,000	25,000,000	2,367,910	23,679,105	Cancellation of restricted employee shares NT\$360 thousand, issuing of Employee Stock Option NT\$20,880 thousand and issuing new shares for conversion of Euro Convertible bond NT\$377,318 thousand	-	Note 4
03/2015	10	3,000,000	30,000,000	2,515,474	25,154,736	Cancellation of restricted employee shares NT\$2,070 thousand, issuing of Employee Stock Option NT\$5,200 thousand and issuing new shares for conversion of Euro Convertible bond NT\$1,472,501 thousand	-	Note 5

Note 1: 03/04/2014 Jin So Son Tzi No. 10301035460

Note 2: 05/30/2014 Jin So Son Tzi No. 10301099560

Note 3: 08/29/2014 Jin So Son Tzi No. 10301179370

Note 4: 12/23/2014 Jin So Son Tzi No. 10301248620

Note 5: 03/09/2015 Jin So Son Tzi No. 10401035960

4.1.3 Information for Shelf Registration: None

4.1.4 Composition of Shareholders

As of 09/14/2014; Units: share

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	5	25	414	120,433	1,030	121,907
Shareholding (shares)	10	117,728,791	622,952,491	588,493,997	1,018,235,867	2,347,411,156
Percentage	0.00	5.02	26.54	25.06	43.38	100.00

4.1.5 Shareholding Distribution Status

Common Share (The par value for each share is NT\$10)

As of 09/14/2014

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	73,382	20,999,912	0.89
1,000 ~ 5,000	39,339	79,920,508	3.40
5,001 ~ 10,000	4,607	34,204,702	1.46
10,001 ~ 15,000	1,391	17,188,390	0.73
15,001 ~ 20,000	708	12,713,087	0.54
20,001 ~ 30,000	677	16,826,177	0.72
30,001 ~ 50,000	505	19,929,275	0.84
50,001 ~ 100,000	398	28,272,406	1.20
100,001 ~ 200,000	249	36,361,485	1.55
200,001 ~ 400,000	196	56,146,724	2.39
400,001 ~ 600,000	107	53,003,454	2.26
600,001 ~ 800,000	55	38,365,100	1.63
800,001 ~ 1,000,000	39	35,160,892	1.50
over 1,000,001	254	1,898,319,044	80.89
Total	121,907	2,347,411,156	100.00

Preferred Share: The Company did not issue any preferred share.

4.1.6 List of Major Shareholder

As of 09/14/2014

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	19.11
T.H.Tung	91,917,309	3.92
Nan Shan Life Insurance Company, Ltd.	77,286,000	3.29
Jonney Shih	67,032,290	2.86
Ted Hsu	56,233,713	2.40
Infinity Grow International Limited	38,967,000	1.66
Morgan Stanley & Co. International Plc	36,765,145	1.57
JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	36,432,094	1.55
Saudi Arabian Monetary Agency - Causeway Capital Management LLC as external fund manager	33,809,000	1.44
GDR – Pegatron Corporation	31,889,165	1.36

4.1.7 Market Price, Net Worth, Earnings and Dividends Per Common Share

Unit: NT\$, except for weighted average shares and return on investment ratios

Item	2013	2014	01/01/2015- 03/23/2015
Market Price per Share (Note 1)			
Highest Market Price	55.40	75.30	93.00
Lowest Market Price	33.85	37.80	71.30
Average Market Price	43.79	54.43	82.72
Net Worth per Share (Note 2)			
Before Distribution	46.24	56.45	-
After Distribution	43.44	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,296,456	2,348,719	-
Diluted Earnings Per Share (Note 3)	4.16	6.24	-
Dividends per Share			
Cash Dividends	2.8	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 5)	10.53	8.72	-
Price / Dividend Ratio (Note 6)	15.64	Undistributed	-
Cash Dividend Yield Rate (Note 7)	6.39%	Undistributed	-

- Note 1: Listed the highest and the lowest market price per share in every year and the average market price were calculated based on the trading amount and volume.
- Note 2: Based on the shares issued for the year end and resolution for stock distribution in the shareholders' meeting the next year.
- Note 3: If the stock dividend is to be adjusted retroactively, earning per share before and after the adjustment shall be listed.
- Note 4: Pursuant to regulations of security issuance, the undistributed dividend can be accumulated till the year with retained earnings. However, the accumulated undistributed dividend shall be disclosed.
- Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share
- Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share
- Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.8 Dividend Policy and Execution Status

4.1.8.1 Dividend Policy Stipulated in the Company's Articles of Incorporation

Article 28 of the Company' Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the Board of Directors.
- At most 1% of the remaining earnings shall be allocated as directors' remuneration.
- Any remaining earnings, together with any accumulated undistributed earnings of previous years, may then be distributed or kept in accordance with a proposal for the distribution of earnings made by the Board of Directors and duly approved by a resolution at a shareholders' meeting.

The dividend distribution of the Company will be coordinated with the surplus of that year based on the principle of stabilization. Due to rapid change of the industry where the Company is in and considering the future financing requirement as well as the long term business plan, the Company adopts a balanced dividend policy. If the Company would set aside cash dividend, it would be at least ten percent (10%) of the total dividend in the shareholders bonus to be distributed under Article 28 of the Company' Articles of Incorporation.

4.1.8.2 Proposed Dividend Distribution

The Board approved the proposal for 2014 dividend distribution at its meeting on March 23, 2015. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual General Shareholders' Meeting on June 15, 2015.

Unit: NT\$

Items	Amount	
	Subtotal	Total
Beginning Retained Earnings (IFRS)		11,233,168,303
Add: Other Comprehensive Income for the Period		11,250,480
Compensation Cost Arising from Restricted Employee Shares		9,121,068
Net Profit After Tax		14,658,138,556
Distributable Net Profit		25,911,678,407
Minus: 10% Legal Reserve		(1,465,813,856)
Minus: Cash Dividend		(10,509,621,574)
Unappropriated Retained Earnings		13,936,242,977
Items	Amount	
	Subtotal	Total
Note:		
Employees' Cash Bonus		1,325,000,000
Compensation of Directors		131,000,000

4.1.9 Impact to 2014 Business Performance and EPS resulting from Stock Dividend

Distribution: Not Applicable.

4.1.10 Bonus to Employees and Remuneration to Director:

4.1.10.1 Dividend to employees and remuneration to directors stipulated in the Company's Articles of Incorporation

Article 28 of the Company's Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the

employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the Board of Directors.

- At most 1% of the remaining earnings shall be allocated as directors' remuneration.

4.1.10.2 Accounting treatment applied to the difference between actual and estimated dividend to employees and remuneration to directors

Shall there be any difference between the actual amount of dividend approved by Annual Shareholders' Meeting and that of the estimation, it will be deemed as the changes in accounting estimates and will be recognized in the profit and loss account of the distributing year.

4.1.10.3 Dividend distribution to employees in 2014 resolved by the Board of Directors

a. Proposed distribution of cash / stock dividend to employees and remuneration to directors.

	Amount (NT\$)
Employees' Cash Bonus	1,325,000,000
Compensation of Directors	131,000,000

b. Proposed stock dividend to employees and its ratio to total net income and total dividend to employees:

No stock dividend was distributed in 2014.

c. Earnings per share including the proposed stock dividend to employees and remuneration to directors:

No stock dividend was distributed in 2014.

4.1.10.4 Distribution of cash / stock dividend to employees and remuneration to directors and supervisors in 2013 resolved by the Annual Shareholders Meeting on Jun. 18, 2014.

	Amount (NT\$)
Employees' Cash Bonus	870,000,000
Compensation of Directors & Supervisors	85,000,000

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2013 income statements. There is no difference between the amounts approved in the shareholders' meeting and those of the estimation recognized in the financial statements.

4.1.11 Buyback of Common Stock

As of 03/23/2015

Treasury stocks in Batches	1st Batch
Purpose of Buy-back	For shareholders' interest
Timeframe of Buy-back	7/12/2010 ~ 9/10/2010
Price range	NT\$21.8 ~ 41
Class, quantity of shares bought back	Common shares 29,697,000 shares
Value in NT\$ of bought-back shares	NT\$1,007,716,609
Shares sold/transferred	29,697,000 shares
Accumulated number of company shares held	0
Percentage of total company shares held (%)	0

4.2 Issuance of Corporate Bond

4.2.1 Corporate Bond

As of 03/23/2015

Issuance	1 st Tranche of Euro Convertible Bond
Issuing Date	02/06/2012
Denomination	US\$200,000
Issuance Location	Singapore Stock Exchange
Offering Price	100% of the principal amount of the bonds
Total Amount	US\$300,000,000
Coupon Rate	0%
Tenure	5 years. Maturity: 02/06/2017
Guarantor	None
Trustee	Citicorp International Limited
Underwriter	Overseas Underwriter: Citigroup Global Markets Ltd. DBS Bank Ltd. Domestic Underwriter: Fubon Securities Co., Ltd.
Legal Counsel	Baker & Mckenzie
Auditor	KPMG
Repayment	Unless previously redeemed, repurchased and cancelled or converted, the bonds will be redeemed by the issuer on the maturity date at an amount equal to the principal amount of the bonds plus a gross yield of 1.5% per annum, calculated on a semi-annual basis.
Outstanding	US\$0
Redemption or Early Repayment Clause	<p>(1) The Issuer has the option to call, in whole but not in part at the Early Redemption Amount any time after 3 years from the Issue Date and prior to the Maturity Date, if the closing price of the Common Shares on the TWSE, translated into U.S. dollars at the then prevailing exchange rate (using the fixing rate at 11:00am, expressed as the number of NT dollars per one US dollar, quoted by Taipei Forex Inc. on the day), for a period of 20 consecutive trading days is at least 125% of the Early Redemption Amount divided by the Conversion Ratio, defined to be the principal amount of Bonds divided by the Conversion Price at that time</p> <p>(2) The Issuer may redeem the outstanding Bonds, in whole but not in part, at the Early Redemption Amount in the event that more than 90% in principal amount of the Bonds have been redeemed, repurchased and cancelled, or converted.</p> <p>(3) The Issuer may redeem the outstanding Bonds, in whole but not in part, at the Early Redemption Amount in the event of changes in the ROC taxation, which results in increase of tax obligation or the necessity to pay additional interest expense or increase of additional costs to the Issuer. Bondholders may elect not to have their bonds redeemed but with no entitlement to any additional amounts or reimbursement of additional tax.</p>

Covenants	None
Credit Rating	None
Other Rights of Bondholders	Each bondholder will have the right to convert the Bonds into the newly issued Common Shares during conversion period
Dilution Effects and other Adverse Effects on Existing Shareholders	The funding is used to support the company's operation and business development, which shall benefit shareholders' equity in the long term.
Custodian	None

4.2.2 Convertible Bond

Issuance	1 st Tranche of Euro Convertible Bond		
Date	2014		As of 02/04/2015 (Note 1)
Market Price per unit (US\$)	Max.	185.101	208.514
	Min.	112.126	173.203
	Average	137.713	191.107
Conversion Price (Note 2)	NT\$40.11 & 39,28 per share		NT\$38.28 per share
Issuance Date & Conversion Price at Issuance	Issuance Date: 02/06/2012 Conversion Price at Issuance: NT\$42.11 per share		
Conversion	Newly-issued common shares		

Note 1: Bonds are fully converted as of Feb 4, 2015.

Note 2: After distribution of cash dividend on Sep 14, 2014, conversion price was adjusted to NT\$38.28 per share from NT\$40.11 per share.

4.3 Preferred Shares (with stock option): None.

4.4 Issuance of Global Depository Receipts:

As of 03/23/2015

Date of Issuance		August 9, 2010	
Item			
Date of issuance (Process)	08/09/2010		
Location and Issuance and Trade	Luxemburg Stock Exchange		
Total Amount	Non applicable		
Unit Price (in NT\$ per GDS)	NT\$37.70		
Total Issuance	12,163,804		
Source of Common Stock Registration	One GDS stands to five common share of Pegatron		
Total Marketable Security Shares Recognized	Stands for 60,819,020 common shares of Pegatron		
Rights and Obligations of GDR Holders	Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)		
Trustee	Non applicable		
GDR Institute	Citibank N.A.		
Depository Institute	Citibank Taiwan Limited		
Outstanding GDSs (as of December 31, 2014)	6,589,113 GDSs		
Issuance and Expense Amortization throughout the Issuance Period	Annual listing fees and accountant fees were borne by Pegatron		
GDR Agreement and Depository Agreement	See Deposit Agreement and Custody Agreement for Details		
Market Price per unit (US\$)	2014	Max.	US\$12.010
		Min.	US\$6.270
		Average	US\$8.868
	As of March 23, 2015	Max.	US\$14.680
		Min.	US\$11.150
		Average	US\$13.123

4.5 Employee Stock Option

4.5.1 Issuance of Employee Stock Option

As of 02/28/2015

Employee Stock Option Granted	First Grant of 2011	Second Grant of 2011
Approval Date by the Authority	2011/4/14	
Grant Date	2011/7/1	2012/4/2
Number of Options Granted	41,577units (Note1)	8,423 units (Note1)
Percentage of Shares Exercisable to Outstanding Common Shares (%)	1.75585	0.35571
Option Duration	3 years	
Vesting Schedule	From the second anniversary of the grant date, except that all or partial options revoked by the company, 100% vested options can be exercised without conditions	
Shares Exercised	31,457,000 shares	5,965,000 shares
Value of Shares Exercised	NT\$877,251,720	NT\$ 252,276,940
Shares Unexercised	0 shares (Note 2)	2,458,000 shares
Adjusted Exercise Price Per Share	-	NT\$40.80
Percentage of Shares Unexercised to Outstanding Common Shares (%)	-	0.10380
Impact on Shareholders' Equity	Dilution to Shareholders' Equity is limited	

Note 1: One unit is equivalent to one thousand Pegatron common shares

Note 2: The 1st Grant of 2011 expired on June 30, 2014 and the employees forfeited their rights to exercise the option.

Note 3: Pegatron issued ordinary shares to employees who exercised employee stock option.

4.5.2 Listing of Executives and the Top 10 Employees Receiving Employee Stock Options:

As of 2/28/2015; Unit: Shares; %; NT\$

Position	Title	Name (Note 1)	Number of Options Granted	% of Shares Exercisable to outstanding Common Shares	Exercised				Unexercised				
					Shares Exercised	Exercise Price Per Share (Note 3)	Value of Shares Exercised	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share	Value of Shares Unexercised	% of Shares Unexercised to Outstanding Common Shares	
Employee	Senior Director	Kuan-Yu Chang											
	Project Deputy Director	Hsin-Hsiu Tsai (Note 2)											
	Senior Director	Chin-Chuan Tsai (Note 2)											
	Deputy Director	Wen-Hsin Chen											
	Deputy Director	Wen-Lin Huang											
	Director	Wen-His Tsao					28.11						
	Deputy Director	Wen-Pin Hung					27.06						
	Senior Director	Shih-Feng Liu	1,440,000	0.06	1,440,000	42.67	49,867,000	0.06	25,000	40.80	1,020,000	0.00	
	Senior Director	Te-Tai Lee											
	Senior Director	Chien-Ju Lin											
	Senior Director	Jen-Shian Lin											
	Director	Chih-Chung Chen											
	Senior Director	An-Chu Hsiao											
	Director	Shih-Chin Liao											
Director	Tsung-Shien Lee												
Director	Jung-Kuei Chung												
Deputy Director	Feng-Jung Lee												

Note 1: Top 10 employee obtaining employee stock options based on the 1st and 2nd grant of 2011. Employees who granted the same number of options are being listed.

Note 2: Employees retired from the position.

Note 3: As of Sep 13, 2013, Exercised Price Per Share for the 1st Grant of 2011 has been adjusted from 28.11 to 27.06 due to issuance of Restricted Employee Shares in 2013 and distribution of cash dividends. As of Sep 14, 2014, Exercised Price Per Share for the 2nd Grant of 2011 has been adjusted from 42.67 to 40.80 due to distribution of cash dividends in 2014.

4.6 Restricted Employee Shares

4.6.1 Issuance of Restricted Employee Shares

As of 02/28/2015

Type of Restricted Shares	First Grant	Second Grant
Approval Date by the Authority	2012/10/19	
Grant Date	2012/12/20	2013/09/12
Number of Restricted Employee Shares Granted	33,938,000	6,062,000
Price of Issuance	NT\$ 10	
Percentage of Restricted Employee Shares to Outstanding Common Shares	1.43%	0.26%
Conditions for Exercise of Restricted Employee Shares	<p>a. Upon the first anniversary of receiving the restricted stocks, employees can exercise 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.</p> <p>b. Upon the second anniversary of receiving the restricted stocks, employees can exercise 30% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.</p> <p>c. Upon the third anniversary of receiving the restricted stocks, employees can exercise the remaining 30% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.</p>	
Limitations to the Rights of Restricted Employee Shares	<p>a. Before fulfilling the vesting conditions, the restricted shares under the custody shall not be sold, pledged, transferred, and gave as gifts to others or any other means of disposal.</p> <p>b. Voting rights: To be conducted by the Trust in accordance with the relevant laws and regulations.</p>	
Custody of Restricted Employee Shares	A total of 9,280,800 shares delivered to the Trust	A total of 3,463,200 shares delivered to the Trust
Procedures for Non-Compliance of the Conditions	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.	
Number of Restricted Employee Shares Bought Back	2,625,216 (Note 1)	248,000 (Note 1)
Number of Restricted Employee Shares Free from Custody	22,031,984	2,350,800

Number of Restricted Employee Shares under Custody	9,280,800	3,463,200
Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)	0.39%	0.15%
Impact on Shareholders' Equity	<p>A. Potential expense: The number of restricted stocks proposed at 2012 Annual General Shareholders' Meeting is 40,000,000 shares at NT\$10 as issuance price. The Company shall evaluate the fair value of the stocks on the issuance date and accrue relevant cost over the issuance period. The potential expense incurred is estimated at NT\$790,986 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount was NT\$65,091 thousands, NT\$431,274 thousands and NT\$230,097 thousands in 2012, 2013 and 2014. The annually expensed amount is estimated at NT\$58,680 thousands and NT\$5,844 thousands in 2015, and 2016 respectively.</p> <p>B. Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity: Potential dilution of EPS based on the existing outstanding ordinary shares of 2,563,322,335 shares, is estimated at NT\$0.03, NT\$0.17, NT\$0.09, NT\$0.02 and NT\$0 in 2012, 2013, 2014, 2015, and 2016 respectively. Since the potential impact to EPS is limited, we do not expect any material impact to shareholders' equity.</p>	

Note 1 : Public filings made regarding shares to bought back from employees.

4.6.2 Information on Name of Managers and Top 10 Employees obtaining Restricted Employee Shares

As of 02/28/2015; Unit: Shares, %; NT\$

Position	Title	Name	Number of Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free from the Trust				Under the Trust			
					Number of Restricted Employee Shares Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares Free from Custody to Outstanding Common Shares (%)	Number of Restricted Employee Shares under Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)
Manager	Group CEO	T.H. Tung	5,850,000	0.25	3,888,000	10	38,880,000	0.17	1,962,000	10	19,620,000	0.08
	Deputy Group CEO	Ted Hsu										
	President and CEO	Jason Cheng										
	Chief Financial Officer	Chiu-Tan Lin										
	Senior Vice President and Chief Technical Officer	Hsu-Tien Tung										
	Vice President	Yean-Jen Shue										
	Vice President	Te-Tzu Yao										
	Vice President	Kuo-Yen Teng										
	Vice President	Tsung-Jen Ku Lai										
	Vice President	En-Bair Chang										
	Vice President	Shih-Chi Hsu										
	Vice President	Kuang-Chih Cheng										
	Vice President	Tian-Bao Chang										
	Vice President	Ming-Tung Hsu										
	Vice President	Chen-Yu Feng										
	Vice President	Chih-Hsiung Chen										
Vice President	Pei-Chin Wang											
Vice President	Hsi-Wen Lee											
Vice President	Chung-Yu Huang											
Senior Vice President and Chief Operation Officer	Shy-Jang Liao											

Position	Title	Name	Number of Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free from the Trust			Under the Trust			
					Number of Restricted Employee Shares Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares under Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)
Employee	Associate Vice President	Pei-Chen Wu	4,340,000	0.18	2,819,000	10	28,190,000	1,521,000	10	15,210,000	0.06
	Associate Vice President	Wei-Pang Lee									
	Associate Vice President	Yi-Hsin Lee									
	Associate Vice President	Kun-Shih Lee									
	Associate Vice President	Yu-Heng Lu									
	Associate Vice President	Ching-Ru Wu									
	Senior Director	Yi-Yung Wu									
	Associate Vice President	Tien-Peng, Yu									
	Associate Vice President	Kuo-Jung Hsu									
	Senior Director	Ye-Yu Jou									
	Associate Vice President	Hsin-Cheng Chen									
	Associate Vice President	Chieh-Tsung Chen									
	Senior Director	Chi-Liang, Chen									
	Associate Vice President	Hsiang-Chieh Huang									
	Associate Vice President	Shyh-Heh Hwang									
	Associate Vice President	Ting-Pang Huang									
	Associate Vice President	Chieh-Hen Huang									
Associate Vice President	Ying-Liang Kuo										
Associate Vice President	Shing-Jung Kuo										
Associate Vice President	Chia-Huang Huang										
Associate Vice President	Li-Ling Chao										
Associate Vice President	I-Sheng Tsai										
Associate Vice President	Ding-Long, Liu										
Associate Vice President	Che-Yen, Lai										
Associate Vice President	Hsiu-Yu Pan										

Note 1: Top 10 employee obtaining restricted employee shares based on the 1st and 2nd grant of 2012. Employees who granted the same number of options are being listed.

4.7 Status of New Shares Issuance in connection with Mergers and Acquisitions:

Not Applicable

4.8 Financing Plan and Implementation

Up to the last quarter before the printing of the financial statements, outstanding equity issuance or marketable security subscription or the completed equity issuance or subscribed marketable security without success: Not Applicable.

5. Overview of Business Operation

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Operating Scope

The Company offers a wide range of electronics products in computing, communications and consumer electronics segments, including Notebook PCs, Desktop PCs, Tablets, Mobile Internet Devices (MID), Motherboards, VGA Cards, Cable Modems, Set-top Boxes, Smartphones, Game Consoles, MP3s, E-Readers etc. The Company also engages in development, design and manufacturing of peripherals and components of the above-mentioned products. In addition to the well diversified product portfolio, the Company also places great emphasis on development of both software and hardware technologies to provide customers with total solutions and high value-added services.

5.1.1.2 Breakdown of Sales by Major Products

Unit: NT\$ thousands; %

Year Major Product	2013		2014	
	Amount	%	Amount	%
3C Products	858,781,028	90.42	924,286,537	90.64
Other	90,971,000	9.58	95,452,296	9.36
Total	949,752,028	100.00	1,019,738,833	100.00

5.1.1.3 Product Lines

Computing Product

- a. Notebook PCs
- b. DeskTop PCs
- c. Motherboards
- d. VGA Cards
- e. Mobile Internet Devices (MID)

Communication Product

- a. Cable Modems
- b. Set-top boxes
- c. Smartphones
- d. Switches
- e. Router

Consumer Electronics Product

- a. Tablets
- b. Game consoles
- c. LCD TVs

- d. E-readers
- e. Multimedia Players (MP3)

5.1.1.4 Product (Service) Development

- a. Automotive Electronics (AE): Developing 2-DIN dashboard audio display systems with Audio/Video play, navigation systems with reversing video display, and Apple CarPlay and Google Android Auto support.
- b. Supporting new ultra-light and slim systems using next generation Intel CPUs for corporate and industrial PC-like applications. Also pairing with Nvidia graphics technology targets high performance-oriented users
- c. Designing larger and lighter touch screens for PCs are planned using specially-designed material to replace current heavy and expensive glass materials.
- d. Tightly integrating latest releases of Android/Windows/Chrome Operating System across various Intel & ARM SOC (system on chip) platforms provides the best solution in PC/Tablet markets.
- e. Preparing for Intel's next generation platforms (Skylake/Braswell), that have advantages of high efficiency, high value added and low power consumption.
- f. Developing the next generation satellite gateway box with smart router features for home media centers. The box will support full band satellite capture with decoding 8 channels, decode 4K2KP60 HEVC, transcode 4 720P H.264 video, connect with client devices through MoCA2.0 LAN, integrate 1TB HDD storage for whole home PVR applications, and support Dual Band Concurrent AC1900 Wi-Fi smart AP router, with dual core 10K DMIPS CPU power.
- g. Developing new walkman players with electroencephalogram control to auto select music tracks.
- h. Setting up Android GMS certification lab (3PL) to provide certification services to customers.
- i. Improving process and efficiency by introducing scalable distributed computing platforms for big data storage/analysis, then using "statistical learning" and "machine learning" techniques to build models for computation of data analysis, anomaly detection, and pattern recognition.
- j. Developing a high-performance and high-speed home gateway which works as a cable modem, a VoIP phone, a router, and also a dual-band 802.11ac (backward compatible) wireless AP as a whole.

5.1.2 Industry Overview

5.1.2.1 Progress and Development of the Industry

a. Computing Industry

According to IDC, the total volume of PC (including notebook PCs and desktop PCs)

declined on year-over-year (YoY) basis. However, boosting by economic recovery from the developed countries, total volume of commercial notebook PCs in the developed countries as a result of expiry of Windows XP and decline in tablets demand, increased by 8% YoY, which ended the declining trend since 2010. That being said, as consumer purchasing power in the developing countries was negatively affected by political uncertainty and currency fluctuation in the region, total PC shipment declined by 9.5% YoY in 2014. Looking forward to 2015, as Microsoft lowered its licensing fee, PC brands launched lower cost PCs one after another, which might ultimately lead to concerns over slightly higher inventory in the first half of 2015. Therefore, the rise of end demand might only be seen after the launch of Windows 10 in the second half of the year. Furthermore, since the cannibalization by tablets has gradually slowed down and if Windows 10 can overcome the steep learning curve of user interface and integrate consumers' demand on various devices; it will certainly help boost consumer PCs replacement cycle. As for desktop PCs in general, the growth of All-In-One (AIO) PCs was offset by the continuous decline in traditional desktop PCs, and it is expected that total desktop PCs volume will decline YoY. It is further estimated that the trend of PC volume will reversed from decline to growth in 2017. Before that, PCs is expected to decline by 2%-3% each year.

b. Communication Industry

According to IDC, the worldwide volume of smartphone shipped in 2014 reached 1.3 billion with 26.4% growth YoY. The market share of smartphone increased to 66.2% from 55.2% in 2013. IDC further estimates that the worldwide volume of smartphone may reach 1.45 billion units in 2015 with 12.2% growth YoY, and grow further to 1.9 billion units in 2018 with compound annual growth rate of 12.9%. In terms of market demand, boosted by increasing consumer demand and healthy product life cycle in Asia Pacific regions as well as emerging markets, coupled with various options of low cost smartphone, it is widely anticipated that the growth of smartphone will come from these regions; while matured markets such as North America and Europe will only experience single digit growth.

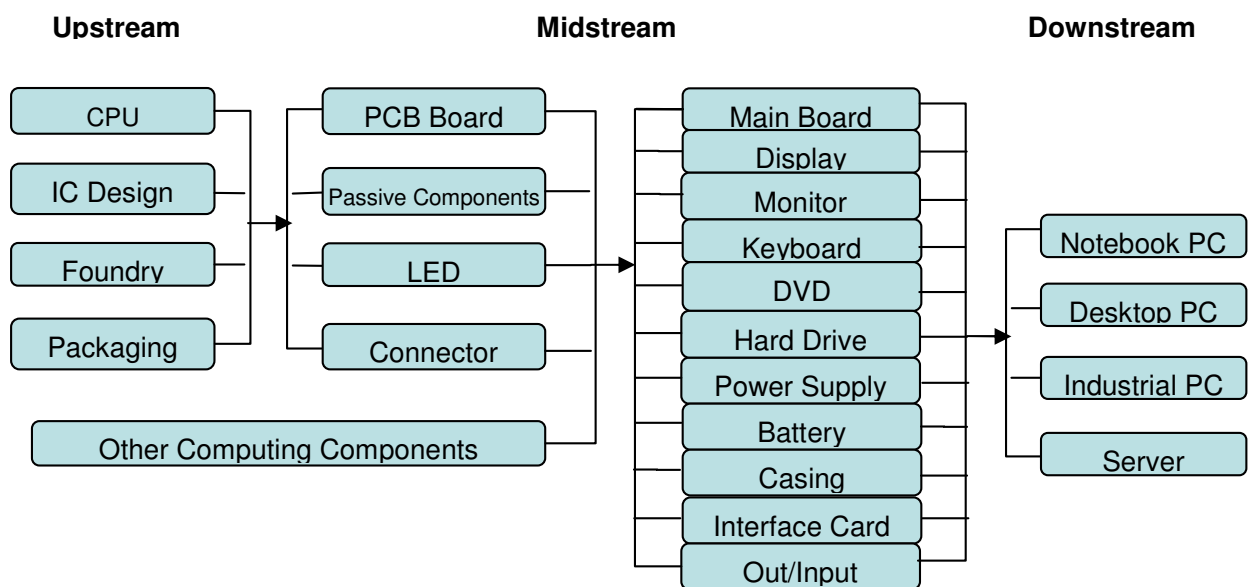
c. Consumer Electronics Industry

Tablets and game consoles are the major revenue contributors in consumer electronics segment. According to IDC, tablets segment has been cannibalized by larger size smartphone and since its product life cycle is also comparatively longer, the total volume of tablets shipped in 2014 was around 240 million units, declined substantially from more than 50% YoY growth in the previous few years to 7.2%

YoY growth. IDC further estimates that global tablets volume is likely to reach 250 million units with compound growth rate of 5.4% from 2014 to 2019. In the next few years, Windows based tablets will gradually increase its market share among major platforms of Android, iOS and Windows; whilst the market share of smaller size tablets will gradually going downward as a result of cannibalization by larger size smartphone.

With the launch of the eighth generation of game consoles by Microsoft and Sony in 2013, IDC predicted that the total volume of game consoles shipped in 2014 reached 38 million units, 31.9% growth YoY. IDC further estimates that year 2015 is likely to be another year of growth for game consoles with 8.8% growth YoY and the volume is likely to peak in 2016 with around 44 million units. Sony is likely to benefit from the trend and PS4 is expected to take the biggest market share.

5.1.2.2 Correlation of the Upper-stream, Mid-stream and Down-stream of the Industry



After decades of development of the computing industry in Taiwan, the relationships among upstream, midstream and downstream sectors have become highly correlated. While it is evident that bigger suppliers are expanding over the years, it has been difficult for smaller suppliers to survive in the industry.

5.1.2.3 Trends of Product Development

Consumers are paying more attention to the function of mobility. Among computing, communication or consumer electronics products, consumers are constantly looking for products lighter in weight and slimmer in size with longer battery life.

Global notebook PC market has been declining since 2012 and in order to stimulate consumers' demand, brand companies launched products with convertible features but the demand cycle is still yet to be seen. The market generally expects that replacement cycle of notebook PCs still exists, however, without innovative design and revolutionary breakthrough, the demand is likely to remain flattish

In recent years, as the infrastructure of internet is becoming progressively better, the concept of Internet of Things (IoT) has become a trendsetter for mobile devices. While the three major platform providers, iOS, Android and Windows, are actively building their own eco systems, they also attempt to invent new devices based on the framework of IoT and help start the trend of wearable and smart home devices.

5.1.2.4 Market Competition

As the functionality of computing, consumer electronics, and communication products continues integrated, the circumstances of the ODM/EMS market will also change in Taiwan. It has become crucial for ODM/EMS companies to obtain orders from international brand customers by providing value added services, enhancing capabilities in software and hardware design, progressing vertical integration, and providing total solution services.

The manufacturing of notebook PCs and desktop PCs is outsourced to ODM/EMS companies and a majority of these companies' resources are focused on global logistics as well as cost reduction. While economies of scale and comprehensive vertical integration are considered two important elements, DMS service (design, manufacturing and services) is also another key successful factor to secure customers' orders.

5.1.3 Research and Development

5.1.3.1 Research and Development Expense in Recent Year

Unit: NT\$ thousands; %

Items	2013	2014
R&D Expense (A)	11,943,411	12,335,198
Net Revenue (B)	949,752,028	1,019,738,833
(A)/(B) %	1.26	1.21

5.1.3.2 Research and Development Accomplishments in the Recent Year

Year	Achievement in Research and Development
2014	<ol style="list-style-type: none"> 1. Automotive Electronics (AE): Automotive Tablet project development has been completed and mass production process started, and now ready for shipping. 2. AIO: Developed AIO models that support new Windows OS. Integrated dual monitors and 3D scanning multi-touch ready for mass production. Achieved 'blended reality' with the combination of 3D real and 2D digital worlds. 3. Notebook PCs: Notebook PCs equipped with the latest Skylake platform chipsets will be in mass production in the second half of 2015. Highlighting high efficiency and low power consumption technologies that maximize performance but maintains thin, light, and convertibility for 2-in-1 devices. 4. Servers: Developed server projects for Intel Grantley 2 and Denlow 1 socket platforms; ready for mass production in 2014. 5. Mobile Communications: Successfully integrated 64 bits / 8-core CPUs in smartphone products and porting three OS (Android / Windows Phone / Firefox) on single hardware platforms. 6. Integrated TOF depth camera on Android platforms, allows hand gestures to remote control mobile devices, tablets, and TVs, and also to play motion sensing games. 7. Developed and integrated Smart Home platforms; including Smart Home Hubs, Smart Home Surveillance, and Smart Home Sensors. 8. Developed Computer Vision technology for object detection, face recognition, and behavior analysis. 9. Developed Voice Recognition technology for voice commands and Smart Home controlling. 10. Gateway: Developed the next generation satellite gateway box with smart router features for home media centers; supports full band satellite capture with decoding 8 channels. 11. Graphic Cards: Developed and produced a full line of NVIDIA desktop graphics cards; from entry level GT705 to high-end GTX780TI OC versions.

5.1.4 Long Term and Short Term Business Development Plans

5.1.4.1 Short Term Business Development Plan

- a. To increase market competitiveness and pursue higher annual revenue growth by

lean operation management and effective manufacturing process.

- b. To improve the efficiency of logistic management by reducing logistic cost and shortening product delivery time.
- c. Based on the product mix to approach different markets with different strategies. For mainstream products, the aim is to increase value-added services and versatility of the products with industrial design and new technologies, so as to become the market leader by developing leading products with innovative technology and expertise in the market. As for low cost products, the Company endeavors to provide products with lower manufacturing cost to fulfill consumers' needs.
- d. To strengthen the relationship with existing customers, provide total solutions to customers and increase DMS market shares.

5.1.4.2 Long Term Business Development Plan

The Company intends to enhance product mix and strengthen the factors that drive revenue growth. The development plan includes the following strategies:

a. Customer Service Strategy

- To strengthen the customer relationship and provide services in product planning, research and development, and manufacturing.
- To complete the deployment of global sales network and provide comprehensive after sales services to customers.

b. Manufacturing Strategy

- To continuously promote the LSS project and improve the quality and efficiency at all level
- To enhance vertical as well as horizontal integration and streamline group resources in related components, products, and services.

c. Product Development Strategy

- To focus on talent development especially in R&D and industrial design sectors and to enhance the Company's R&D capabilities.
- To proactively develop material and technologies that are environmentally friendly and that comply with green product and other relevant environmental protection regulations

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Regions

Unit: NT\$ thousands; %

		2013		2014	
		Amount	%	Amount	%
Domestic		319,248,545	33.61	224,249,202	21.99
Export	Asia	55,966,710	5.89	117,189,299	11.49
	Europe	138,964,961	14.63	255,592,297	25.06
	America	322,771,406	33.98	301,753,238	29.59
	Others	112,800,406	11.89	120,954,797	11.86
	Subtotal	630,503,483	66.39	795,489,631	78.01
Total		949,752,028	100.00	1,019,738,833	100.00

5.2.1.2 Market Share

In 2014, the top five notebook PC ODM/EMS companies accounted for 131 million units of notebook PCs, around 76% of total global shipment volume. This included 45.6 million units from Quanta, 42.9 million units from Compal, 21.2 million units from Wistron, 10 million units from Pegatron and 11 million units from Inventec. According to Digitimes' estimation, 2015 will be another challenging year for notebook PC market and brand companies may consider consolidating orders to a few ODM/EMS suppliers. Therefore, some suppliers may expect slight growth year-over-year, while others anticipate further decline.

5.2.1.3 Market Demand, Supply and Growth

In order to expand market shares, customers depend more on suppliers to shorten the time to market for computing, consumer electronics and communication products, while suppliers are also developing and offering more service categories. Currently, more international brand customers outsource products to ODM/EMS companies, whom, apart from manufacturing, can also provide extended services for logistics and after sale services. With capabilities in cost control, advantages in manufacturing skills, production flexibility, and experience in logistics, innovative research, marketing and management, ODM/EMS companies in Taiwan have the competitive edge in the industry. In addition, with highly vertical integrated capabilities, efficient product design and production flexibilities, ODM/EMS companies in Taiwan can provide services to customers that differ from other EMS and OEM companies located elsewhere.

In 2015, while global economy is full of uncertainties, the decline in PC market had also slowed down due to deceleration of cannibalization from tablets and integration of

functionality between tablets and notebook PCs. For mobile devices, benefitting from lower average selling price, emerging markets continue to drive the growth in this product segment despite softening demand in developed countries. As for tablets, its growth had also decelerated as its replacement cycle resembles that of the notebook PCs. However, tablets with specific features designed for niche markets may set a new trend for consumer electronics industry. Furthermore, as the infrastructure of internet is becoming progressively better, the concept of Internet of Things (IoT) also bring out the trends of wearable device, smart home device, etc. In addition, brand companies increase their resources and investment in R&D of mobile devices, which is also likely to bring new growth potential for ODM/EMS companies.

5.2.1.4 Competitive Advantages

a. Experienced R&D Team

In addition to the Perspective Technology Office within the Company, there are also designated research and development engineers in each business unit. As of the end of 2014, total research and development engineers reached 4,213, among which 94.56% are with university degree. The leading research and development engineers in each product development have more than 15 years of experience in the relevant fields.

b. Comprehensive Manufacturing Locations

Suzhou, Shanghai, Kunshan and Chongqing in China, Juarez in Mexico, Ostrava in the Czech Republic and Taoyuan in Taiwan to fulfill the needs of global customers at different regions.

c. Diversified Product Portfolio and Customer Base

The Company emphasizes on design capabilities, manufacturing excellence and service quality, and our major customers are well known global brand companies in the computing, communication and consumer electronics markets. In addition to our diversified product portfolio, the Company also has in-depth knowledge of the products to provide services to various types of customers.

d. Global Logistics Capabilities

The Company has manufacturing sites and service & repair stations across Europe, North America and Asia. One of the most important advantages of Pegatron is the effective management of global logistics based on the long-term experience providing prompt services across different time zones to meet customers' needs.

e. Professional Management Team

The management team consists of highly regarded senior professionals in the industry with more than 20 years of experience in the founding and managing of Asustek. One of the essential factors to the Company's sound development is the unspoken consensus and successful collaboration among the members of the management team after the long-term and stable working relationship.

f. Innovation Capabilities

Since the founding of the Company, the industrial design team, after years of experience, has won numerous international awards. In Dec 2012, our design team has once again been awarded German iF Communication Award for the exhibition display of "From Smart to Savvy" shown in 2012 Taipei Computex. It is evident that the capability of producing innovative designs is one of the core competitive advantages of the Company.

g. Comprehensive Vertical Integration

We are dedicated in the development of vertical integration. With our capabilities and know-how in working with a wide range of materials, from traditional metal stamping and plastic injection to newer light metal technologies, we are able to fulfill our customers' diverse needs and product design requirements and enhance our ability to offer competitive one-stop-shopping solutions. Our focus on vertical integration will continue to translate into larger cost advantages and shorter time-to-market to help us win new manufacturing mandates from major OEM/brand customers.

5.2.1.5 Disadvantages and Responsive Strategies

Advantages

a. Strong marketing attraction for fully the developed computing industry in Taiwan

The computing industry in Taiwan experienced numerous transformations and has fully developed over time. With the evenly developed industry and excellent collaboration among each supply chain, the computing industry in Taiwan is a strong marketing attraction and has become the global procurement center for computer peripherals.

b. Matured computing components industry and stable supply of key components in Taiwan

In the recent years, key components, such as chipset and PCB's, vendors for motherboards, CD-ROM drives and other electronic products have become more competitive at the global level. Comprehensive development of the component industry is one of the key factors for the prosperity of the computing industry in

Taiwan.

c. Integration of software and hardware systems help create growth momentum in the computing industry

In addition to the excellent capability in hardware design, the Company strives to provide integrated solutions to customers by continuously investing in research and development of key technologies in hardware and software design as well as its applicable operating systems. With the capabilities in software and hardware integration, the Company is able to tap into this trend and turn the opportunities into a growth momentum.

d. Excellent capabilities in research & development and innovative industrial design

The Company has an excellent research and development team, whom is fully dedicated to product development and innovative industrial design. As a result, the Company is able to launch new models before its peer companies. In addition to the corporate perspective technology office, there are also designated R&D units within each business unit, which helps shorten production cycle and keep the Company a step ahead of its peer companies in this competitive environment.

e. Comprehensive after sales service network

The Company provides consistent after sales services and quality assurance to global customers via service & repair stations across North America, Europe, Japan and China.

Disadvantages

a. Declined gross margin due to severe pricing competition

The competition in the computing industry is intense due to the low entry barrier that attracts a large number of competitors. Furthermore, with the products becoming more matured over time, product supply has been higher than its demand. Product differentiation has also gradually diminished, which may also lead to a decline of gross margin.

b. Profit margin impact by fluctuation of foreign exchange rates

Most of the Company's products are exported and is highly exposed to the fluctuation of foreign exchange rates which may have direct impact to the Company's profit margin.

c. Increase of manufacturing costs by potential labor shortage and higher acquisition cost of land

The Company has increased the usage of automation for majority of products in an effort to reduce the reliance on labors. However, certain manufacturing processes are still conducted manually. As the issues of labor shortage gradually

surfaced over recent years, labor compensation has increased dramatically, which increases the manufacturing cost and affects the Company's competitiveness in the global market.

Responsive Strategies

- a. Enhance research and development capability and manufacture high value-added products.
- b. Enforce cost control and inventory management, and maximize production efficiency by increasing automation.
- c. Maximize the hedging effect by balancing the position in foreign and local currencies.
- d. Invest in automation equipment to reduce the reliance on labor and improve product quality.
- e. Allocate labors across manufacturing sites appropriately and minimize the impact of labor shortage.

5.2.2 Application of Major Products

a. Computing Products

Notebook PCs, desktop PCs and other information electronic products that are mainly used for word processing, information management, typesetting, industrial design, presentation, statistical analysis, multimedia application, etc.

b. Communication Products

Communication products can be used for individual communication, internet communication, wire and wireless internet access.

c. Consumer Electronics Products

Products that can be used for entertainment purposes, such as tablets, game consoles, LCD TV, e-readers, etc.

5.2.3 Supply of Major Material

Major Raw Materials	Source of Supply	Supply Situation
Chipset	W Company 、 X Company 、 Z Company	Stable
CPU	Y Company 、 Z Company	Stable
System Module	X Company 、 Z Company	Stable
Mechanical Parts	X Company 、 V Company 、 U Company	Stable
Display	X Company 、 Z Company	Stable

Note: Partial major materials are purchased by major customers and resell to the Company for manufacturing and system assembly. Therefore, partial source of supply is from major customers.

5.2.4 Major Customers with over 10% Net Sales and Suppliers with over 10% Net Purchases of the Last Two Fiscal Years

5.2.4.1 Major Suppliers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2013				2014			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	X Company (Note 1)	209,053,437	24.79	None	X Company (Note 1)	266,011,814	28.41	None
2	Y Company (Note 1)	107,998,479	12.81	None	Z Company (Note 1)	95,286,965	10.18	Shareholder
3	Z Company (Note 1)	88,298,827	10.47	Shareholder	Y Company (Note 1)	46,302,035	4.94	None
	Others	437,804,648	51.93	-	Others	528,751,014	56.47	-
	Net Total Purchases	843,155,391	100.00	-	Net Total Purchases	936,351,828	100.00	-

Note 1: In 2013 and 2014, the Company purchased (raw) material via major customers.

Note 2: Increase and decrease of the amount was due to business demand.

5.2.4.2 Major Customers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2013				2014			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	A Company	390,919,709	41.16	None	A Company	498,050,147	48.84	None
2	B Company	109,115,869	11.49	Shareholder	B Company	118,818,477	11.65	Shareholder
	Others	449,716,450	47.35	-	Others	402,870,209	39.51	-
	Net Total Sales	949,752,028	100.00	-	Net Total Sales	1,019,738,833	100.00	-

Note: Increase and decrease of the amount was due to business demand.

5.2.5 Production/Sales Quantities and Value over the Past Two Years

Unit: thousands; NT\$ thousands

Output Year Major Products (or by departments)	2013			2014		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products	437	410	136,103	399	354	126,780
Other	-	-	1,142,455	-	-	2,854,811
Total	437	410	1,278,558	399	354	2,981,591

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual reports

5.2.6 Sales Quantities and Value of the Last Two Years

Unit: thousands; NT\$ thousands

Shipments Year & Sales Major Products	2013				2014			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	19,564	267,035,800	92,779	518,269,070	23,494	203,575,879	121,975	674,424,129
Others	-	2,888,891	-	6,030,967	-	6,896,761	-	13,066,819
Total	19,564	269,924,691	92,779	524,300,037	23,494	210,472,640	121,975	687,490,948

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual reports.

5.3 Status of Employees

Status of employees over the past two years and up to the date of the report

Year		2013	2014	As of 03/23/2015
Number of Employees	Others	2,411	2,533	2,722
	R&D	3,122	4,213	4,286
	Total	5,533	6,746	7,008
Average Age		34.3	34.3	34.1
Average Years of Service		5.4	5.3	5.2
Education	Ph.D.	0.23%	0.27%	0.27%
	Masters	37.71%	38.62%	37.86%
	Bachelor's Degree	55.11%	55.67%	56.26%
	Senior High School	5.42%	4.18%	4.47%
	Below Senior High School	1.52%	1.26%	1.14%

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual report.

5.4 Expenditure on Environmental Protection

Total amount of loss (including penalty) paid for environmental pollution and stated any responsive actions and potential expenditure

In 2014 and as of the date of this annual report, the Company did not incur any loss or receive any penalty for major environmental pollution. There are designated personnel within the company who are in charge of environmental protection in compliance with the legal requirements. Waste clearance and disposal, wastewater management, environmental measurement and chemicals management have been conducted and controlled by management procedures. Besides, we consign a 3rd party to measure the concentration of the emissions and discharges to ensure minimum environmental pollution and its compliance with relevant legal regulations.

5.5 Employee Relations

5.5.1 Employee's Welfare and Benefit

a. Employee welfare and benefit

Employee welfare and benefit are provided by both the Company and Pegatron Employee Welfare Committee. Corporate benefit program offered to employees include group insurance, travel insurance on business trips, meal subsidies, year-end bonus, performance bonus, etc., while benefit from Pegatron Employee Welfare Committee includes social clubs, family outlining, company group outlining, bonuses for three major festivals and different subsidies such as marriage, funeral, scholarship, etc. The details of welfare and benefit will be announced through announcement, company website, and email.

b. Professional training program

We place great emphasis on career planning and talent development for employees by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competence and professional development to enhance employees capabilities, while external training programs include seminars or conferences organized by external parties that provide excellent training opportunities for employees. We held more than 500 classes, around 108,000 training hours, and 18,000 participants in 2014. The average training hour is 17.8 per colleagues. Total training fee is around NT\$ 8,700,000.

Category	Item	Description
Professional Training	<ul style="list-style-type: none"> ● Special skills training ● Department/Cross department professional training ● External Training ● Overseas Training (ex. Conference, exhibition, courses, etc.) 	Improve professional knowledge and skills through training courses or exercises planned by supervisors or Learning & Development Department.
Category	Item	Description
Competency Training	<ul style="list-style-type: none"> ● New employee orientation ● New manager orientation ● Management training ● Core competency training ● Talent Development Program ● General and management lectures ● Case study 	With systematical learning map, employees can plan their career path, develop and stimulate their management skills and potential.
Self-Development	<ul style="list-style-type: none"> ● Business English on-line program ● Culture and arts lectures ● Associations ● Pega-e library 	Encourage proactive and autonomous learning development.

On-Job Training	● Job-rotation	Individual development plan with supervisors' assistance will help employees improve and enhance their work skills.
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c. Retirement system

Pegatron's retirement policy is in accordance with the provisions in the Labor Standards Law and Labor Pension Act of the Republic of China. In 2014, four employees reached statutory retirement age at Pegatron. Three of them retired at the age of 65, while the other postponed the retirement due to internal operational needs.

d. Employee rights

The Company always emphasizes employee benefits as well as harmonious labor relations, and we highly value employees' opinions and feedbacks, which can be submitted via employee mailbox, conferences and emails. Employees can fully express their opinions, raising any labor issues to promote and maintain a positive labor relationship.

e. Employees code of conduct

Pursuing sustainable corporate development and embracing integrity is our highest guiding principle, and the Company has established Business Ethic Guidelines. Based on the Business Ethic Guideline, employees are required to strictly follow the moral standards and advocate honesty, integrity and confidentiality to protect the rights of the Company and shareholders and enhance the Company's competitiveness.

5.5.2 Any current or potential loss resulting from labor disputes and prevention actions for the past two years and as of the date of this annual report.

There have not been any material losses resulting from major labor disputes for the past two years and as of the date of this annual report.

5.6 Important Contracts

As of 03/23/2015

Agreement	Counterparty	Period	Major Contents	Restrictions
Syndication Agreement	Citi Bank, Taipei Fubon Bank, Taiwan Corporative Bank, DBS Bank, Land Bank of Taiwan and Bank of Taiwan (lead banks) and other participating banks	10/25/2010 ~ 10/25/2015	Loan Amount: US\$450million. Period: 5 years	Restrictions to financial ratios: 1. Current ratio: no less than 100% 2. Debt ratio (interesting bearing debt to equity: no higher than 50%) 3. Interest coverage ratio (EBITDA): no less than 4 times 4. Tangible equity: no less than NT\$90billion
Syndication Guarantee	ANZ Bank, DBS Bank, HSBC Bank and Mega International Commercial Bank (managing bank)	04/07/2011 ~ 04/06/2014	Guarantee for affiliate, Protek (Shanghai) Limited Loan Amount: US\$ 200 million Period: 3 years	1. Restrictions to financial ratios: (a) Current ratio: no less than 100% (b) Debt ratio (interesting bearing debt to equity: no higher than 50%) (c) Interest coverage ratio (EBITDA): no less than 4 times (d) Tangible equity: no less than NT\$90billion 2. Restrictions to ownership: 100% ownership (directly or indirectly) and having decision-making power in operation and management of Protek
Appointment Agreement	ABeam Consulting Ltd	03/28/2008 ~ to date	SAP system development and migration	Should ABeam not complete the work specified in the contract, the Company is entitled to cancel the contract and request for punitive damage as well as other compensation, provided ABeam is solely responsible for not completing the work as scheduled.
Software Purchase Agreement	NEC Taiwan Ltd	03/07/2012 ~ to date	Purchase of SAP software	None
License Agreement	SAP Taiwan Co., Ltd.	03/07/2012 ~ to date	License of SAP software	None
Finance Guarantee	Mega International Commercial Bank	03/01/2014 ~ 02/28/2015	Guarantee for affiliate, ASUSPOWER CORPORATION Loan Amount: US\$ 28 million Period: 1 year	None
Finance Guarantee	Mega International Commercial Bank	03/01/2014 ~ 02/28/2015	Guarantee for affiliate, ASUSPOWER CORPORATION Loan Amount: US\$ 80 million Period: 1 year	None

Agreement	Counterparty	Period	Major Contents	Restrictions
Finance Guarantee	Mega International Commercial Bank	02/19/2014 ~ 02/18/2015	Guarantee for affiliate, STARLINK ELECTRONICS CORP. Loan Amount: US\$ 10 million Period: 1 year	None
Finance Guarantee	Mega International Commercial Bank	03/05/2014 ~ 03/04/2015	Guarantee for affiliate, GRAND UPRIGHT TECHNOLOGY LTD. Loan Amount: US\$ 10 million Period: 1 year	None
Finance Guarantee	The Shanghai Commercial & Savings Bank, LTD.	07/26/2014 ~ 07/25/2015	Guarantee for affiliate, KAEDAR TRADING LTD. Loan Amount: US\$ 8 million Period: 1 year	None
Syndication Agreement	Bank of Taiwan, Chang Hwa Bank, Taiwan Cooperative Bank, Mega International Commercial Bank, E. Sun Bank, Hua Nan Bank, Agricultural Bank of Taiwan, CTBC Bank, China Development Industrial Bank	08/01/2013 ~ 2018	Loan Amount: NT\$12billion. Period: 5 years	Restrictions to financial ratios: 1. Current ratio: no less than 100%; 2. Debt ratio (interesting bearing debt to equity: no higher than 80%); 3. Interest coverage ratio (EBITDA): no less than 4 times; 4. Tangible equity: no less than NT\$90billion.
Lease Agreement	Fubon Life Insurance Co., Ltd.	06/01/2013 ~ 05/31/2016	Lease the building from Fubon as office. Period: 3 years	None.
Software Purchase Agreement	Acer Incorporated	12/1/2013 ~ 11/30/2016	Purchase of Microsoft Office system and the related software	None
License Agreement	Microsoft Operations Pte Ltd.	12/1/2013 ~ 11/30/2016	License of Microsoft Office system and the related software	None
Land Purchase Agreement	Shun-min, Wang	8/27/2014	Purchase of 2 adjacent lands	None

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheet – IFRS

Unit: NT\$ thousands

Year Item		Five-Year Financial Summary (Note)				
		2010	2011	2012	2013	2014
Current assets				308,250,538	326,934,979	369,602,726
Funds & Investments				1,607,697	1,187,753	490,372
Property, plant and equipment				73,179,119	73,916,654	72,898,284
Intangible assets				2,770,545	1,969,832	1,601,259
Other assets				9,546,840	11,886,306	12,500,500
Total assets				395,354,739	415,895,524	457,093,141
Current liabilities	Before Distribution			238,103,119	239,272,864	264,997,445
	After Distribution			241,538,576	245,770,081	Undistributed
Non-current liabilities				29,614,039	32,567,481	17,224,466
Total liabilities	Before Distribution			267,717,158	271,840,345	282,221,911
	After Distribution	NA	NA	271,152,615	278,337,562	Undistributed
Equity				95,805,279	107,303,794	133,670,931
Share capital				22,903,049	23,211,555	25,156,805
Capital surplus				61,723,110	63,175,819	74,295,720
Retained earnings	Before Distribution			15,005,566	21,143,952	29,325,244
	After Distribution			11,570,109	14,646,735	Undistributed
Other equity interest				(3,807,652)	(210,136)	4,901,345
Treasury stock				(18,794)	(17,396)	(8,183)
Non-controlling interests				31,832,302	36,751,385	41,200,299
Total Equity	Before Distribution			127,637,581	144,055,179	174,871,230
	After Distribution			124,202,124	137,557,962	Undistributed

Note: Above financial information has been audited by CPA.

6.1.2 Condensed Consolidated Balance Sheet – TW GAAP

Unit: NT\$ thousands

Item \ Year		Five-Year Financial Summary (Note)				
		2010	2011	2012	2013	2014
Current assets		149,938,006	215,893,661	306,149,515	NA	NA
Funds & Investments		5,059,109	3,667,471	3,424,174		
Fixed assets		53,102,733	70,457,980	71,812,742		
Intangible assets		3,443,243	5,922,748	6,107,933		
Other assets		4,175,215	3,336,147	3,639,205		
Total assets		215,991,655	299,575,997	391,440,565		
Current liabilities	Before Distribution	87,103,623	151,491,046	233,976,744		
	After Distribution	90,375,354	151,491,046	237,412,201		
Long-term liabilities		11,860,056	29,178,917	27,861,052		
Other liabilities		410,477	709,305	1,575,537		
Total liabilities	Before Distribution	99,374,156	181,379,268	263,413,333		
	After Distribution	102,645,887	181,379,268	266,848,790		
Capital stock		22,563,669	22,563,669	22,903,049		
Capital surplus		63,145,448	63,465,496	64,560,268		
Retained earnings	Before Distribution	9,469,062	6,308,696	12,412,492		
	After Distribution	6,197,331	6,308,696	8,977,035		
Unrealized gain or loss on financial instruments		922,576	48,936	122,071		
Cumulative translation adjustments		(5,250,188)	(784,234)	(3,400,838)		
Net loss unrecognized as pension cost		(16)	440	(1,717)		
Total shareholders' equity	Before Distribution	116,617,499	118,196,729	128,027,232		
	After Distribution	113,345,768	118,196,729	124,591,775		

Note: Above financial information has been audited by CPA.

6.1.3 Condensed Consolidated Statement of Comprehensive Income – IFRS

Unit: NT\$ thousands

Item \ Year	Five-Year Financial Summary (Note)				
	2010	2011	2012	2013	2014
Operating revenues			881,197,415	949,752,028	1,019,738,833
Gross profit			37,032,384	45,516,719	59,455,442
Results from operating activities			12,211,588	15,576,752	28,320,585
Non-operating income and expenses			1,967,609	3,453,120	(2,058,498)
Profit before tax			14,179,197	19,029,872	26,262,087
Profit (loss) from continuing operations			10,336,181	14,247,247	18,927,613
Profit (loss) from discontinued operations			-	-	-
Profit (loss)			10,336,181	14,247,247	18,927,613
Other comprehensive income (after tax)			(2,977,627)	3,916,721	6,256,340
Comprehensive income	NA	NA	7,358,554	18,163,968	25,183,953
Profit (loss), attributable to owners of parent			6,382,945	9,554,496	14,658,138
Profit (loss), attributable to non-controlling interests			3,953,236	4,692,751	4,269,475
Comprehensive income, attributable to owners of parent			3,819,274	12,903,831	19,604,022
Comprehensive income, attributable to non-controlling interests			3,539,280	5,260,137	5,579,931
Basic earnings per share			2.83	4.16	6.24

Note: Above financial information has been audited by CPA.

6.1.4 Condensed Consolidated Statement of Income – TW GAAP

Unit: NT\$ thousands

Year Item	Five-Year Financial Summary (Note)				
	2010	2011	2012	2013	2014
Operating revenue	530,531,351	599,942,706	881,895,384		
Gross profit	30,165,256	26,996,786	42,469,395		
Income from operations	8,693,941	913,108	11,160,525		
Non-operating income	5,400,736	5,371,569	5,242,466		
Non-operating expenses	1,124,333	1,557,285	2,600,433		
Income from operations of continued segments - before tax	12,970,344	4,727,392	13,802,558		
Income from operations of continued segments - after tax	10,606,766	3,305,162	9,977,633	NA	NA
Income from discontinued departments	NA	NA	NA		
Extraordinary gain or loss	NA	NA	NA		
Cumulative effect of accounting principle changes	NA	NA	NA		
Net income (loss)	10,606,766	3,305,162	9,977,633		
Basic earnings per share	2.73	0.05	2.71		

Note: Above financial information has been audited by CPA.

6.1.5 Condensed Individual Balance Sheet – IFRS

Unit: NT\$ thousands

Year Item		Five-Year Financial Summary (Note)				
		2010	2011	2012	2013	2014
Current assets		NA	NA	227,051,674	283,288,047	316,056,068
Funds & Investments				89,510,096	95,704,186	112,093,393
Property, plant and equipment				4,473,252	4,444,544	4,478,327
Intangible assets				93,514	58,990	48,713
Other assets				123,037	239,921	206,989
Total assets				321,251,573	383,735,688	432,883,490
Current liabilities	Before Distribution			207,361,516	251,086,153	286,989,503
	After Distribution			210,796,973	257,583,370	Undistributed
Non-current liabilities				18,084,778	25,345,741	12,223,056
Total liabilities	Before Distribution			225,446,294	276,431,894	229,212,559
	After Distribution			228,881,751	282,929,111	Undistributed
Equity				NA	NA	NA
Share capital				22,903,049	23,211,555	25,156,805
Capital surplus				61,723,110	63,175,819	74,295,720
Retained earnings	Before Distribution	15,005,566	21,143,952	29,325,244		
	After Distribution	11,570,109	14,646,735	Undistributed		
Other equity interest		(3,807,652)	(210,136)	4,901,345		
Treasury stock		(18,794)	(17,396)	(8,183)		
Non-controlling interests		NA	NA	NA		
Total Equity	Before Distribution	95,805,279	107,303,794	133,670,931		
	After Distribution	92,369,822	100,807,577	Undistributed		

Note: Above financial information has been audited by CPA.

6.1.6 Condensed Individual Balance Sheet – TW GAAP

Unit: NT\$ thousands

Item	Year	Five-Year Financial Summary (Note)				
		2010	2011	2012	2013	2014
Current assets		59,018,914	128,013,989	227,027,536	NA	NA
Funds & Investments		83,573,594	86,765,900	89,819,986		
Fixed assets		4,041,546	3,934,857	3,832,044		
Intangible assets		181,820	121,223	93,947		
Other assets		1,512,580	763,501	666,826		
Total assets		148,357,091	219,628,741	321,470,989		
Current liabilities	Before Distribution	50,203,065	115,532,544	207,240,143		
	After Distribution	46,931,334	115,532,544	210,675,600		
Long-term liabilities		7,007,411	12,120,232	17,713,495		
Other liabilities		305,386	391,756	438,518		
Total liabilities	Before Distribution	57,515,862	128,044,532	225,392,156		
	After Distribution	54,244,131	128,044,532	228,827,613		
Capital stock		22,563,669	22,563,669	22,903,049		
Capital surplus		63,145,448	63,465,496	64,560,268		
Retained earnings	Before Distribution	9,469,062	6,308,696	12,412,492		
	After Distribution	6,197,331	6,308,696	8,977,035		
Unrealized gain or loss on financial instruments		922,576	48,936	122,071		
Cumulative translation adjustments		(5,250,188)	(784,234)	(3,400,838)		
Net loss unrecognized as pension cost		(16)	440	(1,717)		
Total shareholders' equity	Before Distribution	90,841,229	91,584,209	96,078,833		
	After Distribution	87,569,498	91,584,209	92,643,376		

Note: Above financial information has been audited by CPA.

6.1.7 Condensed Individual Statement of Comprehensive Income – IFRS

Unit: NT\$ thousands

Year Item	Five-Year Financial Summary (Note1)				
	2010	2011	2012	2013	2014
Operating revenues			638,869,554	794,224,728	897,963,588
Gross profit (Note 2)			6,674,619	10,802,101	24,884,749
Results from operating activities			(916,249)	289,078	7,971,306
Non-operating income and expenses			7,735,386	9,257,322	8,467,161
Profit before tax			6,819,137	9,546,400	16,438,467
Profit (loss) from continuing operations			6,382,945	9,554,496	14,658,138
Profit (loss) from discontinued operations			-	-	-
Profit (loss)			6,382,945	9,554,496	14,658,138
Other comprehensive income (after tax)			(2,563,671)	3,349,335	4,945,884
Comprehensive income	NA	NA	3,819,274	12,903,831	19,604,022
Profit (loss), attributable to owners of parent			NA	NA	NA
Profit (loss), attributable to non-controlling interests			NA	NA	NA
Comprehensive income, attributable to owners of parent			NA	NA	NA
Comprehensive income, attributable to non-controlling interests			NA	NA	NA
Basic earnings per share			2.83	4.16	6.24

Note 1: Above financial information has been audited by CPA.

Note 2: Gross profit included realized (unrealized) profits from affiliated companies.

6.1.8 Condensed Individual Statement of Income – TW GAAP

Unit: NT\$ thousands

Item \ Year	Five-Year Financial Summary (Note 1)				
	2010	2011	2012	2013	2014
Operating revenue	297,761,769	371,712,663	638,698,954	NA	NA
Gross profit (Note 2)	10,626,452	5,299,704	6,814,120		
Income from operations	4,032,105	(1,823,495)	(1,720,235)		
Non-operating income	3,758,108	2,677,282	9,252,726		
Non-operating expenses	473,803	795,273	991,138		
Income from operations of continued segments - before tax	7,316,410	58,514	6,541,353		
Income from operations of continued segments - after tax	6,211,436	111,365	6,103,796		
Income from discontinued departments	-	-	-		
Extraordinary gain or loss	-	-	-		
Cumulative effect of accounting principle changes	-	-	-		
Net income (loss)	6,211,436	111,365	6,103,796		
Basic earnings per share	2.73	0.05	2.71		

Note 1: Above financial information has been audited by CPA.

Note 2: Gross profit included realized (unrealized) profits from affiliated companies

6.1.9 Auditing by CPA from 2010 to 2014

Year	CPA Firm	CPA's Name	Auditing Opinion
2010	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2011	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2012	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2013	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2014	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis – IFRS

Year (Note1) Item (Note 2)		Five-Year Financial Analysis				
		2010	2011	2012	2013	2014
Capital structure (%)	Debt ratio			67.72	65.36	61.74
	Ratio of long-term capital to property, plant and equipment			210.83	233.73	259.02
Solvency	Current ratio (%)			129.46	136.64	139.47
	Quick ratio (%)			86.87	90.75	98.84
	Times interest earned (Times)			12.29	18.87	31.26
Operating ability	Accounts receivable turnover (Times)			8.46	8.28	8.56
	Average collection period			43.14	44.08	42.64
	Inventory turnover (Times)			10.03	8.71	9.11
	Accounts payable turnover (Times)			6.20	5.46	5.76
	Average days in sales			36.39	41.90	40.06
	Property, plant, and equipment turnover (Times)	NA	NA	12.04	12.85	13.99
	Total assets turnover (Times)			2.23	2.28	2.23
Profitability	Return on total assets (%)			3.28	3.73	4.50
	Return on stockholders' equity (%)			8.42	10.49	11.87
	Pretax profit to paid-in capital (%)			61.91	81.98	104.39
	Net profit margin (%)			1.17	1.50	1.86
	Basic earnings per share (\$)			2.83	4.16	6.24
Cash flow	Cash flow ratio (%)			10.33	10.48	18.70
	Cash flow adequacy ratio (%)			57.24	67.58	84.98
	Cash reinvestment ratio (%)			10.93	8.39	15.58
Leverage	Operating leverage			2.07	1.89	1.49
	Financial leverage			1.11	1.07	1.03

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio increased in 2014 due to the increase in gross profit and profit before tax.
2. Return on total assets: The ratio increased in 2014 due to the increase in gross profit and net income.
3. Pretax profit to paid-in capital: The ratio increased in 2014 due to the increase in gross profit and profit before tax.
4. Net profit margin: The ratio increased in 2014 due to the increase in gross margin and net income.
5. Earnings per share (Before adjustment): The ratio increased in 2014 due to the increase in net income.
6. Cash flow ratio: The ratio increased in 2014 due to the increase in net cash inflow from operating activity.
7. Cash flow adequacy ratio: The ratio increased in 2014 due to the increase in net cash inflow from operating activity.
8. Cash reinvestment ratio: The ratio increased in 2014 due to the increase in net cash inflow from operating activity.
9. Degree of operating leverage: The ratio decreased in 2014 due to the increase in operating income.

Note 1: First quarter 2015 financial statements have not been disclosed to the public as of the date of this annual report.

Note 2: Equations:

1. Capital Structure

- (1) Debt ratio = Total liability / Total assets
 (2) Ratio of long-term capital to property, plant and equipment = (Net shareholders' equity + Long-term liability) / Net property, plant and equipment
2. Solvency
 (1) Current ratio: Current assets / current liability
 (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
 (3) Times interest earned = Net income before tax and interest expense / Interest expense of the year
3. Operating ability
 (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
 (2) Days sales in accounts receivable = 365 / Account receivable turnover
 (3) Inventory turnover = Cost of goods sold / Average inventory amount
 (4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
 (5) Average days in sales = 365 / Inventory turnover
 (6) Fixed assets turnover = Net sales / Net fixed assets
 (7) Total assets turnover = Net sales / Total assets
4. Profitability
 (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
 (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
 (3) Return to issued capital stock = Net income before tax / Issued capital stock
 (4) Profit ratio = Net income (loss) / Net sales
 (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
5. Cash flow
 (1) Cash flow ratio = Net cash flow from operating activity / Current liability
 (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
 (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
6. Balance
 (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)
 (2) Degree of financial leverage = Operating income / (Operating income – interest expense)
- Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:
 1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
 2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
 3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
 4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.
- Note 5: The following factors are to be included for consideration for the analysis of cash flow:
 1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
 2. Capital expenditure meant for the cash outflow of capital investment annually.
 3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
 4. Cash dividend includes the amount for common stock and preferred stock.
 5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.
- Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistency.

6.2.2 Consolidated Financial Analysis – TW GAAP

Item (Note 2)		Year	Five-Year Financial Analysis					
			2010	2011	2012	2013	2014	
Capital structure (%)	Debt ratio		46.01	60.55	67.29	NA	NA	
	Ratio of long-term capital to fixed assets		241.94	209.17	217.08			
Solvency	Current ratio (%)		172.14	142.51	130.85			
	Quick ratio (%)		121.32	95.81	88.07			
	Times interest earned (Times)		58.71	8.84	13.96			
Operating ability	Accounts receivable turnover (Times)		9.42	10.03	9.13			
	Average collection period		38.75	36.39	39.98			
	Inventory turnover (Times)		10.94	9.89	9.97			
	Accounts payable turnover (Times)		8.26	7.39	6.16			
	Average days in sales		33.36	36.89	36.62			
	Fixed assets turnover (Times)		9.99	8.51	12.28			
	Total assets turnover (Times)		2.46	2.00	2.25			
Profitability	Return on total assets (%)		4.90	1.48	3.14			
	Return on stockholders' equity (%)		8.96	2.82	8.10			
	Ratio to issued capital (%)	Operating Income		38.53	4.05			48.73
		Pre-tax Income		57.48	20.95			60.27
	Net profit margin (%)		2.00	0.55	1.13			
	Basic earnings per share(\$)		2.73	0.05	2.71			
Cash flow	Cash flow ratio (%)		2.73	4.38	10.37			
	Cash flow adequacy ratio (%)		53.32	33.70	38.49			
	Cash reinvestment ratio (%)		-	0.42	11.48			
Leverage	Operating leverage		2.19	13.01	2.18			
	Financial leverage		1.03	2.94	1.11			

Note 1: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

(1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets

- (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
 - (3) Return to issued capital stock = Net income before tax / Issued capital stock
 - (4) Profit ratio = Net income (loss) / Net sales
 - (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
5. Cash flow
- (1) Cash flow ratio = Net cash flow from operating activity / Current liability
 - (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
 - (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
6. Balance
- (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)
 - (2) Degree of financial leverage = Operating income / (Operating income – interest expense)
- Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:
1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
 2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
 3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually and annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
 4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.
- Note 5: The following factors are to be included for consideration for the analysis of cash flow:
1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
 2. Capital expenditure meant for the cash outflow of capital investment annually.
 3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
 4. Cash dividend includes the amount for common stock and preferred stock.
 5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.
- Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistency.

6.2.3 Individual Financial Analysis – IFRS

Year (Note1) Item (Note 2)		Five-Year Financial Analysis				
		2010	2011	2012	2013	2014
Capital structure (%)	Debt ratio			70.18	72.04	69.12
	Ratio of long-term capital to property, plant and equipment			2,520.63	2,973.68	3,252.40
Solvency	Current ratio (%)			109.50	112.83	110.13
	Quick ratio (%)			103.57	104.02	103.69
	Times interest earned (Times)			12.03	14.82	34.79
Operating ability	Accounts receivable turnover (Times)			4.21	3.87	5.34
	Average collection period			86.70	94.32	68.35
	Inventory turnover (Times)			57.95	44.95	42.07
	Accounts payable turnover (Times)			4.49	4.13	4.12
	Average days in sales			6.30	8.12	8.68
	Property, plant, and equipment turnover (Times)	NA	NA	142.82	178.70	200.51
	Total assets turnover (Times)			1.99	2.07	2.07
Profitability	Return on total assets (%)			2.55	2.87	3.69
	Return on stockholders' equity (%)			6.82	9.41	12.17
	Pretax Profit to paid-in capital (%)			29.77	41.13	65.34
	Net profit margin (%)			1.00	1.20	1.63
	Basic earnings per share (\$)			2.83	4.16	6.24
Cash flow	Cash flow ratio (%)			-	-	7.10
	Cash flow adequacy ratio (%)			-	-	44.82
	Cash reinvestment ratio (%)			-	-	9.45
Leverage	Operating leverage			0.30	3.16	1.08
	Financial leverage			0.60	-	1.07

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio increased in 2014 due to the increase in gross profit and profit before tax.
2. Accounts receivable turnover: The ratio increased in 2014 due to improved net sales.
3. Average collection period: Decrease in average collection period was due to increase in accounts receivable turnover.
4. Return on total assets: The ratio increased in 2014 due to the increase in gross margin and net income.
5. Return on stockholders' equity: The ratio increased in 2014 due to the increase in gross margin and net income.
6. Pretax Profit to paid-in capital: The ratio increased in 2014 due to the increase in gross margin and profit before tax.
7. Net profit margin: The ratio increased in 2014 due to the increase in gross margin and net income.
8. Earnings per share (Before adjustment): The ratio increased in 2014 due to the increase in net income
9. Cash flow ratio: The ratio increased in 2014 due to the increase in net cash inflow from operating activity.
10. Cash flow adequacy ratio: The ratio increased in 2014 due to the increase in net cash inflow from operating activity.
11. Cash reinvestment ratio: The ratio increased in 2014 due to the increase in net cash inflow from operating activity.
12. Degree of operating leverage: The ratio decreased in 2014 due to the increase in operating income.
13. Degree of financial leverage: The ratio increased in 2014 due to the higher increase in operating income than interest.

Note 1: First quarter 2015 financial statements have not been disclosed to public as of the date of this annual report.

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to property, plant and equipment = (Net shareholders' equity + Long-term liability) / Net property, plant and equipment

2. Solvency
 - (1) Current ratio: Current assets / current liability
 - (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
 - (3) Times interest earned = Net income before tax and interest expense / Interest expense of the year
 3. Operating ability
 - (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
 - (2) Days sales in accounts receivable = 365 / Account receivable turnover
 - (3) Inventory turnover = Cost of goods sold / Average inventory amount
 - (4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
 - (5) Average days in sales = 365 / Inventory turnover
 - (6) Fixed assets turnover = Net sales / Net fixed assets
 - (7) Total assets turnover = Net sales / Total assets
 4. Profitability
 - (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
 - (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
 - (3) Return to issued capital stock = Net income before tax / Issued capital stock
 - (4) Profit ratio = Net income (loss) / Net sales
 - (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
 5. Cash flow
 - (1) Cash flow ratio = Net cash flow from operating activity / Current liability
 - (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
 - (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
 6. Balance
 - (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)
 - (2) Degree of financial leverage = Operating income / (Operating income – interest expense)
- Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:
1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
 2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
 3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually an annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
 4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.
- Note 5: The following factors are to be included for consideration for the analysis of cash flow:
1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
 2. Capital expenditure meant for the cash outflow of capital investment annually.
 3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
 4. Cash dividend includes the amount for common stock and preferred stock.
 5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.
- Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistence.

6.2.4 Individual Financial Analysis – TW GAAP

Year		Five-Year Financial Analysis					
		2010	2011	2012	2013	2014	
Capital structure (%)	Debt ratio	38.77	58.30	70.11	NA	NA	
	Ratio of long-term capital to fixed assets	2,420.67	2,597.67	2,969.49			
Solvency	Current ratio (%)	117.56	110.80	109.55			
	Quick ratio (%)	103.13	102.68	103.62			
	Times interest earned ratio (Times)	78.17	1.28	15.47			
Operating ability	Accounts receivable turnover (Times)	4.72	4.82	4.21			
	Average collection period	77.41	75.73	86.70			
	Inventory turnover (Times)	30.93	42.75	57.94			
	Accounts payable turnover (Times)	5.34	5.44	4.49			
	Average days in sales	11.80	8.54	6.30			
	Fixed assets turnover (Times)	73.68	93.12	166.67			
	Total assets turnover (Times)	2.01	1.69	1.99			
Profitability	Return on total assets (%)	3.64	0.16	2.39			
	Return on stockholders' equity (%)	6.66	0.12	6.51			
	Ratio to issued capital (%)	Operating Income	17.87	-8.08			-7.51
		Pre-tax Income	32.43	0.26			28.56
	Profit ratio (%)	2.09	0.03	0.96			
	Basic earnings per share(\$)	2.73	0.05	2.71			
Cash flow	Cash flow ratio (%)	20.81	-	-			
	Cash flow adequacy ratio (%)	226.20	51.91	-			
	Cash reinvestment ratio (%)	6.52	-	-			
Leverage	Operating leverage	1.21	0.61	0.60			
	Financial leverage	1.02	0.90	0.79			

Note 1: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

- (1) Return on assets = $(\text{Net income (loss)} + \text{interest expense} \times (1 - \text{tax rate})) / \text{Average total assets}$
- (2) Return on shareholders' equity = $\text{Net income (loss)} / \text{Net average shareholders' equity}$
- (3) Return to issued capital stock = $\text{Net income before tax} / \text{Issued capital stock}$
- (4) Profit ratio = $\text{Net income (loss)} / \text{Net sales}$
- (5) Basic earnings per share = $(\text{Net income} - \text{preferred stock dividend}) / \text{Weighted average stock shares issued}$

5. Cash flow

- (1) Cash flow ratio = $\text{Net cash flow from operating activity} / \text{Current liability}$
- (2) Cash flow adequacy ratio = $\text{Net cash flow from operating activity in the past 5 years} / (\text{Capital expenditure} + \text{Inventory interest} + \text{Cash dividend}) \text{ in the past 5 years}$
- (3) Cash + reinvestment ratio = $(\text{Net cash flow from operating activity} - \text{Cash dividend}) / (\text{Fixed assets} + \text{Long term investment} + \text{Other assets} + \text{Working capital})$

6. Balance

- (1) Degree of operating leverage = $(\text{Net operating income} - \text{Variable operating cost and expense}) / \text{Operating income (note 6)}$
- (2) Degree of financial leverage = $\text{Operating income} / (\text{Operating income} - \text{interest expense})$

Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:

1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.

Note 5: The following factors are to be included for consideration for the analysis of cash flow:

1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
2. Capital expenditure meant for the cash outflow of capital investment annually.
3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
4. Cash dividend includes the amount for common stock and preferred stock.
5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.

Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistency.

6.3 Audit Committee's Report in the Most Recent Year

Pegatron Corporation

Audit Committee's Review Report

Date: May 7, 2015

The Board of Directors has prepared the Pegatron Corporation's ("the Company") 2014 Business Report, financial statements, and proposal for earning distribution. The CPA firm of KPMG was retained to audit the Company's financial statements and has issued an audit report relating to the financial statements. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the Audit Committee members of Pegatron Corporation. According to Article 14-4 of Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Pegatron Corporation

Chairman of the Audit Committee: Mr. Chun Lin



6.4 Consolidated Financial Statements of the Parent Company and Subsidiary in the Most Recent Year:

Please refer to Attachment I.

6.5 Non-Consolidated Financial Statements of the Most Recent Year:

Please refer to Attachment II.

6.6 Financial Difficulties Encountered By the Company and the Related Party in the Most Recent Year and Up to the Date of the Annual Report: None.

7. Review of Financial Position, Management Performance and Risk Management

7.1 Analysis of Financial Status – Consolidated

Unit: NT\$ thousands; %

Item	Year		Difference	
	2014	2013	Amount	%
Current Assets	369,602,726	326,934,979	42,667,747	13.05%
Funds & Investments	490,372	1,187,753	(697,381)	(58.71%)
Property, plant and equipment	72,898,284	73,916,654	(1,018,370)	(1.38%)
Intangible Assets	1,601,259	1,969,832	(368,573)	(18.71%)
Other Assets	12,500,500	11,886,306	614,194	5.17%
Total Assets	457,093,141	415,895,524	41,197,617	9.91%
Current Liabilities	265,997,445	239,272,864	25,724,581	10.75%
Long-term Liabilities	13,949,222	28,708,174	(14,758,952)	(51.41%)
Other Liabilities	3,275,244	3,859,307	(584,063)	(15.13%)
Total Liabilities	282,221,911	271,840,345	10,381,566	3.82%
Capital stock	25,156,805	23,211,555	1,945,250	8.38%
Capital surplus	74,295,720	63,175,819	11,119,901	17.60%
Retained Earnings	29,325,244	21,143,952	8,181,292	38.69%
Other Adjustments	46,093,461	36,523,853	9,569,608	26.20%
Total Stockholders' Equity	174,871,230	144,055,179	30,816,051	21.39%

Analysis of changes in financial ratios:

1. Funds & Investments: The decrease was mainly due to reclassify of investments into non-current assets classified as held for sale .
2. Long-term Liabilities: The decrease was mainly due to ECB conversion and the repayment of long-term loans.
3. Retained Earnings: The increase was due to the increase in net income for the year 2014.
4. Other Adjustments: The increase was due to the fluctuation in FX rates changed rapidly which resulted in the increase of cumulative translation adjustments, and the increased net income for the year 2014 which resulted in the increase of non-controlling interests.
5. Total Stockholders' Equity: The increase was due to the increase in Capital surplus, Retained Earnings and Other Adjustments.

● **Effect of change on financial condition:**

No significant changes on the Company's financial condition.

● **Future response actions:** Not applicable.

7.2 Analysis of Operating Results - Consolidated

Unit: NT\$ thousands; %

Item	Year		Difference	
	2014	2013	Amount	%
Net Sales	1,019,738,833	949,752,028	69,986,805	7.37%
Cost of Sales	960,283,391	904,235,309	56,048,082	6.20%
Gross Profit	59,455,442	45,516,719	13,938,723	30.62%
Operating Expense	31,134,857	29,939,967	1,194,890	3.99%
Results from operating activities	28,320,585	15,576,752	12,743,833	81.81%
Non-operating Income and Expenses	(2,058,498)	3,453,120	(5,511,618)	(159.61%)
Profit Before Tax	26,262,087	19,029,872	7,232,215	38.00%
Income Tax Expense	7,334,474	4,782,625	2,551,849	53.36%
Profit for the year Income after Income Tax	18,927,613	14,247,247	4,680,366	32.85%
Other Comprehensive Income	6,256,340	3,916,721	2,339,619	59.73%
Total Comprehensive Income	25,183,953	18,163,968	7,019,985	38.65%
Analysis of changes in financial ratios:				
1. Gross Profit: The increase was due to the increase in sales and improving operation efficiency.				
2. Result from Operating Activities: The increase was due to the increase in gross profit.				
3. Non-Operating Income and Expense: The increase was due to increase in ECB net loss on financial liability after fair value through profit loss.				
4. Profit Before Tax: The increase was due to the increase in gross profite.				
5. Income Tax Expense: The increase was mainly due to increased operating income and increase in ECB net loss on financial liability at fair value.				
6. Profit for the year: The increase was mainly due to the increase in gross profit.				
7. Other comprehensive income: The increase was mainly due to the fluctuation in FX rates, which resulted in exchange differences on translation.				
8. Total Comprehensive Income: The increase was mainly due to the increase in net income and other comprehensive income				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year – Consolidated

Unit: NT\$ thousands; %

Item	Year	2014	2013	Difference	
				Amount	%
Cash flows from operating activities		49,565,981	25,070,504	24,495,477	97.71
Cash flows from investing activities		(9,317,505)	(12,973,949)	3,656,444	(28.18)
Cash flows from financing activities		(9,569,653)	2,151,436	(11,721,089)	(544.80)
Analysis of changes in financial ratios:					
1. Cash flows from operating activities: The increase in cash flow was due to increase in revenue, which resulted in decreased inventory and increased accounts payable as compared to the previous year.					
2. Cash flows from investing activities: The increase was due to less acquisition of property, plant and equipment as compared to the previous year.					
3. Cash flows from financing activities: The decrease was due to increase repayment of long-term debt and dividends paid as compared to the previous year.					

7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

In light of positive cash flows, remedial actions are not required.

7.3.3 Cash Flow Analysis for the Coming Year: Not applicable.

7.4 Major Capital Expenditure Items: None.

7.5 Investment Policy in Last year, Main Causes for Profits or Losses, Improvement

Plans and the investment Plans for the Coming Year

The Company's long-term investment accounted under the equity method is mostly for strategic purposes. In 2014, the investment income under equity method reached NT\$11,976,103 thousand dollars, which grew significantly as compared to the previous year. The growth was due to order increasing from customers and improving operation from investees in 2014. For future investment, the Company will continue focusing on strategic purpose and carefully assessing the financial risks and its return in order to maximize the value for the Company.

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation of Corporate Finance, and Future Response Measures

(1) Interest Rate

The Company's interest rate risks mainly arise from the long-term and short-term loans made from banks and the short-term capital management for working capital needs. In order to reduce the risks of interest rates, especially relating to bank loans, the Company contacts banks on the regular basis, studies the trend of interest rate and negotiates for the best interest rate for the Company. As for short-term capital

management, the Company mainly invests in financial instruments of fixed deposit, which not only secures the capital but also reduces associated risks.

(2) Foreign Exchange Rate

The Company adopts a prudent approach towards foreign exchange strategy. Since the Company's sales and purchases are denominated mainly in US dollars, the risks are naturally hedged. However, significant changes in foreign exchange rate may cause adverse impact to the financial conditions of the Company and the responsive measures are taken as follows:

- a. Collecting market information for analysis and risk evaluation, contacting banks on a regular basis to be fully aware of the trend of foreign exchange rate, and adjusting financial positions in foreign currency when necessary.
- b. Securing reasonable profits by taking foreign exchange into consideration when providing quotations for sales.

(3) Inflation

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index grew by 1.20% and decreased by 0.57% respectively in 2014, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2014. The Company observes the changes of market price at all times and adjusts selling price or inventory levels when necessary.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-Risk, High-Leverage Investment, Loaning or Endorsement Guarantees and Derivatives Transactions

(1) High-Risk, High-Leverage Investment

In 2014 and as of the date of this annual report, the Company has not conducted any high-risk and/or high-leverage investment.

(2) Loaning or Endorsement Guarantees

The Company conducts loaning or endorsement guarantees according to the internal policy "Procedures for Loaning of Funds and Making of Endorsements / Guarantees". Procedures and risk evaluation are conducted in accordance with this policy.

(3) Derivatives Transactions

The Company did not conduct any derivative transactions in 2014. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets". The derivative transactions conducted by the Company's subsidiaries are for hedging purpose. For non-hedging transactions, subsidiaries will handle cautiously.

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company focuses on the development of products that are integrated with high added value based on the Company's product roadmap. Going forward, continuous effort will be spent on product research and development and pursuing leading position in this field by controlling factors such as talent, capital, technology, etc. It is estimated that R&D expense will maintain at a certain amount and adjust on annual basis depending on the operation result.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company complies with regulations associating with corporate governance, company law, security law and other important sources of regulations. In addition, the Company also monitors material changes in governing regulations and laws and be fully aware of the changes in the markets. In 2014 and as of the date of this annual report, there were no such risks to the Company.

7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales

The Company pays attention to the changes in technologies and in industry at all time so as to be fully aware of the market trend and evaluate any potential impact on the operations of the Company. No material changes of technologies have brought any adverse impact to the financial conditions of the Company.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

Since the date of incorporation, the Company has been having a positive corporate image and complying with relevant laws and regulations. In 2014 and as of the date of this annual report, there were no such risks for the Company.

7.6.7 Expected Benefits and Risks Relating to and Response to Merger and Acquisition Plans

In 2014 and as of the date of this annual report, the Company did not have any plans for mergers and acquisitions and there were no such risks for the Company.

7.6.8 Expected Benefits and Risks Relating to and Response to Factory Expansion Plans

The Company takes factors such as global economy, industry outlook, market demand and customers' order forecast into consideration when planning factory and capacity

expansion. In 2014 and as of the date of this annual report, the benefits of expansion plan meet the Company's expectation.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

The Company's core business is design, manufacturing and services of 3C products, and according to the industry practice, the Company tends to purchase raw material and sell the finished goods to the same party.

a. Source of Purchase

Per ODM/EMS industry practice, major customers, in order to control product quality and reduce cost of key components, will request the Company to purchase key components from specific supplier(s) and sell back to the customer after assembly. Therefore, purchase of material and sales of finished goods are concentrated to specific customer(s). The Company maintains more than two qualified raw material suppliers to ensure supply flexibility and pricing advantages so as to achieve cost reduction. In conclusion, The Company does not have risks associating with excessive concentration of supply.

b. Sales of Products

The Company continues engaging new customers, enhancing technologies and improving manufacturing process. In addition to existing customers, the Company endeavors to expand customer portfolio, develop new products to meet the versatile market demands and reduce concentration risks.

7.6.10 Effects of Risks Relating to and Response to Large Share Transfer or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholding of over 10%

The value of Pegatron shareholders' investment may be reduced by possible future sales of Pegatron shares by the major shareholders.

As of the date of this annual report, Asustek Computer Inc. owns around 17.83% of Pegatron total outstanding shares. Asustek has reiterated its intention to gradually and orderly reduce its equity interest in Pegatron. Pegatron will work closely with Asustek to complete their contemplated disposals of Pegatron shares in a way that would minimize the negative impact on the price of Pegatron shares and other shareholders.

7.6.11 Effects of Risks Relating to and Response to Changes in Control over the Company

By the end of 2009, the Company was owned 100% by Asustek and the shareholding reduced dramatically after the spin-off plan in 2010. The operation of the Company has

become more transparent after the spin-off and acceptable by customers, which is considered a positive factor in business development. In addition, the Company has formed a management team to manage the Company's operation and does not have risks associating with the changes in control over the Company.

7.6.12 Litigation or Non-litigation Matters

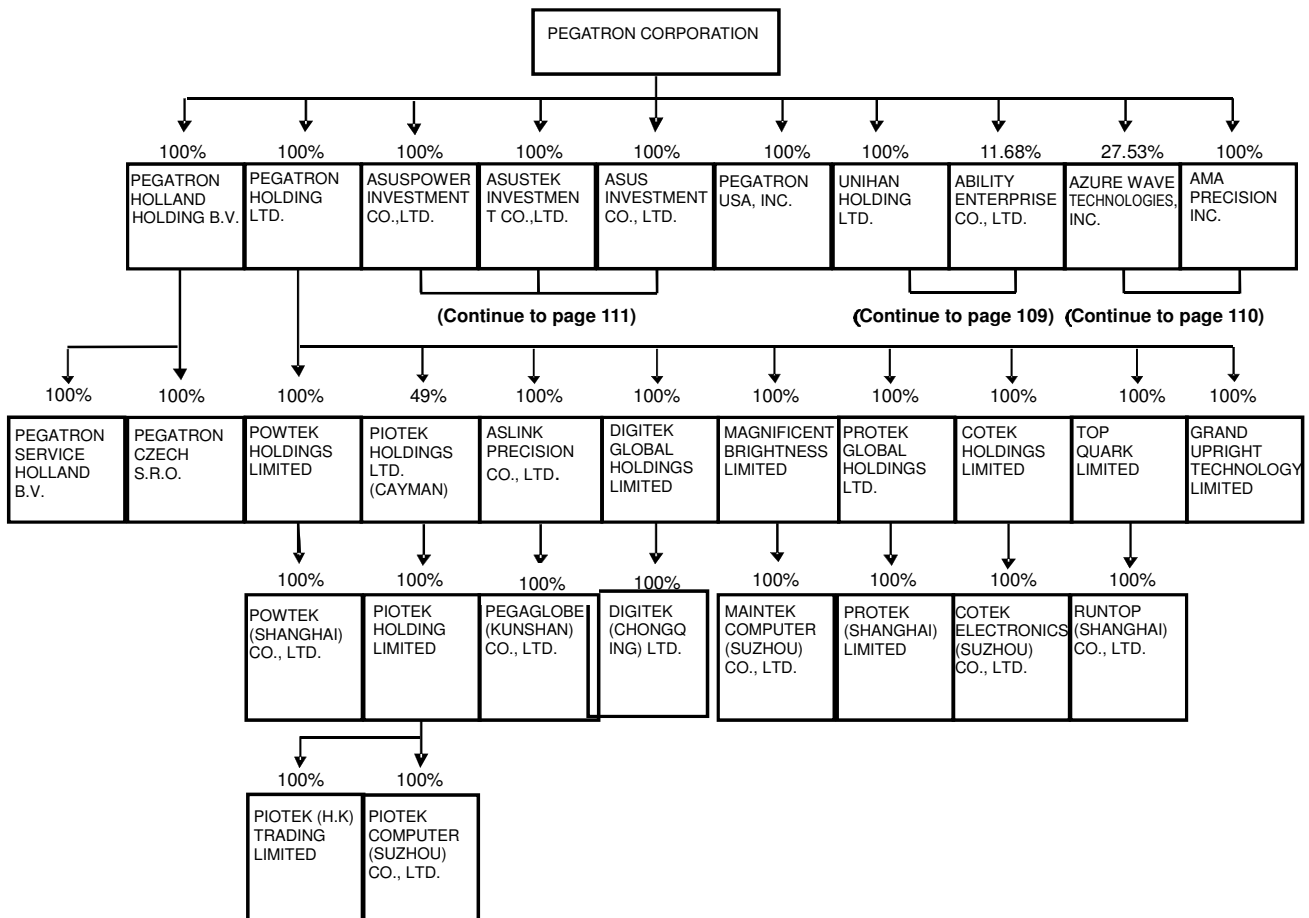
In 2014 and as of the date of this annual report, the Company did not engage in litigation or non-litigation matters that had significant impacts on shareholders' right or security prices. For litigation or non-litigation matter for major shareholder with 10% or more holding (as of the date of this annual report, Asustek Computer Inc is the only shareholder with more than 10% of shareholding.), please refer to the major shareholder's annual report.

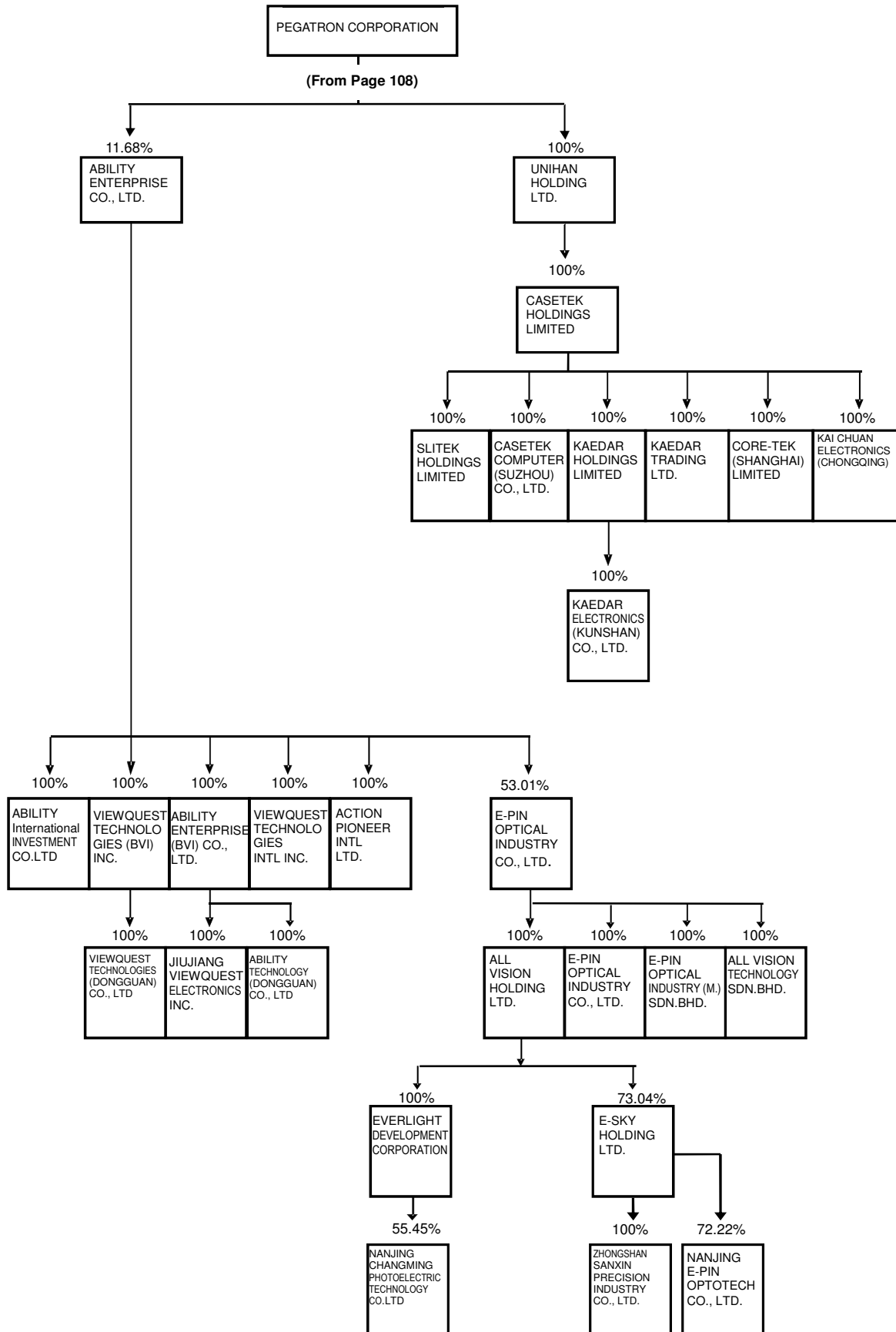
7.7 Other Major Risks

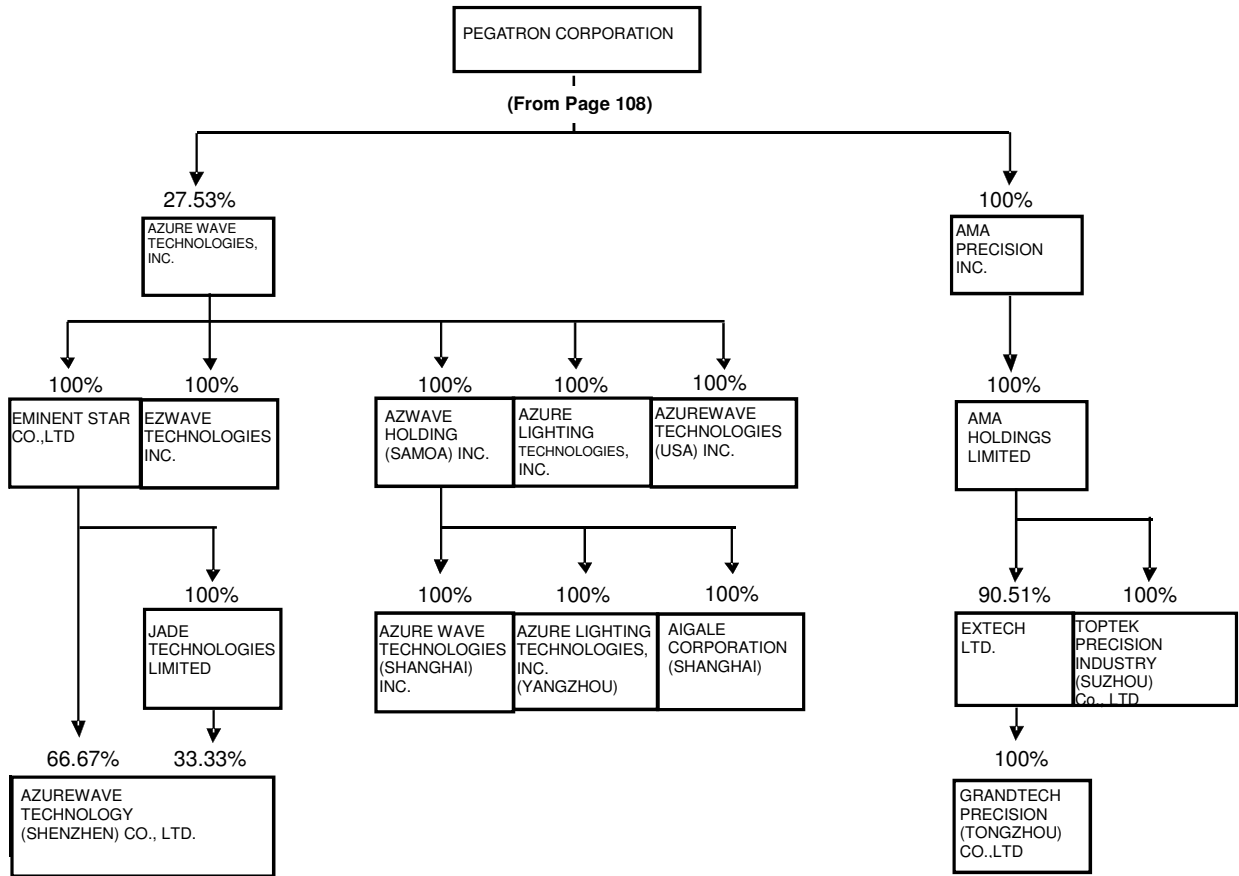
In 2014 and as of the date of this annual report, the Company did not have any other major risks.

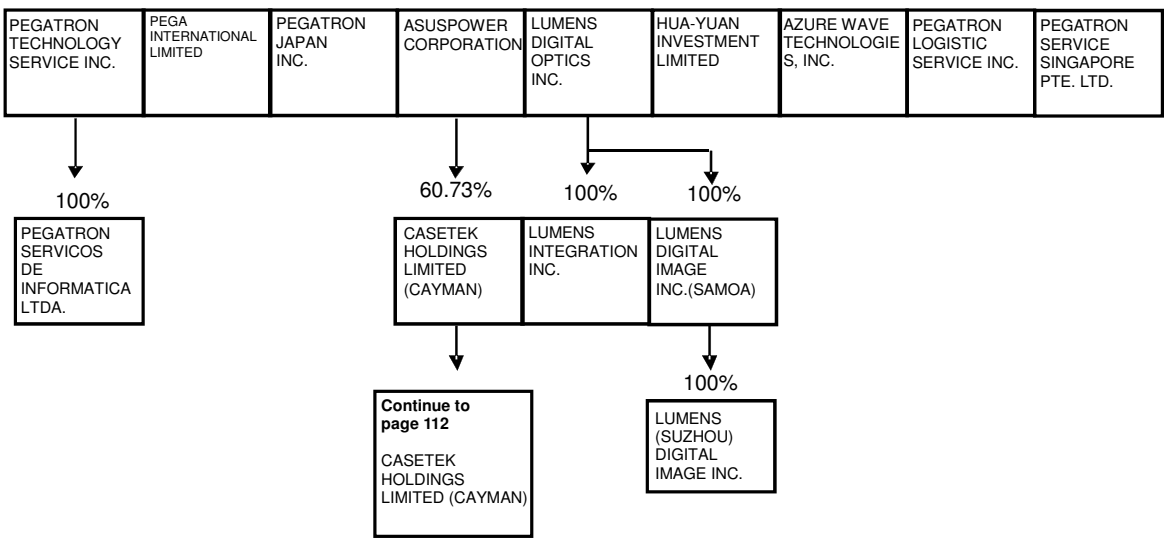
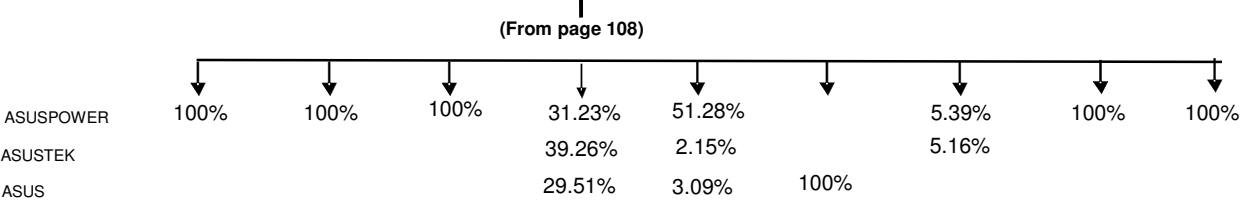
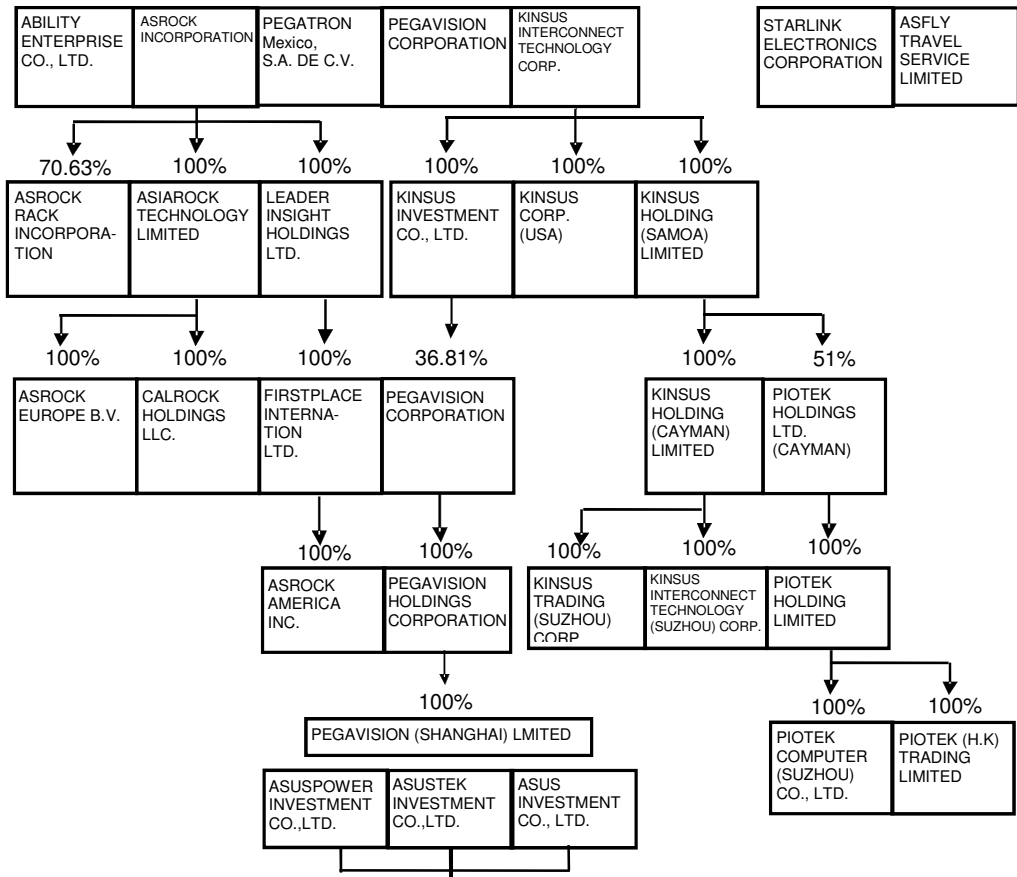
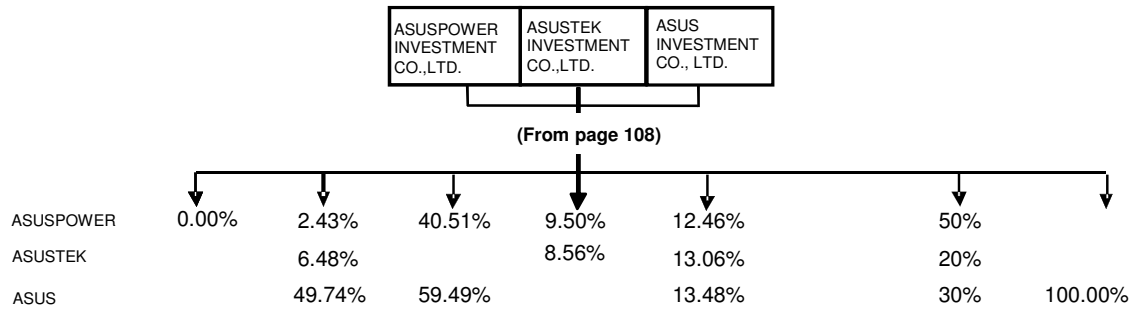
8. Other Special Notes
8.1 Summary of Affiliated Companies
8.1.1 Affiliated Companies Cha

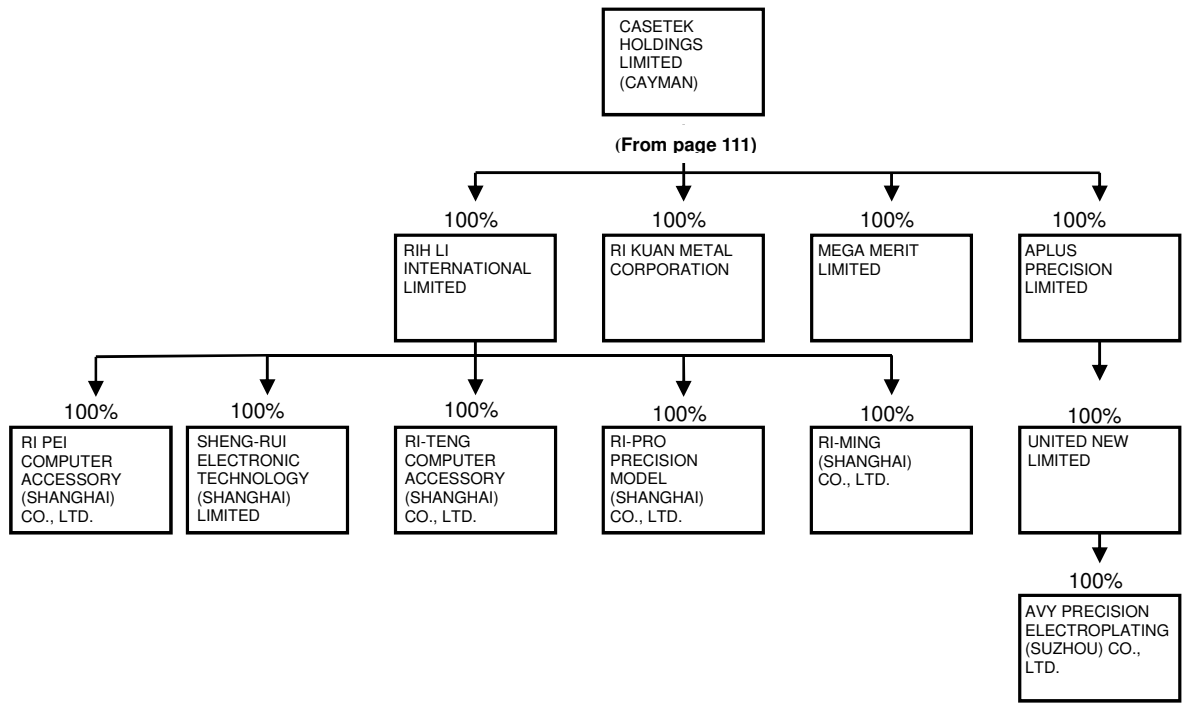
As of 12/31/2014











8.1.2 Business Scope of Pegatron and Its Affiliated Companies

Pegatron's affiliates support the Company's core business in providing design, manufacturing and services (DMS) of computing, consumer electronics and communication products. Some of Pegatron's affiliated companies are focused on investing in related companies in the industry. Pegatron and its affiliates provide mutual support in technology, capacity and services to maximize synergy within the group, enabling Pegatron to provide its customers with the most complete and comprehensive services.

8.2 Private Placement Securities in the Most Recent year: None.

8.3 The Shares of the Company Held or Disposed of by the Subsidiaries in the Most Recent year

Unit: NT\$ thousands; Shares; %

Name of subsidiary	Stock capital collected	Fund source	Shareholding ratio of the company	Date of acquisition or disposition	Shares and amount acquired	Shares and amount disposed of	Investment gain (loss)	Shareholdings & amount in the most recent year	Mortgage	Endorsement amount made for the subsidiary	Amount loaned to the subsidiary
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	7/1/2010	800,000 shares / NT\$23,902	-	-	800,000 shares / NT\$23,902	-	-	-
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	8/6/2011	900,000 shares / NT\$24,287	-	-	1,700,000 shares / NT\$48,189	-	-	-
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	6/6/2013	-	197,000 shres / NT\$5,585	-	1,503,000 shares / NT\$42,604	-	-	-
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	5/15~5/30/2014	-	950,000 shares / NT\$26,929	-	553,000 shares / NT\$15,675	-	-	-

8.4 Any Other Special Notes to be specify: None.

8.5 Any Events in 2014 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

Attachment I

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have audited the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the “Group”) as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Group’s management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain consolidated subsidiaries with total assets of NT\$74,192,415 thousand and NT\$75,535,915 thousand, representing 16.23% and 18.16% and net sales of NT\$72,984,488 thousand and NT\$79,551,772 thousand, representing 7.16% and 8.38% of the related consolidated total as of and for the years ended December 31, 2014 and 2013, respectively. Also, we did not audit the long-term investments in other companies of NT\$667,609 thousand and NT\$963,555 thousand, representing 0.15% and 0.23% of consolidated total assets as of December 31, 2014 and 2013, respectively, and the related investment loss thereon of NT\$(299,040) thousand and NT\$(49,759) thousand, representing (1.14)% and (0.26)% of consolidated net income before tax for the years ended December 2014 and 2013, respectively. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors.

We conducted our audits in accordance with “Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit 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 and report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Consolidated Company as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the non-consolidated financial statements of the Company as of and for the years ended December 31, 2014 and 2013 and have issued modified unqualified audit report thereon.

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

March 23, 2015

Notes to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers 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 accepted and applied in the Republic of China.

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 6(1))	\$ 107,688,632	24	74,261,306	18
Financial assets at fair value through profit or loss—current (Note 6(2))	5,746,322	1	7,018,321	2
Available-for-sale financial assets—current (Note 6(2))	1,083,436	-	431,458	-
Notes and accounts receivable, net (Notes 6(3), 6(27) and 7)	129,862,808	28	104,037,486	26
Other receivables, net (Notes 6(3) and 7)	14,873,148	3	29,198,019	7
Inventories (Note 6(4))	95,630,438	21	103,598,872	25
Non-current assets classified as held for sale, net (Notes 6(5) and 8)	493,740	-	365,243	-
Other financial assets—current (Notes 6(11) and 8)	2,187,887	1	1,836,937	-
Other current assets (Note 6(11))	12,036,315	3	6,187,337	1
	369,602,726	81	326,934,979	79
Non-current assets:				
Available-for-sale financial assets—noncurrent (Note 6(2))	1,480,281	1	1,156,550	-
Financial assets carried at cost—noncurrent (Note 6(2))	568,834	-	539,645	-
Investments accounted for using equity method (Note 6(6))	490,372	-	1,187,753	-
Property, plant and equipment (Notes 6(8) and 8)	72,898,284	16	73,916,654	18
Investment property, net (Note 6(9))	648,752	-	659,131	-
Intangible assets (Note 6(10))	1,601,259	-	1,969,832	1
Deferred tax assets (Note 6(19))	3,056,520	1	3,100,485	1
Prepayments on purchase of equipment	1,930,911	-	1,482,165	-
Other financial assets—noncurrent (Notes 6(11) and 8)	611,921	-	1,236,088	-
Long-term prepaid rents (Notes 6(17) and 8)	4,093,778	1	3,645,795	1
Other noncurrent assets (Note 6(11))	109,503	-	66,447	-
	87,490,415	19	88,960,545	21
TOTAL ASSETS	\$ 457,093,141	100	415,895,524	100

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONT'D)

DECEMBER 31, 2014 AND 2013

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
LIABILITIES				
Current Liabilities:				
Short-term loans (Note 6(12))	\$ 27,180,563	6	23,014,478	6
Short-term notes and bills payable (Note 6(13))	-	-	79,978	-
Financial liabilities at fair value through profit or loss – current (Notes 6(2) and 6(15))	1,126,590	-	7,443	-
Notes and accounts payable	174,754,508	38	158,190,860	38
Accounts payable – Related parties (Note 7)	13,136	-	482,670	-
Accrued expenses	24,851,714	5	19,204,565	5
Other payables	7,488,338	2	5,765,144	1
Current income tax liabilities	5,919,270	1	3,377,651	-
Provisions – current (Note 6(16))	521,454	-	450,902	-
Deferred revenue	2,083,241	1	4,707,546	1
Bonds payable – current portion (Note 6(15))	1,808,230	-	-	-
Long-term loans payable – current portion (Note 6(14))	7,743,689	2	9,019,299	2
Other current liabilities (Note 7)	11,506,712	3	14,972,328	4
	<u>264,997,445</u>	<u>58</u>	<u>239,272,864</u>	<u>57</u>
Non-current liabilities:				
Financial liabilities at fair value through profit or loss – noncurrent (Notes 6(2) and 6(15))	-	-	235,162	-
Bonds payable (Note 6(15))	-	-	8,116,490	2
Long-term loans (Note 6(14))	13,949,222	3	20,591,684	5
Deferred tax liabilities (Note 6(19))	2,295,081	1	2,454,452	1
Other noncurrent liabilities (Note 6(18))	980,163	-	1,169,693	-
	<u>17,224,466</u>	<u>4</u>	<u>32,567,481</u>	<u>8</u>
Total Liabilities	<u>282,221,911</u>	<u>62</u>	<u>271,840,345</u>	<u>65</u>
Equity Attributable to Owners of the Company (Note 6(20))				
Share capital	<u>25,156,805</u>	<u>6</u>	<u>23,211,555</u>	<u>6</u>
Capital surplus:				
Capital surplus, premium on capital stock	70,531,321	15	61,420,285	15
Capital surplus, others (Note 6(7))	3,764,399	1	1,755,534	-
	<u>74,295,720</u>	<u>16</u>	<u>63,175,819</u>	<u>15</u>
Retained earnings:				
Legal reserve	3,413,566	1	2,458,117	-
Special reserve	-	-	3,280,485	1
Unappropriated retained earnings	25,911,678	5	15,405,350	4
	<u>29,325,244</u>	<u>6</u>	<u>21,143,952</u>	<u>5</u>
Other equity interest:				
Exchange differences on translation of foreign financial statements	4,788,058	1	(48,637)	-
Unrealized gains on available-for-sale financial assets	177,810	-	79,871	-
Deferred compensation cost arising from issuance of restricted stock (Note 6(21))	(64,523)	-	(241,370)	-
	<u>4,901,345</u>	<u>1</u>	<u>(210,136)</u>	<u>-</u>
Treasury stock	(8,183)	-	(17,396)	-
Equity attributable to the Company	<u>133,670,931</u>	<u>29</u>	<u>107,303,704</u>	<u>26</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Years ended December 31			
	2014		2013	
	Amount	%	Amount	%
Operating revenues (Notes 6(24) and 7)	\$ 1,022,705,728	100	953,561,313	100
Less: Sales returns and allowances	2,966,895	-	3,809,285	-
Net sales	<u>1,019,738,833</u>	100	<u>949,752,028</u>	100
Cost of sales (Notes 6(4), 6(17), 6(18) and 7)	<u>960,283,391</u>	94	<u>904,235,309</u>	95
Gross profit	<u>59,455,442</u>	6	<u>45,516,719</u>	5
Operating expenses (Notes 6(17), 6(18) and 7)				
Selling expenses	8,534,908	1	6,545,841	1
General and administrative expenses	10,264,751	1	11,450,715	1
Research and development expenses	12,335,198	1	11,943,411	1
	<u>31,134,857</u>	3	<u>29,939,967</u>	3
Results from operating activities	<u>28,320,585</u>	3	<u>15,576,752</u>	2
Non-operating income and expenses				
Other income (Note 6(25))	3,310,394	-	2,714,809	-
Other gains and losses (Notes 6(15), 6(25) and 10)	(3,686,996)	-	2,322,001	-
Financial costs (Notes 6(15) and 6(25))	(1,090,080)	-	(1,301,253)	-
Share of loss of associates and joint ventures accounted for under equity method (Note 6(6))	(320,323)	-	(75,586)	-
Other losses	(271,493)	-	(206,851)	-
	<u>(2,058,498)</u>	-	<u>3,453,120</u>	-
Profit before tax	26,262,087	3	19,029,872	2
Income tax expense (Note 6(19))	7,334,474	1	4,782,625	-
Profit for the year	<u>18,927,613</u>	2	<u>14,247,247</u>	2
Other comprehensive income				
Foreign currency translation differences – foreign operations	5,802,814	1	3,969,608	-
Unrealized (loss) gain on available-for-sale financial assets	397,057	-	(64,975)	-
Actuarial gain on defined benefit plan	39,077	-	32,318	-
Income tax relating to components of other comprehensive income	(17,392)	-	20,230	-
Other comprehensive income for the year, net of tax	<u>6,256,340</u>	1	<u>3,916,721</u>	-
Total comprehensive income for the year	<u>\$ 25,183,953</u>	<u>3</u>	<u>\$ 18,163,968</u>	<u>2</u>
Profit attributable to				
Owners of the Company	\$ 14,658,138	2	9,554,496	2
Non-controlling interests	4,269,475	-	4,692,751	-
	<u>\$ 18,927,613</u>	<u>2</u>	<u>\$ 14,247,247</u>	<u>2</u>
Comprehensive income attributable to				
Owners of the Company	\$ 19,604,022	2	12,903,831	1
Non-controlling interests	5,579,931	1	5,260,137	1
	<u>\$ 25,183,953</u>	<u>3</u>	<u>\$ 18,163,968</u>	<u>2</u>
Earnings per share, net of tax (Note 6(23))				
Basic earnings per share	<u>\$ 6.24</u>		<u>\$ 4.16</u>	
Diluted earnings per share	<u>\$ 6.17</u>		<u>\$ 3.74</u>	

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

(English Translations of Financial Statements Originally Issued in Chinese)
 PEGATRON CORPORATION AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
 (Expressed in Thousands of New Taiwan Dollars)

	Attributable to Owners of the Company													
	Share capital			Retained earnings				Other adjustments to equity						
	Common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated	Total	Foreign currency translation differences	Unrealized gains (losses) on available-for-sale financial assets	Other	Treasury stock	Owners of the parent	Non-controlling interests	Total equity
Balance, January 1, 2013	\$ 22,903,049	-	61,723,110	1,847,737	73,4859	12,422,970	15,005,566	(3,398,256)	88,302	(497,698)	(18,794)	95,805,279	31,832,302	127,637,581
Profit for the year	-	-	-	-	-	9,554,496	9,554,496	-	-	-	-	9,554,496	4,692,751	14,247,247
Other comprehensive income for the period	-	-	-	-	-	8,147	8,147	-	(8,431)	-	-	3,341,188	567,386	3,916,721
Total comprehensive income for the period	-	-	-	-	-	9,562,643	9,562,643	3,349,619	(8,431)	-	-	3,341,188	5,260,137	18,163,968
Appropriation and distribution of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	610,380	-	(610,380)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	2,545,626	(2,545,626)	-	-	-	-	-	(3,435,457)	-	(3,435,457)
Cash dividends of ordinary share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	-	-	-	-	-	-	-	2,178	4,133	-	4,133
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	1,955	-	-	-	-	-	-	-	-	-	-	-
Changes in ownership interest in subsidiaries	-	-	116,741	-	-	-	-	-	-	-	-	116,741	(116,741)	-
Share-based payments	258,960	7,210	266,170	557,408	-	-	-	-	-	-	-	608,763	(608,763)	-
Expiration of restricted shares of stock issued to employees	(18,284)	-	19,064	-	-	-	-	-	-	-	-	823,578	(823,578)	-
Compensation cost arising from restricted shares of stock	60,620	-	148,778	-	-	11,200	11,200	-	-	-	(780)	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	476,926	-	476,926
Balance, December 31, 2013	23,204,345	7,210	63,175,819	2,458,117	3,280,485	15,405,350	21,143,952	(48,637)	79,871	(241,370)	(17,396)	107,303,794	36,751,385	144,055,179
Profit for the year	-	-	-	-	-	14,658,138	14,658,138	-	-	-	-	14,658,138	4,269,475	18,927,613
Other comprehensive income for the period	-	-	-	-	-	11,250	11,250	4,836,695	97,939	-	-	4,945,884	1,310,456	6,256,340
Total comprehensive income for the period	-	-	-	-	-	14,669,388	14,669,388	4,836,695	97,939	-	-	19,604,022	5,579,931	25,183,953
Appropriation and distribution of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	955,449	-	(955,449)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(3,280,485)	3,280,485	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of convertible bonds	377,318	1,472,500	8,507,771	-	-	(6,497,217)	(6,497,217)	-	-	-	-	(6,497,217)	-	(6,497,217)
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	-	-	-	-	-	-	-	-	10,357,589	-	10,357,589
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	9,629	-	-	-	-	-	-	-	10,503	20,132	-	20,132
Changes in ownership interest in subsidiaries	-	-	2,266,315	-	-	-	-	-	-	-	-	2,266,315	(2,266,315)	-
Share-based payments	104,890	(2,010)	102,880	16,721	-	-	-	-	-	-	-	16,721	(16,721)	-
Expiration of restricted shares of stock issued to employees	(7,448)	-	8,738	-	-	-	-	-	-	-	(1,290)	369,478	-	369,478
Compensation cost arising from restricted shares of stock	-	-	44,129	-	-	9,121	9,121	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	230,097	-	230,097
Balance, December 31, 2014	23,679,105	1,477,700	74,295,720	3,413,566	25,911,678	29,325,244	29,325,244	4,786,068	177,810	(64,523)	(81,183)	133,670,931	41,200,299	174,871,230

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2014	2013
Cash flows from operating activities:		
Profit before tax	\$ 26,262,087	19,029,872
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	13,562,092	13,332,674
Amortization	200,322	592,146
Allowance for uncollectable accounts	109,221	1,587,222
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	4,304,477	(628,347)
Interest expense	868,009	1,062,713
Interest income	(1,778,928)	(879,927)
Dividends received	(87,166)	(83,019)
Amortization of issuance costs on bonds payable	13,782	12,787
Compensation cost arising from employee stock options	297,826	533,654
Loss on foreign currency exchange of bonds payable	517,134	212,436
Share of loss of associates and joint ventures accounted for under equity method	320,323	75,586
Loss on foreign currency exchange on long-term loans	725,719	688,088
Loss on disposal of property, plant and equipment	351,566	374,085
Property, plant and equipment charged to expenses	15,199	67,611
Gains on disposals of other assets	(9,422)	-
Gains on disposal of non-current assets classified as held for sale	(61,740)	-
Gain on disposal of investments	(225,501)	(34,927)
Loss on disposal of investments accounted for using equity method	-	2,166
Impairment loss	578,759	173,619
Loss on redemption of bonds payable	-	6,065
Long-term prepaid rent charged to expenses	84,083	77,427
	<u>19,785,755</u>	<u>17,172,059</u>
Change in operating assets and liabilities		
Change in operating assets		
Increase in financial assets reported at fair value through profit or loss	1,312,092	609,294
Decrease (increase) in notes and accounts receivable	(25,934,337)	17,098,956
Decrease (increase) in other receivables	14,424,266	(13,373,882)
Decrease (increase) in inventories	7,968,434	(10,920,788)
Increase in other financial assets	(350,950)	(990,114)
Decrease (increase) in other current assets	(5,831,149)	2,329,320
Decrease (increase) in other noncurrent assets	(37,372)	32,943
Total changes in operating assets	<u>(8,449,016)</u>	<u>(5,214,271)</u>
Change in operating liabilities		
Increase (decrease) in financial liabilities reported at fair value through profit or loss	(170,706)	7,345
Increase (decrease) in accounts payable	16,094,114	(13,706,974)
Increase in accrued expense	5,692,301	2,431,232
Increase in other payables	350,266	921,521
Increase (decrease) in deferred revenue	(2,630,445)	2,461,035
Increase in provisions— current	70,552	183,721
Increase (decrease) in other current liabilities	(3,465,616)	6,342,168
Increase (decrease) in other non-current liabilities	(148,064)	95,422
Total changes in operating liabilities	<u>15,792,402</u>	<u>(1,264,530)</u>
Net changes in operating assets and liabilities	<u>7,343,386</u>	<u>(6,478,801)</u>
Total changes in operating assets and liabilities	<u>27,129,141</u>	<u>10,693,258</u>
Cash provided by operating activities	53,391,228	29,723,130
Interest received	1,754,649	851,416
Dividend received	127,316	132,726
Interest paid	(788,850)	(711,288)
Income taxes paid	(4,918,362)	(4,925,480)
Net cash provided by operating activities	<u>49,565,981</u>	<u>25,070,504</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2014	2013
Cash flows from investing activities		
Acquisition of available-for-sale financial assets	(634,599)	(87,040)
Proceeds from disposal of available-for-sale financial assets	226,274	278,836
Acquisition of financial assets at cost	(158,461)	(59,410)
Proceeds from disposal of financial assets at cost	227,642	10,468
Proceeds from capital reduction of financial assets at cost	7,497	8,330
Acquisition of investments accounted for using equity method	(30,180)	(30,271)
Proceeds from disposal of investments accounted for using equity method	-	9,492
Proceeds from disposal of non-current assets classified as held for sale	432,240	-
Acquisition of property, plant and equipment	(7,570,382)	(11,116,474)
Proceeds from disposal of property, plant and equipment	788,056	1,374,163
Proceeds from disposal of other assets	27,570	-
Acquisition of intangible assets	(84,967)	(80,788)
Proceeds from disposal of intangible assets	-	27
Decrease (increase) in other financial assets	624,167	(929,092)
Increase in prepayments on purchase of equipment	(2,830,092)	(2,198,292)
Increase in long-term prepaid rents	(342,270)	(153,898)
Net cash used in investing activities	(9,317,505)	(12,973,949)
Cash flows from financing activities		
Increase in short-term loans	4,166,085	3,401,319
Decrease in short-term notes and bills payable	(79,978)	(22,704)
Repayments of bonds	-	(1,513,281)
Proceeds from long-term loans	21,173,983	12,605,065
Repayments of long-term loans	(29,822,575)	(10,063,179)
Dividends paid	(10,129,957)	(5,736,566)
Employee stock options	373,592	762,661
Proceeds from sale of treasury shares	51,620	10,597
Proceeds from issuance of restricted stock	215,901	60,620
Disposal of ownership interests in subsidiaries (without losing control)	4,291,730	290,725
Change in non-controlling interests	189,946	2,356,179
Net cash provided by (used in) financing activities	(9,569,653)	2,151,436
Effect of exchange rate fluctuations on cash held	2,748,503	589,191
Net increase in cash and cash equivalents	33,427,326	14,837,182
Cash and cash equivalents, beginning of the year	74,261,306	59,424,124
Cash and cash equivalents, end of the year	\$ 107,688,632	74,261,306

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 AND 2013
(Amounts Expressed in Thousands of New Taiwan Dollars,
Except for Per Share Information and Unless Otherwise Stated)

1. COMPANY HISTORY

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

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

The consolidated financial statements of the Company as of and for the years ended December 31, 2014 and 2013 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2015.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

New standards and amendments	Effective date per IASB
• Amended IFRS 1 “ <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ”	July 1, 2010
• Amended IFRS 1 “ <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ”	July 1, 2011
• Amended IFRS 1 “ <i>Government Loans</i> ”	January 1, 2013
• Amended IFRS 7 “ <i>Disclosure — Transfers of Financial Assets</i> ”	July 1, 2011
• Amended IFRS 7 “ <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Investment Entities amendments, effective 1 January 2014.)
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
• Amended IAS 1 “ <i>Presentation of Items of Other Comprehensive Income</i> ”	July 1, 2012
• Amended IAS 12 “ <i>Deferred Tax: Recovery of Underlying Assets</i> ”	January 1, 2012
• Amended IAS 19 “ <i>Employee Benefits</i> ”	January 1, 2013
• Amended IAS 27 “ <i>Separate Financial Statements</i> ”	January 1, 2013
• Amended IAS 32 “ <i>Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2014
• IFRIC 20 — <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

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

A. Amendments to IAS 19 “Employee Benefits”

The amendments to IAS 19 require the Group to calculate a “net interest” amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on planned assets used in current IAS 19. In addition, the amendments eliminate the accounting treatment of either corridor approach or the immediate recognition of actuarial gains and losses to profit or loss when it incurs, and instead, required to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it incurs and no longer be amortized over the average period before vested on a straight-line basis. In addition, the amendments also require a broader disclosure in defined benefit plans.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

B. IFRS 10 Consolidated Financial Statements

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

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

C. Amendments to IAS 1 Presentation of Financial Statements

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

D. IFRS 12 Disclosure of Interests in Other Entities

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

E. IFRS 13 Fair Value Measurement

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

New standards and amendments	Effective date per IASB
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amended IAS 28 and IFRS 10 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	January 1, 2016
• Amended IAS 28, IFRS 10, and IFRS 12 “ <i>Investment Entities: Applying the Consolidation Exception</i> ”	January 1, 2016
• Amended IFRS 11 “ <i>Accounting for Acquisitions of Interests in Joint Operations</i> ”	January 1, 2016
• IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
• IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2017
• Amended IAS 1 “ <i>Disclosure Initiative</i> ”	January 1, 2016
• Amended IAS 16 and IAS 38 “ <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ”	January 1, 2016
• Amended IAS 16 and IAS 41 “ <i>Agriculture : Bearer Plants</i> ”	January 1, 2016
• Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
• Amended IAS 27 “ <i>Equity method in separate financial statements</i> ”	January 1, 2016
• Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
• Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
• Amended IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

A

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

4. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements unless otherwise specified.

(1) Statement of compliance

The accompanying consolidated annual financial statements have been prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China (hereinafter referred to the Regulations), International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as “IFRS endorsed by the FSC”).

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Basis of preparation

A. Basis of measurement

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

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

B. Functional and presentation currency

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

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

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

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

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

B. Acquisition of non-controlling interests

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Subsidiaries

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

D. Business combination under common control

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

Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognized directly in equity.

E. Losing control

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

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

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
THE COMPANY	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	- %	- %	Note A
THE COMPANY, UNIHAN AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability (TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	11.68%	12.26%	Notes A and B
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Note B
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Note B
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	Note B

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	Note B
Ability (TW)	Ability International Investment Co., Ltd	Investing activities	100.00%	100.00%	Note B
Ability (TW)	E-PIN OPTICAL INDUSTRY CO., LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	Note B
ABILITY	Ability Technology (Dongguan) Co., Ltd.	Manufacturing and selling digital cameras	100.00%	100.00%	Note B
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	Note B
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	Note B
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	Note B
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	Note B
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	Note B
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	Note B
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	Note B
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	Note B
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	Note B
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	Note B
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	Note B
THE COMPANY and UNIHAN	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	Note A
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00%	100.00%	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products.	100.00%	- %	Note D
THE COMPANY, UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.08%	Notes A and B
AZURE WAVE	EMINENT STAR CO., LTD. (EMINENT)	Investing activities	100.00%	100.00%	Note B
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	- %	100.00%	Notes B and K
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	- %	100.00%	Notes B and K
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	Note B
EMINENT · JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	Note B
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Note B
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	Note B
AZURE WAVE	AZUREWAVE TECHNOLOGY (USA) INC.	Developing market	100.00%	- %	Notes B and I
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	Note B

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	Note B
THE COMPANY and UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	Note A
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	- %	- %	Note E
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	Note M
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	- %	100.00%	Note L
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	
AMA	TOPTTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	
THE COMPANY	PEGATRON HOLLAND HOLDING B.V. (PHH)	Investing activities	100.00%	100.00%	
PHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	
PHH	Pegatron Service Holland B.V.	Sales and repair service center in Europe	100.00%	- %	Note F
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK (H.K.) TRADING LIMITED	Trading activities	100.00%	100.00%	
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	100.00%	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	
ASLINK	PEGAGLOBE (KUNSHAN) CO., LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00%	- %	Note G
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	
DIGITEK	DIGITEK (CHONGQING) CO., LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	
PROTEK	PROTEK (SHANGHAI) CO., LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	
ASIAROCK	ASROCK EUROPE B.V.	Manufacturing and selling database service and trading electronic components	100.00%	100.00%	
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	
ASROCK	ASRock Rack Incorporation (ASRock Rack)	Manufacturing and selling computer and related peripherals	70.63%	70.63%	
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	Note B
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	Note B
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87%	61.52%	Note B
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	100.00%	Note B
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00%	100.00%	Note B
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	Note B
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	Note B

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	Note B
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	Note B
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00%	100.00%	Note B
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	60.73%	68.18%	Note H
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	100.00%	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	100.00%	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	Note C
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	
CASETEK CAYMAN	APLUS PRECISION LIMITED (APLUS)	Investing and trading activities	100.00%	100.00%	
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio		
			2014.12.31	2013.12.31	
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.	Sales and logistics center in Singapore	100.00%	- %	Note J
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	

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

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- Note B: As of December 31, 2014, AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Group held 38.08%, 11.68% and 39.00%, respectively, or less than 50% of their total issued shares because the Group has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.
- Note C: In the third quarter of 2013, the Group had established and invested by acquiring the 100% equity ownership in RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD. in Mainland China through RIH LI INTERNATIONAL LTD. On June 25, 2014, this investee company changed its name to the current name from RI PEI TRADING (SHANGHAI) CO., LTD.
- Note D: In the first quarter of 2014, the Group had established and invested KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD. in Mainland China through CASTEK HOLDINGS LTD. The Company acquired 100% equity ownership of KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD. for USD 10,000 thousand.
- Note E: It was liquidated in July 2013.
- Note F: In April 2014, the Group has established and invested EUR 5,000 thousand in exchange for a 100% equity ownership in Pegatron Service Holland B.V. in Netherlands through PHH.
- Note G: In the second quarter of 2014, the Group had established and invested in PEGAGLOBE (KUNSHAN) CO., LTD. in Mainland China through ASLINK PRECISION CO., LTD. The Company acquired 100% equity ownership of PEGAGLOBE (KUNSHAN) CO., LTD. for USD 20,000 thousand.
- Note H: In the first quarter of 2014, the Group sold 25,291 thousand shares of CASETEK CAYMAN for \$4,192,863 in the open market through ASUSPOWER CORPORATION. The gain on disposal of \$2,220,481 that do not result in a loss of control are accounted in capital surplus, others. The Group's equity ownership of CASETEK CAYMAN through ASUSPOWER CORPORATION has decreased from 68.18% to 60.73%.
- Note I: In the first quarter of 2014, AZURE WAVE had established and invested in AZUREWAVE TECHNOLOGY (USA) INC. The Company acquired 100% equity ownership of AZUREWAVE TECHNOLOGY (USA) INC. for USD 250 thousand.

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

Note K: It was liquidated in June 2014.

Note L: It was liquidated in April 2014.

Note M: It was liquidated in October 2014.

G. Subsidiaries excluded from consolidation: None.

(4) Foreign currency

A. Foreign currency transaction

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

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

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

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

B. Foreign operations

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

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

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

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

- A. It is expected to be settled during the in its normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or
- D. It does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

All other liabilities are classified as non-current.

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(6) Cash and cash equivalents

Cash comprise cash balances and call deposits with maturities within three months. Cash equivalents are assets that are readily convertible into cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(7) Financial instruments

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

A. Financial assets

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

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(b) Available-for sale financial assets

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

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

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

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

(c) Held-to-maturity financial assets

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

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

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(d) Loans and receivables

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

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

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

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

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

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(e) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

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

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

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

Such impairment loss is not reversible in subsequent periods.

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

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

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

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

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

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

(f) Derecognition of financial assets

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

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

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

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

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

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

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

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

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

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

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iii. Hybrid instrument contains one or more embedded derivatives.

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

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

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

(c) Other financial liabilities

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

(d) Derecognition of financial liabilities

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

(e) Offsetting of financial assets and liabilities

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

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(f) Financial guarantee contract

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

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Company is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

C. Derivative financial instruments, including hedge accounting

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

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

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

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

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

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

(a) Fair value hedge

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

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

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

(b) Cash flow hedge

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

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

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

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(8) Inventories

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

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

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

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

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

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

(10) Investment in associates

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

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

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

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

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

(11) Interests in Joint Ventures

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

(12) Investment property

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

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

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

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

(13) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Reclassification to investment property

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

C. Subsequent cost

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

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D. Depreciation

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

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

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

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

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

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

(14) Leased assets

A. Lessor

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

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

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

B. Lessee

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

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

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

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

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

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

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

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

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

(15) Intangible assets

A. Goodwill

(a) Recognition

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

(b) Measurement

Goodwill is measured at its cost less impairment losses. Investments in associates are accounted for using the equity method. The carrying amount of the investment in associates includes goodwill, which kind of investment of impairment losses are recognized as a part of the carrying amount of the investment, not associated to goodwill and any other assets.

B. Other Intangible Assets

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

C. Subsequent Expenditure

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

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D. Amortization

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

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

Computer software cost	1-10 years
Trademark rights	5 years
Patents	3 years
Customer relationship	3 years
Technology	5 years

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

(16) Impairment – Non-derivative financial assets

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

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

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

The Group assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

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An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination, from the acquisition date, is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units.

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

Reversal of an impairment loss for goodwill is prohibited.

(17) Provisions

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

(18) Treasury stock

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

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

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

(19) Revenue

A. Goods sold

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

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

B. Service

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

(20) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted

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to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on (market yields of high quality corporate bonds or government bonds) bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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

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

All actuarial gains and losses at 1 January, 2012, the date for the first time adoption of IFRS as endorsed by the FSC were recognized in retained earnings. All actuarial gains and losses arising subsequently from defined benefit plans are recognized in other comprehensive income.

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

C. Short-term employee benefits

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

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

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(21) Share-based payment

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

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

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

(22) Income Taxes

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

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

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

- A. Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- B. Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.
- C. Initial recognition of goodwill.

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation.

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

- A. if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- B. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - (a) levied by the same taxing authority; or
 - (b) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

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

(23) Business combination

Goodwill is measured at the consideration transferred less amounts of the identifiable assets acquired and the liabilities assumed (generally at fair value) at the acquisition date. If the amounts of net assets acquired or liabilities assumed exceeds the acquisition price, an assessment is made whether all of the assets acquired and liabilities assumed are correctly identified, and a gain is recognized for the excess.

Non-controlling equity interest is measured either at fair value at acquisition-date or at the share of the acquirer's identifiable net assets in each acquisition.

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

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

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

Business combinations under common control are accounted for in the non-consolidated accounts prospectively from the date the Company acquires the ownership interest. Assets and liabilities of the merged entities are recognized at their carrying amount in the non-consolidated financial statements.

(24) Government grant

A government grant is recognized only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received.

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

A grant relating to assets is presented as deferred income. If a grant is related to depreciable assets, the grant is recognized over the useful life of the assets and for a grant related to a non-depreciable asset, the grant is credited to income over the same period over which the cost is charged to income.

(25) Earnings per share

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

(26) Operating segments

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

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

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

Management continuously review the estimates and basic assumptions. Changes in accounting estimates are recognized in the period of change.

Information on critical judgments in applying accounting policies that have the most significant effect to the amounts recognized in the consolidated financial statements is included in the following notes:

(1) Note 6(9), Classification of investment property

(2) Note 6(17), Lease classification

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year is included in the following notes:

(1) Note 6(27), Accounts receivable impairment evaluation

(2) Note 6(4), Inventories subsequent measurement

(3) Note 6(27), Fair value measurement of financial assets carried at cost

(4) Notes 6(8), 6(9) and 6(10), Key assumptions used in discounted cash flow projections

(5) Note 6(19), Utilization of tax losses

6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31,2014	December 31,2013
Cash on hand	\$ 33,098	34,723
Cash in banks	39,460,679	24,818,649
Time deposits	68,112,565	49,196,726
Cash equivalents-RP Bonds	82,290	211,208
	\$ 107,688,632	74,261,306

A. The above cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets. Please refer to Notes 6(11) and 8 for details.

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

(2) Investment in financial assets and liabilities

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Financial assets at fair value through profit or loss — current:		
Held-for-trading		
Shares of stock of listed companies	\$ 129,191	131,516
Beneficiary certificates	5,570,992	6,845,986
Corporate bonds	46,139	31,154
Foreign exchange swap contracts	-	5,721
Option exchange (long call)	-	3,240
Forward exchange contracts and others	-	704
	<u>\$ 5,746,322</u>	<u>7,018,321</u>
Available-for-sale financial assets — current:		
Shares of stock of listed companies	\$ -	11,415
Shares of stock of overseas listed companies	1,083,436	420,043
	<u>\$ 1,083,436</u>	<u>431,458</u>
Available-for-sale financial assets — noncurrent:		
Shares of stock of listed companies	\$ 1,238,361	1,010,750
Equity securities — common stock	241,920	145,800
	<u>\$ 1,480,281</u>	<u>1,156,550</u>
Financial assets carried at cost — noncurrent:		
Equity securities — common stock	\$ 363,202	255,260
Equity securities — preferred stock	205,632	284,385
	<u>\$ 568,834</u>	<u>539,645</u>
Financial liabilities at fair value through profit or loss — current:		
Held-for-trading		
Option exchange (long call)	\$ 8,937	-
Forward exchange contracts and others	-	7,443
	<u>8,937</u>	<u>7,443</u>
Designated as at fair value through profit or loss		
Foreign convertible bonds — conversion Options	256,763	-
Valuation adjustments	860,890	-
	<u>1,117,653</u>	<u>-</u>
	<u>\$ 1,126,590</u>	<u>7,443</u>
Financial liabilities at fair value through profit or loss — noncurrent:		
Designated as at fair value through profit or loss		
Foreign convertible bonds — conversion options	\$ -	1,262,770
Valuation adjustments	-	(1,027,608)
	<u>\$ -</u>	<u>235,162</u>

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- (a) For the years ended December 31, 2014 and 2013, the Group recognized a net gain (loss) on financial assets and liabilities reported at fair value through profit of \$(4,304,477) and \$628,347, respectively.
- (b) For the years ended December 31, 2014 and 2013, the unrealized gain (loss) on available-for-sale financial assets amounted to \$397,057 and \$(64,975), respectively.
- (c) Considering that the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, the Group management believes the fair value cannot be measured reliably. Therefore, the aforementioned investments held by the Group are measured at amortized cost less impairment at each reporting date. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$130 and \$0 for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Group had accumulated impairment loss of \$394,725 and \$401,088, respectively.
- (d) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as "Financial liabilities at fair value through profit or loss." For the years ended December 31, 2014 and 2013, the Group recognized a gain (loss) on financial liability reported at fair value through profit (loss) of \$(4,172,368) and \$534,768, respectively. Please refer to Note 6(15) for detail.
- (e) Refer to Note 6(25) for further discussion on gains and losses on disposal of investments.
- (f) Refer to Note 6(27) for the Group's information on financial instruments risk management.
- (g) As of December 31, 2014 and 2013, the aforesaid financial assets were not pledged as collateral.

B. Fair value sensitivity analysis

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

	For the years ended December 31			
	2014		2013	
	After-Tax Comprehensive Income	After-Tax Profit (Loss)	After-Tax Comprehensive Income	After-Tax Profit (Loss)
Increase 3%	\$ 76,912	172,390	47,640	210,260
Decrease 3%	\$ (76,912)	(172,390)	(47,640)	(210,260)

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C. Foreign equity investments

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

	December 31, 2014			December 31, 2013			
	Foreign	Exchange	NTD	Foreign	Exchange	NTD	
	Currency	Rate		Currency	Rate		
USD	\$	26,851	31.650	849,834	27,143	29.805	808,997
CNY		110,769	5.1724	572,943	-	-	-

D. Derivative not used for hedging

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

Financial Assets

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

As of December 31, 2014, there was no unsettled derivative financial instrument.

Financial Liabilities

	December 31, 2014	
	Notional Principal (thousands)	Contract Period
<u>Derivative financial instruments not used for hedging</u>		
Option exchange (long call)	USD <u>2,000</u>	2014.01~2015.03

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

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

	December 31, 2014	December 31, 2013
Notes receivable	\$ 211,918	246,948
Accounts receivable	131,843,496	105,882,203
Other receivables	14,888,670	29,215,907
Less: Allowance for impairment	(2,208,128)	(2,109,553)
	<u>\$ 144,735,956</u>	<u>133,235,505</u>

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

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

December 31, 2014						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	<u>\$ -</u>	<u>USD 300,000,000</u>	<u>USD -</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ -</u>
ANZ(Note)	<u>\$ 41,145,000</u>	<u>USD1,300,000,000</u>	<u>USD894,000,000</u>	None	"	<u>\$ 41,145,000</u>
December 31, 2013						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	<u>\$ 7,701,648</u>	<u>USD 300,000,000</u>	<u>USD258,401,191</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ 7,701,648</u>
ANZ(Note)	<u>\$ 38,746,500</u>	<u>USD1,300,000,000</u>	<u>USD523,000,000</u>	None	"	<u>\$ 38,746,500</u>

Note: In October 2014 and 2013, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and seven other banks where each bank will factor on pro-rata basis.

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For the years ended December 31, 2014 and 2013, the Company recognized a loss of \$202,998 and \$221,482 from the assignment of accounts receivable, which was accounted under financial costs. Also, the difference of \$12,849,900 and \$23,158,485 between the amount of accounts receivable assigned and the amount advanced was accounted under other receivable as of December 31, 2014 and 2013, respectively.

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

December 31, 2014						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	\$ 509,292	USD 30,000	\$ 153,968	None	The accounts receivable factoring is without recourse.	\$ 509,292

December 31, 2013						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	\$ 375,933	USD 30,000	\$ 300	None	The accounts receivable factoring is without recourse.	\$ 375,933

(4) Inventories

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Merchandise	\$ 1,765,647	1,163,792
Finished goods	47,946,981	46,093,367
Work in process	13,953,394	18,962,416
Raw materials	37,736,580	43,175,517
Subtotal	101,402,602	109,395,092
Less: Allowance for inventory market decline and obsolescence	(5,772,164)	(5,796,220)
Total	\$ <u>95,630,438</u>	<u>103,598,872</u>

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For the years ended December 31, 2014 and 2013, the components of cost of goods sold were as follows:

	For the Years Ended December 31	
	2014	2013
Cost of goods sold	\$ 943,951,359	893,825,971
(Reversal of) Provision on inventory market price decline	(30,048)	262,049
Loss on disposal of inventory	15,346,725	8,993,585
Unallocated manufacturing overhead	950,685	1,148,061
Loss on physical inventory	64,670	5,643
	<u>\$ 960,283,391</u>	<u>904,235,309</u>

For the year ended December 31, 2014, the conditions that previously caused inventories to be written down below cost had disappeared due to the disposal of related inventories, so that the related allowance for loss on decline in the value of inventories was reversed, which resulted in a reversal gain on inventory valuation allowance.

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

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

	December 31, 2014	December 31, 2013
Investments accounted for using equity method.	\$ 388,901	365,243
Property, plant, and equipment	104,839	-
	<u>\$ 493,740</u>	<u>365,243</u>

- A. On February 26, 2015, Casetek Holdings sold its ownership in Indeed Holdings Limited to non-related parties. The book value of \$388,901 of Investments in Indeed Holdings Limited was accounted under non-current assets classified as held for sale.
- B. In January 2014, ASLINK sold its ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. for \$432,240 and recognized a gain on disposal of investments of \$61,740.
- C. In December 2014, Ability (TW) and its subsidiaries sold E-PIN's office in Taipei for \$158,280 on consignment in a lease back arrangement and completed real estate sales contract with successful tender. Under this contract, the transfer of title of ownership shall be completed in February 2015, when the payment for the assets sold is received. In December 2014, Ability (TW) completed sales contract for E-PIN's equipments in Nanjing, the transfer of title of ownership will be completed after the customs declaration. The equipments were sold for \$16,529.

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After measuring at lower of carrying amount and fair value less cost for sale, the impairment loss of \$22,978 was recognized under other income or loss on non-current assets classified as held for sale of Ability (TW) and its subsidiaries.

- D. Information for the Group's non-current assets held for sale pledged as securities for debt, please refer to Note 8.

(6) Investments accounted for using equity method

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Associates	\$ <u>490,372</u>	<u>1,187,753</u>

- A. As of December 31, 2014 and 2013, there was no published price for the investments in associates of the Group.
- B. As of December 31, 2014 and 2013, the Group's share of profit (loss) of the associates were as follows:

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
The Group's share of profit (loss) of the associates	\$ <u>(320,323)</u>	<u>(75,586)</u>

- C. The financial information of associates in which the Group has equity investments was as follows (before adjustment for the Group's proportionate share):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Total assets	\$ <u>2,065,024</u>	<u>3,660,948</u>
Total liabilities	\$ <u>550,164</u>	<u>713,371</u>

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Revenue	\$ <u>500,568</u>	<u>2,744,042</u>
Net income	\$ <u>(724,813)</u>	<u>190,775</u>

- D. The investee of Ability (TW), SHIN-EI YORKEY INTERNATIONAL LTD. (BVI), was liquidated in June 2013. As the result, Ability (TW) had recognized the difference between proceeds received and the carrying amount of the investment of \$2,166, as a loss on disposal of investment.
- E. In October 2013, the board of directors of Ability (TW) decided to participate in the capital increase of Altasec Technology Corp with investment amount to \$21,000 and 30% shareholding ratio.

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

(7) Disposal of investments without losing control

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

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

	December 31,	December 31 ,
	2014	2013
Received from non-controlling interests	\$ 4,192,863	290,725
Carrying amount of subsidiaries disposed	<u>1,972,382</u>	<u>173,984</u>
Capital surplus — difference between consideration and carrying amount of subsidiaries disposed	<u>\$ 2,220,481</u>	<u>116,741</u>

(8) Property, plant and equipment

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

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Cost or deemed cost:							
Balance on January 1, 2014	\$ 5,233,683	39,286,047	57,553,035	1,630,519	25,400,015	598,580	129,701,879
Additions	279,687	1,012,587	2,279,112	99,891	2,559,811	2,696,435	8,927,523
Disposals and obsolescence	-	(665,747)	(4,961,661)	(133,654)	(4,655,914)	-	(10,416,976)
Reclassifications	57,590	36,486	1,355,818	-	867,455	(334,401)	1,982,948
Effect of movements in exchange rates	(3,780)	1,776,903	2,516,384	73,887	1,007,459	22,111	5,392,964
Balance on December 31, 2014	<u>\$ 5,567,180</u>	<u>41,446,276</u>	<u>58,742,688</u>	<u>1,670,643</u>	<u>25,178,826</u>	<u>2,982,725</u>	<u>135,588,338</u>
Balance on 1 January 2013	\$ 4,456,971	33,340,181	58,606,847	2,003,597	22,651,012	2,651,923	123,710,531
Additions	89,885	4,279,990	2,631,070	164,224	3,818,468	1,769,453	12,753,090
Disposals and obsolescence	-	(473,419)	(7,907,622)	(623,238)	(2,763,971)	(464)	(11,768,714)
Reclassifications	684,640	597,759	1,707,701	(84)	732,582	(3,971,663)	(249,065)
Interest expense capitalization	-	-	-	-	-	2,135	2,135
Effect of movements in exchange rates	2,187	1,541,536	2,515,039	86,020	961,924	147,196	5,253,902
Balance on December 31, 2013	<u>\$ 5,233,683</u>	<u>39,286,047</u>	<u>57,553,035</u>	<u>1,630,519</u>	<u>25,400,015</u>	<u>598,580</u>	<u>129,701,879</u>
Depreciation and impairment loss :							
Balance on January 1, 2014	\$ 50,054	9,377,785	30,038,405	793,144	15,525,837	-	55,785,225
Depreciation for the period	-	2,606,679	6,386,944	315,470	4,242,620	-	13,551,713
Reversal of impairment loss	-	25	203,033	(29)	43,036	-	246,065
Reclassifications	-	(39,624)	(321,775)	-	83,809	-	(277,590)
Disposals and obsolescence	-	(593,276)	(4,204,004)	(127,092)	(4,352,982)	-	(9,277,354)
Effect of movements in exchange rates	-	471,428	1,451,815	45,281	693,471	-	2,661,995
Balance on December 31, 2014	<u>\$ 50,054</u>	<u>11,823,017</u>	<u>33,554,418</u>	<u>1,026,774</u>	<u>16,235,791</u>	<u>-</u>	<u>62,690,054</u>

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	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Balance on January 1, 2013	\$ 50,054	7,312,711	29,252,786	995,922	12,919,939	-	50,531,412
Depreciation for the period	-	2,084,862	6,371,488	321,327	4,544,617	-	13,322,294
Reversal of impairment loss	-	(6,359)	(143,673)	(587)	(17,916)	-	(168,535)
Reclassification	-	2,905	(448)	998	(42,067)	-	(38,612)
Disposals and obsolescence	-	(362,054)	(6,626,977)	(568,422)	(2,463,013)	-	(10,020,466)
Effect of movements in exchange rates	-	345,720	1,185,229	43,906	584,277	-	2,159,132
Balance on December 31, 2013	<u>\$ 50,054</u>	<u>9,377,785</u>	<u>30,038,405</u>	<u>793,144</u>	<u>15,525,837</u>	<u>-</u>	<u>55,785,225</u>
Carrying amounts :							
Balance on December 31, 2014	<u>\$ 5,517,126</u>	<u>29,623,259</u>	<u>25,188,270</u>	<u>643,869</u>	<u>8,943,035</u>	<u>2,982,725</u>	<u>72,898,284</u>
Balance on December 31, 2013	<u>\$ 5,183,629</u>	<u>29,908,262</u>	<u>27,514,630</u>	<u>837,375</u>	<u>9,874,178</u>	<u>598,580</u>	<u>73,916,654</u>

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

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Impairment loss (Reversal gain)	<u>\$ 246,065</u>	<u>(168,535)</u>

- B. CASTEK CAYMAN and its subsidiaries had moved part of their operation and personnel from AVY Precision Technology Inc. to the factory of RI-TENG in Shanghai, China in order to align their resources with the requirements of their major client. This resulted in an impairment loss of \$338,653 in the production line of AVY Precision Technology Inc. Such impairment loss was recognized by AVY Precision Technology Inc.
- C. In 2014, Ability (TW) and its subsidiaries filed an application to the Ministry of Economic for the purchase-of land and property in New Taipei industrial park, which were previously rented by Ability (TW) and its subsidiaries. The acquisition cost for the land and the property amounted to \$14,784 and \$58,292, respectively. The compensation of \$16,603 from the Government for the rental payment is charged to profit or loss.
- D. KINSUS INTERCONNECT TECHNOLOGY CORP. ("KINSUS") completed a series of farm land purchases in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government.
- E. Please refer to Note 6(25) for details of the capitalization of interest expenses and gain and loss on disposal of property, plant and equipment.
- F. Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

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(9) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance as of January 1, 2014	\$ 281,945	539,483	821,428
Balance as of December 31, 2014	\$ 281,945	539,483	821,428
Balance as of January 1, 2013	\$ 281,945	539,483	821,428
Balance as of December 31, 2013	\$ 281,945	539,483	821,428
Depreciation and impairment loss :			
Balance as of January 1, 2014	\$ 9,617	152,680	162,297
Depreciation for the period	-	10,379	10,379
Balance as of December 31, 2014	\$ 9,617	163,059	172,676
Balance as of January 1, 2013	\$ 9,617	142,300	151,917
Depreciation for the period	-	10,380	10,380
Balance as of December 31, 2013	\$ 9,617	152,680	162,297
Carrying amounts :			
Balance as of December 31, 2014	\$ 272,328	376,424	648,752
Balance as of December 31, 2013	\$ 272,328	386,803	659,131

- A. Rental income and direct operating expenses arising from investment property that generate rental income were as follows:

	<u>For the years ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Rental income	\$ 29,020	25,356
Direct operating expenses arising from investment property that generate rental income	\$ 10,379	10,380

- B. As of December 31, 2014 and 2013, the fair value of investment property of the Group was \$1,036,455 and \$888,531, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm's length terms.
- C. As of December 31, 2014 and 2013, the aforesaid investment properties were not pledged as collateral.

(10) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2014 and 2013 were as follows:

	<u>Goodwill</u>	<u>Customer relationship</u>	<u>Technology</u>	<u>Others</u>	<u>Total</u>
Costs:					
Balance on January 1, 2014	\$ 1,882,028	358,013	766,522	1,191,013	4,197,576
Additions	-	-	-	84,967	84,967
Disposals	(2,926)	-	-	(404,827)	(407,753)
Reclassifications	-	-	-	1,127	1,127
Effect of movement in exchange rate	64,436	22,162	47,450	37,457	171,505
Balance on December 31, 2014	\$ 1,943,538	380,175	813,972	909,737	4,047,422

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	Goodwill	Customer relationship	Technology	Others	Total
Balance on January 1, 2013	\$ 1,855,246	348,824	746,848	1,095,816	4,046,734
Additions	-	-	-	80,788	80,788
Disposals	-	-	-	(13,115)	(13,115)
Reclassifications	-	-	-	9,553	9,553
Effect of movement in exchange rates	26,782	9,189	19,674	17,971	73,616
Balance on December 31, 2013	<u>\$ 1,882,028</u>	<u>358,013</u>	<u>766,522</u>	<u>1,191,013</u>	<u>4,197,576</u>
Amortization and Impairment Loss:					
Balance on January 1, 2014	\$ 342,154	358,013	766,522	761,055	2,227,744
Amortization for the period	-	-	-	200,322	200,322
Impairment loss	332,564	-	-	-	332,564
Disposals	(2,926)	-	-	(404,827)	(407,753)
Reclassifications	-	-	-	(298)	(298)
Effect of movement in exchange rates	-	22,162	47,450	23,972	93,584
Balance on December 31, 2014	<u>\$ 671,792</u>	<u>380,175</u>	<u>813,972</u>	<u>580,224</u>	<u>2,446,163</u>
Balance on January 1, 2013	\$ -	232,549	497,899	545,741	1,276,189
Amortization for the period	-	118,908	254,588	218,650	592,146
Impairment loss	342,154	-	-	-	342,154
Disposals	-	-	-	(13,088)	(13,088)
Effect of movement in exchange rates	-	6,556	14,035	9,752	30,343
Balance on December 31, 2013	<u>\$ 342,154</u>	<u>358,013</u>	<u>766,522</u>	<u>761,055</u>	<u>2,227,744</u>
Carrying value:					
Balance on December 31, 2014	<u>\$ 1,271,746</u>	<u>-</u>	<u>-</u>	<u>329,513</u>	<u>1,601,259</u>
Balance on December 31, 2013	<u>\$ 1,539,874</u>	<u>-</u>	<u>-</u>	<u>429,958</u>	<u>1,969,832</u>

- A. The amortization of intangible assets were respectively recognized in the consolidated statement of comprehensive income as follows:

	For the Years Ended December 31	
	2014	2013
Operating costs	\$ 29,509	308,838
Operating expenses	170,813	283,308
	<u>\$ 200,322</u>	<u>592,146</u>

- B. Goodwill impairment

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

	December 31, 2014	December 31, 2013
Mechanics	\$ 1,061,332	999,462
Consumer electronic	208,892	538,890
Others	1,522	1,522
	<u>\$ 1,271,746</u>	<u>1,539,874</u>

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At the end of each reporting period, the Group assess whether there is any indication of impairment loss on goodwill. In 2014 and 2013, impairment loss recognized on good will amounted to \$332,564 and \$342,154, respectively. The key assumptions used in determining the value in use by each cash-generating unit were as follows:

- (a) The recoverable amount of the metal casing factory cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:
 - i. Management had projected cash flow based on a five-year financial budget which was extrapolated from historical operating results and future operating plan.
 - ii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.
- (b) The recoverable amount of the digital camera cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:
 - i. Management had projected cash flow based on a five-year financial budget which was extrapolated from future operating plan.
 - ii. Projected revenue and gross profit ratio were extrapolated from management's forecast based on past operating results and future marketing development trends.
 - iii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.
- C. For the years ended December 31, 2014 and 2013, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.

(11) Other financial assets and other assets

Other current assets noncurrent assets were as follows:

	December 31, 2014	December 31, 2013
Other financial assets—current	\$ 2,187,887	1,836,937
Other financial assets—noncurrent	611,921	1,236,088
Other current assets	12,036,315	6,187,337
Other noncurrent assets	109,503	66,447
	\$ 14,945,626	9,326,809

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- A. Other financial assets are assets that do not qualify as cash and cash equivalents which consisted of time deposits, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.
- B. Other current assets consisted of temporary payments, current tax asset and others.
- C. Other noncurrent assets consisted of long-term prepaid expenses and others.

(12) Short-term loans

	December 31, 2014	December 31, 2013
Unsecured bank loans	\$ 27,171,068	22,984,673
Secured bank loans	9,495	29,805
Total	\$ 27,180,563	23,014,478
Unused credit line	\$ 57,757,891	55,887,659
Interest rate	0.60%~5.06%	0.65%~5.08%

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

(13) Short-term notes and bills payable

Short-term notes and bills payable were as follows:

	December 31, 2013		
	Acceptance institution	Interest rate	Amount
Commercial paper payable	China Bills Finance Corporation	0.68%	\$ 80,000
Less : Discount on short-term notes and bills payable			(22)
Total			\$ 79,978

(14) Long -term loans

	December 31, 2014	
	Currency	Amount
Secured bank loans	NTD	\$ 740,200
Unsecured bank loans	NTD	12,784,324
Unsecured bank loans	USD	8,185,987
		21,710,511
Less : Fees		(17,600)
Less : Current portion		(7,743,689)
Total		\$ 13,949,222
Unused credit line		\$ 6,796,950
Interest rate		0.72%~1.80%
Expiration		2015.06~2019.01

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	December 31, 2013	
	Currency	Amount
Secured bank loans	NTD	\$ 503,911
Secured bank loans	USD	358,946
Unsecured bank loans	NTD	12,050,493
Unsecured bank loans	USD	16,720,033
		<u>29,633,383</u>
Less : Fees		(22,400)
Less : Current portion		(9,019,299)
Total	\$	<u><u>20,591,684</u></u>
Unused credit line	\$	<u><u>10,112,575</u></u>
Interest rate		<u><u>0.74%~2.54%</u></u>
Expiration		<u><u>2014.02~2018.09</u></u>

A. Securities for bank loans

- (a) The Group's promissory notes were pledged as a guarantee for the Group's credit loan facility. Please refer to Note 8 for details of the related assets pledged as collateral.
- (b) CASETEK CAYMAN's subsidiaries obtained a long-term loan from DBS, Taiwan Cooperative Bank and Mega International Commercial Bank. CASETEK CAYMAN is the endorsement guarantee provider for the long-term loan obtained from Mega International Commercial Bank.

B. Loan covenants

- (a) According to the Company's credit loan facility agreement with the banks, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited annual and semi-annual consolidated financial statements (June 30 and December 31) as follows:
 - i. Current ratio (current assets/current liabilities): should not be less than 100%.
 - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
 - iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
 - iv. Tangible net assets (stockholders' equity, including minority shareholders) - intangible assets): should not be less than \$90,000,000.
 - v. Factoring line of accounts receivable factoring/ net book value of accounts receivable before derecognition: less than 50%.

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If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 31, 2014 and 2013.

- (b) On August 01, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement, the Company must comply with the following financial covenants:
- i. Current ratio (current assets/current liabilities): should not be less than 100%.
 - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
 - iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
 - iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

Compliance with the aforesaid financial covenants is determined on the reviewed quarterly consolidated financial statements (March 31, June 30 and September 30) and audited annual (December 31) stand alone and consolidated financial statements of the Company.

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 31, 2014 and 2013.

- (c) On April 7, 2011, PROTEK (SHANGHAI) LTD., signed a syndicated loan agreement with a total credit line of USD 200,000 thousand. The financial covenants of this credit line were as follows:
- i. Current ratio (current assets/current liabilities): should not be less than 100%.
 - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50% (total total liabilities include short-term loans, short-term notes payable, rents payable, current portion of long-term loans, current portion of bonds payable, long-term loans and bonds payable).

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- iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- iv. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than NT\$90,000,000.

Compliance with the above-mentioned financial covenants is determined based on the annual and semi-annual consolidated financial statements (June 30 and December 31) audited by independent auditors as provided by the guarantor, the Company. Also, the management of the Company-guarantor is normally required to issue management representation letters that contain, among other things, the calculations and results of their evaluation of compliance with the above-mentioned financial covenants in the annual and semi-annual audited of financial statements. The syndicated loan agreement was expired in May 2014. PROTEK (SHANGHAI) LTD. was in compliance with the above financial covenants as of December 31, 2013.

(15) Bonds payable

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Convertible bonds issued	\$ 8,874,000	8,874,000
Unamortized discounted on bonds payable	(120,577)	(824,809)
Accumulated amount of converted bonds	(7,069,620)	-
Bonds payable, end of the year	<u>1,683,803</u>	<u>8,049,191</u>
Foreign currency valuation, end of the year	124,427	67,299
Bonds payable, net	1,808,230	8,116,490
Less: current portion of bonds payable	(1,808,230)	-
	<u>\$ -</u>	<u>8,116,490</u>
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	<u>\$ 1,117,653</u>	<u>235,162</u>
	<u>For the Years Ended</u>	<u>December 31</u>
	<u>2014</u>	<u>2013</u>
Embedded derivative –conversion options, accounted under other gains and losses	<u>\$ (4,172,368)</u>	<u>534,768</u>
Interest expense	<u>\$ 39,852</u>	<u>381,313</u>

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The put option of the bonds payable is exercisable at three years after the first day of issue. Bonds payable of \$1,808,230 as of December 31, 2014, was classified as current liabilities for those convertible bonds whose holders bear the right to require for bond redemption within a year. Those bonds payable which are not expected to be settled within twelve months after the redemption period were reclassified as noncurrent liabilities.

As of December 31, 2014, the convertible bonds with face value of USD 239,000 had been converted into 184,982 thousand shares. The legal procedure for the issuance of 147,250 thousand shares had not yet been completed, and were classified as advance receipts for share capital. Please refer to Note 6(20) for the information on capital surplus - conversion of convertible bonds of \$8,507,771 generated from the conversion.

The offering information on the unsecured convertible bonds were as follows:

Item	1st overseas unsecured convertible bonds issued in 2012
1. Offering amount	USD 300 million with each unit valued at USD 200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7. Redemption at the option of the Company	(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = USD 1.00).

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Item	1 st overseas unsecured convertible bonds issued in 2012
	<p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.</p>
8. Redemption at the option of the Holder	<p>(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at any time during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price The conversion price was NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT\$40.11 per share effective October 7, 2013. The conversion price has been adjusted to NT\$38.28 per share effective September 15, 2014 due to the distribution of cash dividends in 2014.</p>

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Item	1 st overseas unsecured convertible bonds issued in 2012
	(3) Conversion to common shares
	Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = USD 1.00) divided by the conversion price on the conversion date.

B. Ability (TW) issued the 1st unsecured domestic convertible bonds of NT\$1,500 million with each bond having coupon rate of 0%, an issue price of 100.2% over par value, and maturing in 5 years (During Feb 6th, 2010 to Feb 6th, 2015). These convertible bonds are payable in full at par on maturity date and are listed on Over-the-Counter Market on February 8th, 2010.

In February and March of 2013, Ability (TW) have redeemed all convertible bonds with face value of \$1,500 million and recognized a redemption loss of \$6,065.

(16) Provisions

	Warranties	Allowance for sales returns and discounts	Total
Balance on January 1, 2014	\$ 232,666	218,236	450,902
Provisions made during the year	1,015	339,790	340,805
Provisions used during the year	-	(197,474)	(197,474)
Provisions reversed during the period	-	(84,768)	(84,768)
Effect of movements in exchange rates	2,278	9,711	11,989
Balance on December 31, 2014	<u>\$ 235,959</u>	<u>285,495</u>	<u>521,454</u>
Balance on January 1, 2013	\$ 151,312	115,869	267,181
Provisions made during the year	81,076	122,392	203,468
Provisions used during the year	(665)	(22,816)	(23,481)
Provisions reversed during the period	-	(3,011)	(3,011)
Effect of movements in exchange rates	943	5,802	6,745
Balance on December 31, 2013	<u>\$ 232,666</u>	<u>218,236</u>	<u>450,902</u>

A. Warranties

Warranties of Ability (TW) are recognized when the expected benefits to be derived by Ability (TW) from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

B. Allowance for sales return and discounts

Allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized as sales revenue deduction in the same period in which sales are made.

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(17) Operating leases

A. Lessee

At the end of reporting year, the lease commitments were as follows:

	December 31, 2014	December 31, 2013
Less than one year	\$ 1,227,118	573,933
Between one and five years	1,214,677	977,246
More than five years	-	114,071
	\$ 2,441,795	1,665,250

The Group lease a number of office, warehouse, factory facilities and staff dormitories under operating leases. The leases typically run for a period of 1 to 14 years, with an option to renew the lease after that date.

For the years ended December 31, 2014 and 2013, expenses recognized in profit or loss in respect of operating leases were as follows:

	For the Years Ended December 31	
	2014	2013
Cost of sales	\$ 1,011,059	1,094,521
Operating expenses	407,220	483,555
	\$ 1,418,279	1,578,076

B. Long-term prepaid rents

	December 31, 2014	December 31, 2013
Long-term prepaid rents	\$ 4,093,778	3,645,795

(a) Long-term prepaid rents represent land use rights under operating lease arrangement is expensed equally over 45 to 50 years.

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

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(18) Employee benefits

A. Defined benefit plans

The Company's defined benefit obligations and fair value of plan assets were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Total present value of obligations	\$ 329,749	361,929
Fair value of plan assets	(192,195)	(184,115)
Accrued pension liabilities	<u>\$ 137,554</u>	<u>177,814</u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provide pension for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for six months prior to retirement.

(a) Composition of plan assets

The Group set aside pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

The Group's contributions to the pension funds were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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

The movements in the present value of the defined benefit obligations for the years ended December 31, 2014 and 2013 were as follows:

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Defined benefit obligation, January 1	\$ 361,929	386,547
Benefits paid by the plan	(6,624)	(5,250)
Current service costs and interest	12,998	13,955
Actuarial gains	(38,554)	(33,633)
Others	-	310
Defined benefit obligation, December 31	<u>\$ 329,749</u>	<u>361,929</u>

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(c) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Fair value of plan assets, January 1	\$ 184,115	167,839
Contributions made	10,491	14,159
Benefits paid by the plan	(6,624)	-
Expected return on plan assets	3,690	2,937
Actuarial (losses) gains	523	(1,315)
Others	-	495
Fair value of plan assets, December 31	<u>\$ 192,195</u>	<u>184,115</u>

(d) Expenses recognized in profit or loss

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

	For the Years Ended December 31	
	2014	2013
Current service cost	\$ 5,812	8,162
Interest on obligation	7,186	5,793
Expected return on plan assets	(3,690)	(2,937)
Others	-	(268)
	<u>\$ 9,308</u>	<u>10,750</u>
Operating Cost	\$ 875	951
Operating Expense	8,433	9,799
	<u>\$ 9,308</u>	<u>10,750</u>
Actual return on plan assets	<u>\$ 4,213</u>	<u>1,622</u>

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

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

	For the Years Ended December 31	
	2014	2013
Cumulative amount, January 1	\$ 123,899	156,217
Recognized during the year	(39,077)	(32,318)
Cumulative amount, December 31	<u>\$ 84,822</u>	<u>123,899</u>

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(f) Actuarial assumptions

The following were the key actuarial assumptions at the reporting date:

	<u>2014</u>	<u>2013</u>
Discount rate on December 31	2.00%~2.25%	1.875%~2.00%
Expected return on plan assets on January 1	1.75%~3.00%	2.00%
Future salary increases	1.75%~3.00%	1.50%~3.00%

The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the returns on individual asset categories. Also, such return was based exclusively on historical returns, without adjustments.

(g) Experience adjustments based on historical information

	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Present value of defined benefit obligation	\$ 329,749	361,929	386,547	305,577
Fair value of plan assets	(192,195)	(184,115)	(167,839)	(155,077)
Deficit in the plan	<u>\$ 137,554</u>	<u>177,814</u>	<u>218,708</u>	<u>150,500</u>
Experience adjustments arising on plan liabilities	<u>\$ (915)</u>	<u>6,069</u>	<u>7,031</u>	<u>-</u>
Experience adjustments arising on plan assets	<u>\$ (523)</u>	<u>1,315</u>	<u>2,065</u>	<u>-</u>

The Group expected \$8,732 worth of contributions to be paid to its benefit plans within a year starting from the reporting date of December 31, 2014.

- (h) In determining the present value of the defined benefit obligation, the Group management makes judgments and estimates to decide relative actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions will impact the amount of defined benefit obligation.

As of December 31, 2014, the Group defined benefit obligation had a present value of \$329,749. An increase (decrease) of 0.5% in future salary increase rate would have (decrease) increase the present value of the defined benefit obligation by \$(18,688) and \$21,175, respectively.

B. Defined contribution plans

The Group contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Group's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

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The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2014 and 2013 amounted to \$3,822,769 and \$2,908,063, respectively.

- C. As of December 31, 2014 and 2013, the Group's short-term paid annual leave debts amounted to \$247,698 and \$207,097, respectively.

(19) Income Tax

- A. The income tax expense for the years ended December 31, 2014 and 2013 was calculated as follows:

	For the Years Ended December 31	
	2014	2013
Current income tax expense		
Current period incurred	\$ 6,230,240	4,473,322
Prior years income tax adjustment	582,677	(72,201)
10% surtax on undistributed earnings	681,677	168,358
Deferred tax expense		
The origination and reversal of temporary differences	(160,120)	213,146
Income tax expense	<u>\$ 7,334,474</u>	<u>4,782,625</u>

- B. Income tax on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2014 and 2013 as follows :

	For the Years Ended December 31	
	2014	2013
Profit before income tax	\$ 26,262,087	19,029,872
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	7,736,129	6,886,813
Permanent differences	(1,448,419)	(1,819,979)
Changes in unrecognized temporary differences	(1,199,727)	(802,221)
Overseas dividends received	971,444	976,062
Prior years income tax adjustment	582,677	(72,201)
10% surtax on undistributed earnings	681,677	168,358
Others	10,693	(554,207)
Income tax expense	<u>\$ 7,334,474</u>	<u>4,782,625</u>

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C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

As of December 31, 2014 and 2013, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Group has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
The aggregate temporary differences associated with investments in subsidiaries	\$ <u>21,088,100</u>	<u>12,802,649</u>
Unrecognized deferred tax liabilities	\$ <u>3,584,977</u>	<u>2,176,450</u>

(b) Unrecognized deferred tax assets

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Deductible temporary differences	\$ 585,902	505,159
Tax losses	887,517	759,460
	\$ <u>1,473,419</u>	<u>1,264,619</u>

The ROC Income Tax Act allows the carry forward of net losses, as assessed by the tax authorities, to offset against taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

As of December 31, 2014, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets, and the expiry years thereof were as follows:

<u>Company Name</u>	<u>Year of occurrence</u>	<u>Unused balance</u>	<u>Expiry year</u>
KINSUS and its subsidiaries	2010~2013	\$ 2,994,954	2015~2022
ABILITY (TW) and its subsidiaries	2010~2012	996,192	Note
AZUREWAVE and its subsidiaries	2012~2014	666,647	2022~2024
AMA PRECISION	2009~2012	132,571	2019~2022
		\$ <u>4,790,364</u>	

Note: In accordance with its local income tax act.

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(c) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2014 and 2013 were as follows:

	Gain on foreign		
	investments	Others	Total
Deferred tax liabilities:			
Balance, January 1, 2014	\$ 2,174,218	280,234	2,454,452
Recognized in loss (profit)	(221,888)	(24,660)	(246,548)
Recognized in comprehensive income	(54,169)	33,026	(21,143)
Exchange differences on translation	107,812	508	108,320
Balance, December 31, 2014	<u>\$ 2,005,973</u>	<u>289,108</u>	<u>2,295,081</u>
Balance, January 1, 2013	\$ 1,319,415	177,624	1,497,039
Recognized in loss (profit)	821,038	83,405	904,443
Recognized in comprehensive income	(2,405)	19,205	16,800
Exchange differences on translation	36,170	-	36,170
Balance, December 31, 2013	<u>\$ 2,174,218</u>	<u>280,234</u>	<u>2,454,452</u>

	Provision for Contingent Service Cost	Gain on valuation of inventory	Unrealized expenses	Others	Total
Deferred tax assets:					
Balance, January 1, 2014	\$ 896,396	973,765	1,050,123	180,201	3,100,485
Recognized in profit (loss)	(411,474)	(111,092)	504,591	(68,453)	(86,428)
Recognized in comprehensive income	-	-	(3,074)	(677)	(3,751)
Exchange differences on translation	-	45,153	93	968	46,214
Balance, December 31, 2014	<u>\$ 484,922</u>	<u>907,826</u>	<u>1,551,733</u>	<u>112,039</u>	<u>3,056,520</u>
Balance, January 1, 2013	\$ 515,584	973,016	881,988	8,488	2,379,076
Recognized in profit (loss)	380,812	(31,280)	170,577	171,188	691,297
Recognized in comprehensive income	-	-	(2,442)	(988)	(3,430)
Exchange differences on translation	-	32,029	-	1,513	33,542
Balance, December 31, 2013	<u>\$ 896,396</u>	<u>973,765</u>	<u>1,050,123</u>	<u>180,201</u>	<u>3,100,485</u>

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D. Income tax

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

<u>Years of Approval</u>	<u>Company Name</u>
2013	ASFLY TRAVEL SERVICE LTD., HUA-YUAN INVESTMENT LTD., PEGA INTERNATIONAL LTD, and ASROCK RACK
2012	UNIHAN, ABILITY INVESTMENT, AMA PRECISION, PEGAVISION, ASUSPOWER INVESTMENT, ASUS INVESTMENT, ASUSTEK INVESTMENT, STARLINK , LUMENS OPTICS, RIH KUAN, AZURE WAVE, EZWAVE and AZURE LIGHTING TECHNOLOGIES, INC.
2011	KINSUS LIGHTING TECHNOLOGIES, INC., ASROCK, PEGAVISION CORPORATION, ABILITY(TW) and E-PIN OPTICAL INDUSTRY CO., LTD.

E. Five year income tax exemption period

The investments of KINSUS INTERCONNECT TECHNOLOGY CORP. for its establishment and expansion conform to "the Regulations Regarding Awards for Newly Emerging and Strategic Industries Under Manufacturing and Technical Service Industries." As approved by the Tax Authority, the Group is eligible for five-year income tax exemption, the details of which were as follows:

<u>Approving Office</u>	<u>Approval document number</u>	<u>Tax exemption period</u>
Industrial Development Bureau	10005112010	01/01/2013~12/31/2017
Industrial Development Bureau	10005116950	01/01/2014~12/31/2018

F. Stockholders' imputation tax credit account and tax rate:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2014</u>	<u>2013</u>
Stockholders' imputation tax credit account	\$ <u>1,458,156</u>	<u>1,310,701</u>
	<u>2014 (Expect)</u>	<u>2013 (Actual)</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>12.44%</u>	<u>9.29%</u>

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

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

(20) Capital and reserves

As of December 31, 2014 and 2013, the authorized capital of the Company consisted of 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,367,911 thousand shares, 2,320,435 thousand shares of stock, respectively.

The movements in ordinary shares of stock outstanding for the years ended December 31, 2014 and 2013 were as follows:

Ordinary Shares (In thousands of shares)	For the Years Ended December 31	
	2014	2013
Beginning balance, January 1	2,320,435	2,290,305
Expiration of restricted stock to employee	(745)	4,234
Exercise of employee stock options	10,489	25,896
Conversion of convertible bonds	37,732	-
Ending balance, December 31	<u>2,367,911</u>	<u>2,320,435</u>

A. Nominal ordinary shares

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at \$296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees, of which 1,828 thousand shares were retired in 2013. Also, the Company issued 6,062 thousand shares of restricted Company shares of stock to employees in 2013. New common shares of stock totaling 26,617 thousand shares were issued from the exercise of employee stock options, of which 721 thousand shares were accounted under advance receipts instead of share capital as the registration procedures were yet to be completed.

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In 2014, the Company had retired 745 thousand shares of restricted Company shares of stock to employees, and 10,288 thousand shares and 184,982 thousand shares of common shares of stock were issued from the exercise of employee stock options and conversion of convertible bonds, respectively, of which 520 thousand shares and 147,250 thousand shares were accounted under advance receipts for share capital as the registration procedures were yet to be completed. As of December 31, 2014 and 2013, the authorized capital of the Company both consisted of 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,367,911 thousand common shares of stock and 2,320,435 thousand common shares of stock, respectively.

As of December 31, 2014 and 2013, the restricted Company shares of stock issued to employees have expired and of which 207 and 78 thousand shares have not been retired.

B. Global depositary receipts

ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive new ASUSTeK GDRs and the Company's entitlement. The Company's entitlement represents the rights to receive 60,819,026 of the Company's common shares in Taiwan.

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2014, the Company has listed, in total, 6,589 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 32,946 thousand shares of stock. Major terms and conditions for GDRs were as follows:

(a) Voting Rights

Holders of GDRs may exercise voting rights with respect to the common shares in the manner set out in "Terms and Conditions of the Global Depositary Shares – Voting Rights," as such provisions may be amended from time to time to comply with applicable ROC law.

(b) Dividend Distributions, Pre-emptive Rights, and Other Rights

Holders of GDRs have same rights on dividend distribution and share distribution as the Company's existing common shareholders.

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C. Capital surplus

The components of the capital surplus were as follows:

	December 31, 2014	December 31, 2013
From issuance of share capital	\$ 62,023,550	61,420,285
From conversion of convertible bonds	8,507,771	-
From treasury stock-transactions	96,553	86,924
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	116,741
Changes in ownership interest in subsidiaries	729,852	713,131
Employee share options	13,171	119,265
Restricted stock to employees	131,850	309,556
Other	409,917	409,917
	\$ 74,295,720	63,175,819

In accordance with Amended Companies Act of 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

D. Retained earnings

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

(a) Legal reserve

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

(b) Up to 1% as remuneration to directors and supervisors.

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- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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

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

- (a) Legal reserve

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

- (b) Special reserve

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

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(c) Earnings Distribution

For the years ended December 31, 2014 and 2013, employee bonuses of \$1,325,000 and \$870,000, and directors' and supervisors' remuneration of \$131,000 and \$85,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the years ended December 31, 2014 and 2013, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the years ended December 31, 2014 and 2013. The earnings distribution for the year ended December 31, 2014 has not been approved through shareholders' meeting. Related information can be accessed from the Market Observation Post System on the web site. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

On June 18, 2014 and June 19, 2013, the Company's shareholders' meeting resolved to appropriate the 2013 and 2012 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

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

The 2013 and 2012 earnings approved for distribution agreed with those accrued in the financial statements for the years ended December 31, 2013 and 2012.

Related information of distributions of employee bonus and remuneration to directors and supervisors can be accessed from the Market Observation Post System on the web site.

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E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of December 31, 2014 and 2013, the Company's shares held by its subsidiaries were 553 thousand shares and 1,503 thousand shares amounting to \$40,369 and \$57,715 at fair value, respectively.

F. Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available-for- sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance, January 1, 2014	\$ (48,637)	79,871	(241,370)	(210,136)
Exchange differences on foreign operation	4,869,817	-	-	4,869,817
Exchange differences on subsidiaries accounted for using equity method	(33,122)	-	-	(33,122)
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries accounted for using equity method	-	97,939	-	97,939
Deferred compensation cost	-	-	176,847	176,847
Balance, December 31, 2014	<u>\$ 4,788,058</u>	<u>177,810</u>	<u>(64,523)</u>	<u>4,901,345</u>
Balance, January 1, 2013	\$ (3,398,256)	88,302	(497,698)	(3,807,652)
Exchange differences on foreign operation	3,318,952	-	-	3,318,952
Exchange differences on subsidiaries accounted for using equity method	30,667	-	-	30,667
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries accounted for using equity method	-	(8,431)	-	(8,431)
Deferred compensation cost	-	-	256,328	256,328
Balance, December 31, 2013	<u>\$ (48,637)</u>	<u>79,871</u>	<u>(241,370)</u>	<u>(210,136)</u>

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G. Non-controlling interests(net of tax)

	For the Years Ended December 31	
	2014	2013
Balance, January 1	\$ 36,751,385	31,832,302
Profit attributable to non-controlling interests	4,269,475	4,692,751
Comprehensive income attributable to non-controlling interests		
Foreign currency translation differences — foreign operations	987,262	603,189
Unrealized gain (loss) on available-for-sale financial assets	299,118	(56,544)
Actuarial gain on defined benefit plan	24,076	20,741
Difference between consideration and carrying amount of subsidiaries acquired or disposed	(2,266,315)	(116,741)
Changes in ownership interest in subsidiaries	(16,721)	(608,763)
Changes in non-controlling interests	1,152,019	384,450
Balance, December 31	<u>\$ 41,200,299</u>	<u>36,751,385</u>

(21) Share-based payment

Information on share-based payment transaction as of December 31, 2014 was as follows:

Equity-settled share-based payment

Restricted stock to employee

	Issued in	
	2013	2012
Thousand units granted	6,062	34,167
Contractual life	3 years	3 years
Vesting period	Note A	Note A
Actual turnover rate of employees	3.79%	8.28%
Estimated future turnover rate for each or the three years of employees	10.94% , 25.07%, 33.76%	14.28% , 22.84%, 28.85%

Employee stock option

	Issued in	
	2012	2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	21.52%	24.88%
Estimated future turnover rate of employees	19.01%	19.88%

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Cash-settled share-based payment

Stock appreciation rights plan	Issued in 2012
Thousand units granted	Note B
Contractual life	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	8.27%
Estimated future turnover rate of employees	8.97%

Note A: Employees are entitled to receive 40%, 30%, and 30% of the restricted stock in the first, second and third year, respectively, of their service.

Note B: The option will be granted only if the earnings per share target is reached.

On April 14, 2011, the Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares per unit. For these employee stock options, the Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and stock option granted to an employee is not transferable to any person. If the exercise period expires, the employee forfeits his/her right to exercise the option and purchase the shares. Except for the forfeiture of vested options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the stock option vested in them pursuant to the stock option plan.

On October 19, 2012, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of November 9, 2012, the Board of Directors approved the list of eligible employees and resolved to issue 34,167 thousand shares effective December 20, 2012. The actual number of newly issued shares was 33,938 thousand shares with a par value of \$10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

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On August 12, 2013, pursuant to the resolutions of its board of directors, the Company issued 6,062 thousand shares of restricted shares of stock to employees with par value of \$10 per share. These were unissued shares whose total number is limited to up to 40,000 thousand shares of stock approved by the Financial Supervisory Commission for purposes of issuing restricted Company shares of stock to employees on October 19, 2012. The effective date of this capital increase was September 12, 2013. The legal procedure for the change in the registration of capital stock has been completed. Unless the vesting conditions have lapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

In order to encourage employees to stay and contribute their skills to the Company, the Board of Directors resolved on March 19, 2012 to issue 30,000,000 units of Employee Stock Appreciation Rights. The Company will pay the stock appreciation rights as employee bonus in cash based on the difference between the base price and the settlement price of the stock appreciation right where the base price on settlement of the right is the closing price of the Company's common stock on grant date, and the settlement price is the closing price of the Company's common share on exercise date.

There were no compensation cost recognized in the period due to the stock appreciation right fails to meet the vesting condition on December 31, 2014 and 2013

A. Determining the fair value of equity instruments granted

The Company adopted the Black-Scholes model to calculate the fair value of the stock option at grant date, and the assumptions adopted in this valuation model were as follows:

Equity-settled share-based payment Restricted stock to employee	Issued in	
	2013	2012
Fair value at grant date	08/12/2013	11/09/2012
Share price at grant date	\$45.20	39.45
Exercise price (Note A)	10.00	10.00
Expected life of the option	3 years	3 years
Current market price	45.20	39.45
Expected volatility	32.68%	38.49%
Expected dividend yield rate (Note A)	- %	- %
Risk-free interest rate	(Note C)	(Note B)

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Employee stock option	Issued in	
	2012	2011
Fair value at grant date	04/02/2012	07/01/2011
Share price at grant date	44.85	30.00
Exercise price (Note A)	44.85	30.00
Expected life of the option	3 years	3 years
Current market price	44.85	30.00
Expected volatility	44.41%	37.0531%
Expected dividend yield rate (Note A)	- %	-%
Risk-free interest rate	0.95%	1.0838%

Cash-settled share-based payment

Restricted stock to employee	Issued in	
	2012	
Fair value at grant date	04/02/2012	
Share price at grant date	N/A	
Exercise price (Note A)	N/A	
Expected life of the option	07/01/2013~06/30/2014	
Current market price	-	
Expected volatility	40.12%	
Expected dividend yield rate (Note A)	- %	
Risk-free interest rate	1.355%	

Note A: After the issuance of the employee stock options, if the Company increases its capital through the surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

Note B: The risk-free interest rate is 0.6953% for the 1st year, 0.7363% for the 2nd year, and 0.7873% for the 3rd year.

Note C: The risk-free interest rate is 0.5997% for the 1st year, 0.7167% for the 2nd year, and 0.8764% for the 3rd year.

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B. Restricted stock to employee

For the years ended December 31, 2013 and 2012, the Company issued restricted shares of stock to employees of 6,062 and 33,938 thousand shares respectively, which resulted in a capital surplus — restricted employee stock of \$112,511 and \$478,366 thousand dollars. Also, for the years ended December 31, 2014 and 2013, 874 and 1,906 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$8,738 and \$19,064. As of December 31, 2014 and 2013, the Company has deferred compensation cost arising from issuance of restricted stock of \$64,523 and \$241,370 thousand dollars respectively.

For the years ended 2014 and 2013, the Company recognized salary cost of \$9,121 thousand and \$11,200 thousand from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

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

C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2014

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	6,501	\$ 42.67
Granted	-	-
Exercised	4,762	42.67
Exercised	686	40.80
Forfeited	181	-
Expired	-	-
Balance, end of the period	<u>872</u>	40.80
Exercisable, end of the period	<u>863</u>	
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>40.80</u>	
Remaining contractual life	<u>0.25</u>	
Expenses incurred on share-based payment transactions	<u>8,462</u>	

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

(b) For the year ended December 31, 2013

	<u>Issued in 2012</u>	
	<u>Number of Exercisable Thousand Shares</u>	<u>Weighted-average Exercise Price</u>
Balance, beginning of the period	7,389	\$ 44.33
Granted		
Exercised	-	-
Forfeited	888	-
Expired	-	-
Balance, end of the period	<u>6,501</u>	42.67
Exercisable, end of the period	<u>-</u>	
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>42.67</u>	
Remaining contractual life	<u>1.25</u>	
Expenses incurred on share-based payment transactions	<u>33,501</u>	

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	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	32,909	28.11
Granted	-	-
Exercised	24,786	28.11
Exercised	1,831	27.06
Forfeited	1,242	-
Expired	-	-
Balance, end of the period	<u>5,050</u>	27.06
Exercisable, end of the period	<u>4,787</u>	
Weighted-average fair value of options granted	<u>7.9</u>	
Exercise price of share option outstanding, end of the period	<u>27.06</u>	
Remaining contractual life	<u>0.5</u>	
Expenses incurred on share-based payment transactions	<u>43,796</u>	

D. Expenses resulted from share-based payments

The Company incurred expenses from share-based payments transactions for the years ended December 31, 2014 and 2013 as follows:

	For the Years Ended December 31	
	2014	2013
Expenses resulting from issuance of restricted stock to employees	\$ 230,097	431,274
Expenses arising from granting of employee share options	7,324	77,297
Total	<u>\$ 237,421</u>	<u>508,571</u>

(22) Subsidiary's share-based payments

A. For the years ended December 31, 2014 and 2013, Ability (TW) has share-based payment transactions as follows:

Types	Grant date	Thousand units granted	Contractual life	Vesting period
The first batch of employee stock options	12/27/2007	10,000	7 years	2 years
The second batch of employee stock options	10/13/2008	9,500	7 years	2 years
Restricted stock to employee	05/21/2014	22,000	3 years	3 years

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The restricted shares of stock may not be transferred unless the vesting conditions have elapsed. The holder of the restricted shares are entitled to the right as existing common shareholders; Employee resigns in the vesting period is obligate to return the restricted shares of stock but without returning the distributed dividend.

- B. The Black-Scholes Option Valuation Model was adopted to estimate the fair value of the first batch of Ability (TW) employee stock options. The Trinomial Tree Option Valuation Model was adopted to estimate the fair value of the second batch of Ability (TW) employee stock option on the day of granted and at the end of each period.

	Equity-settled		
	Restricted stock to employee	Employee stock option	
	Issued in 2014	Issued in 2008	Issued in 2007
Grand date	May 21, 2014	October 13, 2008	December 27, 2007
Stock Price at granted date	\$20.90	22.20	52.80
Exercise Price	10.00	22.20	52.80
Expected life of the options	3 years	7 years	5.10 years
Volatility factors of the expected market price	Note A	43.11%	39.87%
Dividend yields	Note B	-	-
Risk-free interest rate	Note C	2.2101%	2.54%

Note A: The volatility factors of the expected market price are 22.22% for the 1st year, 21.15% for the 2nd year, and 25.67% for the 3rd year.

Note B: The Dividend yields are 8.22% for the 1st year, - % for the 2nd year, and - % for the 3rd year.

Note C: Risk-free interest rate is 1.4628% for the 1st year, 1.6421 % for the 2nd year, and 1.9488% for the 3rd year.

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

	For the Year Ended December 31, 2014			
	Issued in 2008		Issued in 2007	
The first batch of employee stock options	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	1,268 \$	15.0	5,079	29.9
Exercised	690	15.0	-	-
Exercised	80	13.6	-	-
Forfeited	70	13.6	5,079	27.1
Outstanding at the end of the period	<u>428</u>	13.6	<u>-</u>	-
Exercisable at the end of the period	<u>428</u>	13.6	<u>-</u>	-
Weighted-average fair value of options granted	<u>8.88</u>		<u>20.6025</u>	
Exercise price of share option outstanding, end of the period	<u>13.60</u>		<u>-</u>	
Remaining contractual life	<u>0.75</u>		<u>-</u>	

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The second batch of employee stock options	For the Year Ended December 31, 2013			
	Issued in 2008		Issued in 2007	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	2,992	\$ 16.4	5,079	32.6
Granted	-	-	-	-
Exercised	157	16.4	-	-
Exercised	1,481	15.0	-	-
Forfeited	86	-	-	-
Outstanding at the end of the period	<u>1,268</u>	15.0	<u>5,079</u>	29.9
Exercisable at the end of the period	<u>1,268</u>	15.0	<u>5,079</u>	29.9
Weighted-average fair value of options granted	<u>8.88</u>		<u>20.6025</u>	
Exercise price of share option outstanding, end of the period	<u>15.0</u>		<u>29.90</u>	
Remaining contractual life	<u>1.75</u>		<u>-</u>	

D. In 2014, Ability (TW) bought back 410 thousand shares at \$10 per share with total amount of \$4,099 due to employee resigned during the vesting period.

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

	For the Years Ended December 31	
	2014	2013
Equity-settled	<u>\$ 64,860</u>	<u>1,774</u>

(23) Earnings per share

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

	For the Years Ended December 31	
	2014	2013
Basic earnings per share		
Profit attributable to ordinary shareholders	<u>\$ 14,658,138</u>	<u>9,554,496</u>
Weighted-average number of ordinary shares	<u>2,348,719</u>	<u>2,296,456</u>
	<u>\$ 6.24</u>	<u>4.16</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders	\$ 14,658,138	9,554,496
Effect of potentially dilutive ordinary shares		
Conversion of convertible bonds	-	(5,844)
Profit attributable to ordinary shareholders (diluted)	<u>\$ 14,658,138</u>	<u>9,548,652</u>
Weighted-average number of ordinary shares	<u>2,348,719</u>	<u>2,296,456</u>
Effect of potentially dilutive ordinary shares		
Employee stock bonus	25,528	25,329
Employee stock option	337	9,662
Conversion of convertible bonds	-	222,596
Weighted-average number of ordinary shares (diluted)	<u>2,374,584</u>	<u>2,554,043</u>
	<u>\$ 6.17</u>	<u>3.74</u>

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For the year ended December 31, 2014, convertible bonds of \$4,360,446 were not included in the calculation of weighted-average number of shares, due to its' anti-dilutive impact on earnings per share.

(24) Revenue

	For the Years Ended December 31	
	2014	2013
Sale of goods	\$ 994,044,717	939,195,371
Others	25,694,116	10,556,657
	<u>\$ 1,019,738,833</u>	<u>949,752,028</u>

(25) Non-operating income and expenses

A. Other income

	For the Year Ended December 31	
	2014	2013
Interest income	\$ 1,778,928	879,927
Subsidy income	701,364	762,344
Rental income	230,514	257,503
Technical service income	261,309	435,010
Other income	338,279	380,025
	<u>\$ 3,310,394</u>	<u>2,714,809</u>

B. Other gains and losses

	For the Years Ended December 31	
	2014	2013
Gain on reversal of uncollectable account	\$ 5,784	39,280
Loss on disposal of property, plant and equipment	(277,494)	(318,025)
Gain on disposal of other assets	9,422	-
Gain on disposal of investments	287,241	32,761
Foreign exchange gains	1,171,287	2,113,257
Impairment loss	(578,759)	(173,619)
Net gains (losses) on evaluation of financial assets (liabilities) measured at fair value through profit or loss	(4,304,477)	628,347
	<u>\$ (3,686,996)</u>	<u>2,322,001</u>

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C. Finance costs

	For the Years Ended December 31	
	2014	2013
Interest expenses	\$ 868,009	1,064,848
Interest expenses capitalization	-	(2,135)
Finance expense – bank fees	222,071	238,540
	<u>\$ 1,090,080</u>	<u>1,301,253</u>
Capitalization rate	-	<u>2.198%</u>

(26) Reclassification of other comprehensive income

	For the Years Ended December 31	
	2014	2013
Net fair value change in available-for-sale financial assets recognized in:		
Other comprehensive income	\$ 277,445	(99,429)
Profit or loss	119,612	34,454
Net fair value change recognized in other comprehensive income	<u>\$ 397,057</u>	<u>(64,975)</u>

(27) Financial instruments

A. Categories of financial instruments

(a) Financial assets

	December 31, 2014	December 31, 2013
Financial assets at fair value through profit or loss:		
Held-for-trading	\$ 5,746,322	7,018,321
Available-for-sale financial assets	2,563,717	1,588,008
Financial assets carried at cost	568,834	539,645
Loans and receivables:		
Cash and cash equivalents	107,688,632	74,261,306
Notes receivable, Accounts receivable and Other receivables	144,735,956	133,235,505
Other financial assets	2,799,808	3,073,025
Subtotal	<u>255,224,396</u>	<u>210,569,836</u>
Total	<u>\$ 264,103,269</u>	<u>219,715,810</u>

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(b) Financial liabilities

	December 31, 2014	December 31, 2013
Financial liabilities at fair value through profit or loss:		
Held-for-trading	\$ 8,937	7,443
Financial liabilities at fair value through profit or loss, designated as upon initial recognition	1,117,653	235,162
Subtotal	<u>1,126,590</u>	<u>242,605</u>
Financial liabilities at amortized cost:		
Short-term borrowings	27,180,563	23,014,478
Short-term notes and bills payable	-	79,978
Payables	207,107,696	183,643,239
Current tax liabilities	5,919,270	3,377,651
Bonds payable (including current portion)	1,808,230	8,116,490
Long-term borrowings (including current portion)	21,692,911	29,610,983
Guarantee deposit (recognized in other noncurrent liabilities)	443,603	542,290
Subtotal	<u>264,152,273</u>	<u>248,385,109</u>
Total	<u>\$ 265,278,863</u>	<u>248,627,714</u>

B. Credit risk

(a) Exposure to credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure. As of December 31, 2014 and 2013, the maximum exposures to credit risk amounted to \$264,103,269 and \$219,715,810, respectively.

As of December 31, 2014 and 2013, the accounts receivable from the Group's top three customers amounted to \$67,551,363 and \$60,016,345, representing 51% and 57% of accounts receivable, respectively, which exposes the Group to credit risk.

(b) Impairment losses

Aging analysis of the receivables on the balance sheet date were as follows:

	December 31, 2014	December 31, 2013
Current (not past due)	\$ 141,233,520	127,662,246
Past due 0 - 30 days	2,903,684	5,321,893
Past due 31 - 120 days	718,248	316,448
Past due 121 - 365 days	186,174	1,704,750
Past due more than 1 year	1,902,458	339,721
	<u>\$ 146,944,084</u>	<u>135,345,058</u>

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The movement in the allowance for impairment with respect to the receivables during the period was as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2014	\$ 71,096	2,038,457	2,109,553
Impairment loss	206	109,015	109,221
Written off unrecoverable amount	(3,451)	-	(3,451)
Foreign exchange loss	4,169	26,847	31,016
Others	-	(38,211)	(38,211)
Balance on December 31, 2014	\$ 72,020	2,136,108	2,208,128
Balance on January 1, 2013	\$ 66,928	619,163	686,091
Impairment loss	17,537	1,569,685	1,587,222
Written off unrecoverable amount	(15,089)	(160,395)	(175,484)
Foreign exchange loss	1,720	10,004	11,724
Balance on December 31, 2013	\$ 71,096	2,038,457	2,109,553

Based on historical default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due. Also, the payment term of the receivables from related parties depend on the Group's capital movement, and there's no penalty interest due for late payment. The Group's management believes that there's no significant change on the credit quality of the aforesaid receivables which are past due but not impaired, thus they assess the receivables can be recovered. In addition, the Group does not hold any collateral and of other credit enhancement to mitigate the credit risk of the foresaid receivables.

Allowance for bad debts or accumulated impairment are the accounts used to record bad debt expense or impairment loss. If the Group believes the related receivables cannot be recovered, the carrying amount of the financial assets will be reduced through the allowance for bad debts accounts and accumulated impairment.

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C. Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2014					
Non-derivative financial liabilities					
Secured bank loans	\$ 749,695	749,695	386,400	148,295	215,000
Unsecured bank loans	48,141,379	48,141,379	34,537,852	1,424,492	12,179,035
Unsecured convertible bonds	1,808,230	1,808,230	1,808,230	-	-
Non-interest bearing liabilities	213,026,966	213,026,966	213,026,966	-	-
Derivative financial liabilities					
Overseas convertible bonds— conversion options	1,117,653	1,117,653	1,117,653	-	-
Option exchange contract — outflow	8,937	8,937	8,937	-	-
	<u>\$ 264,852,860</u>	<u>264,852,860</u>	<u>250,886,038</u>	<u>1,572,787</u>	<u>12,394,035</u>
December 31, 2013					
Non-derivative financial liabilities					
Secured bank loans	\$ 892,662	892,662	282,490	198,983	411,189
Unsecured bank loans	51,755,199	51,755,199	31,751,287	6,765,613	13,238,299
Unsecured convertible bonds	8,116,490	8,116,490	-	8,116,490	-
Non-interest bearing liabilities	187,100,868	187,100,868	187,100,868	-	-
Derivative financial liabilities					
Overseas convertible bonds— conversion options	235,162	235,162	-	235,162	-
Forward exchange contract — outflow	7,443	7,443	7,443	-	-
	<u>\$ 248,107,824</u>	<u>248,107,824</u>	<u>219,142,088</u>	<u>15,316,248</u>	<u>13,649,488</u>

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

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D. Currency risk

(a) Currency risk exposure

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

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2014			December 31, 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 9,524,967	31.65	301,465,206	8,165,674	29.805	243,377,914
USD:CNY	5,838,639	6.119	184,792,924	5,361,939	6.0969	159,812,592
CNY:NTD	1,627,657	5.1724	8,418,893	1,675,816	4.8885	8,192,227
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	8,819,213	31.65	279,128,091	8,405,776	29.805	250,534,154
USD:CNY	7,875,746	6.119	249,267,361	7,461,939	6.0969	222,403,092
CNY:NTD	251,501	5.1724	1,300,864	151,764	4.8885	741,898

(b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, available-for-sale financial assets, loans, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of December 31, 2014 and 2013 would have decreased the after-tax net income by \$344,630 and \$611,251, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for both periods.

E. Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

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

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

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$46,931 and \$107,283 for the years ended December 31, 2014 and 2013, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

F. Fair value of financial instruments

(a) Fair value and carrying amount

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

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

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

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

(c) Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2014				
Financial assets designated as at fair value through profit or loss				
Held-for-trading non-derivative financial assets	\$ 5,746,322	-	-	5,746,322
Available-for-sale financial assets				
Stock of listed companies	1,238,361	-	-	1,238,361
Equity investment – common stock	-	241,920	-	241,920
Stock of overseas listed companies	-	1,083,436	-	1,083,436
	<u>\$ 6,984,683</u>	<u>1,325,356</u>	<u>-</u>	<u>8,310,039</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial liabilities	\$ -	8,937	-	8,937
Overseas convertible bonds	-	1,117,653	-	1,117,653
	<u>\$ -</u>	<u>1,126,590</u>	<u>-</u>	<u>1,126,590</u>
December 31, 2013				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	\$ -	9,665	-	9,665
Held-for-trading non-derivative financial assets	7,008,656	-	-	7,008,656
Available-for-sale financial assets				
Stock of listed companies	1,022,165	-	-	1,022,165
Equity investment – common share	-	145,800	-	145,800
Stock of overseas listed companies	-	420,043	-	420,043
	<u>\$ 8,030,821</u>	<u>575,508</u>	<u>-</u>	<u>8,606,329</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial liabilities	\$ -	7,443	-	7,443
Overseas convertible bonds	-	235,162	-	235,162
	<u>\$ -</u>	<u>242,605</u>	<u>-</u>	<u>242,605</u>

There have been no transfers from each level for the years ended December 31, 2014 and 2013.

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(28) Financial risk management

A. Overview

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

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

B. Risk management framework

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

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

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

C. Credit risk

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

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

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The Group transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Group would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Group believes that there is no significant credit risk.

(a) Accounts receivables and other receivables

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

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

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

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

(b) Investment

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

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(c) Guarantee

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

D. Liquidity risk

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

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

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

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

E. Market risk

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

(a) Currency risk

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

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

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

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

(b) Interest rate risk

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

(c) Price floating risk on equity instruments

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

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

(29) Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, non-redeemable preference shares, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group uses the liability-to-equity ratio, debt-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

The Group's debt to equity ratios at the balance sheet date were as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Total liabilities	\$ 282,221,911	271,840,345
Less: cash and cash equivalents	<u>107,688,632</u>	<u>74,261,306</u>
Net debt	<u>\$ 174,533,279</u>	<u>197,579,039</u>
Total capital (Note)	<u>\$ 349,404,509</u>	<u>341,634,218</u>
Debt to equity ratio	<u>49.95%</u>	<u>57.83%</u>

Note: Total capital includes share capital, capital surplus, retained earnings, other equity and non-controlling interest and net debt.

Management believes that there were no changes in the Group's approach to capital management for the year ended December 31, 2014.

(30) Non-cash transactions of investment and financing activity

Convertible bonds payable converted into ordinary shares. Please refer to Note 6(15) for details.

7. RELATED PARTY TRANSACTIONS

(1) The ultimate parent company

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

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

(2) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

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

	<u>Sales</u>		<u>Receivables from Related Parties</u>	
	<u>2014</u>	<u>2013</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Entity with significant influence over the Group	\$ -	21,942,101	-	-
Others	<u>1,800</u>	<u>172,690</u>	<u>502</u>	<u>198</u>
	<u>\$ 1,800</u>	<u>22,114,791</u>	<u>502</u>	<u>198</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

B. Purchase of Goods from Related Parties

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

	Purchases		Payables to Related Parties	
	2014	2013	December 31, 2014	December 31, 2013
Entity with significant influence over the Group	\$ -	17,046,948	-	-
Others	454,102	1,772,502	13,136	482,670
	<u>\$ 454,102</u>	<u>18,819,450</u>	<u>13,136</u>	<u>482,670</u>

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

C. Warranty repair expense paid to Related Parties

	For the Years Ended December 31	
	2014	2013
Others	\$ -	13,414

D. Other income and expenses from Related Parties

	For the Years Ended December 31	
	2014	2013
Entity with significant influence over the Group	\$ -	(60,661)
Others	154	1,988
	<u>\$ 154</u>	<u>(58,673)</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

E. Rental revenue

For the years ended December 31, 2014 and 2013, the Group incurred other related party transactions of \$0 and \$5,590, respectively, which were accounted for as rental revenue.

F. Other related party transactions recorded as expenses

For the years ended December 31, 2014 and 2013, the Group incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$0 and \$4,840, respectively.

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

	December 31, 2014	December 31, 2013
Other receivables		
Others	\$ -	234
Other current liabilities		
Others	\$ -	1,794

(3) Key management personnel compensation:

	For the Years Ended December 31	
	2014	2013
Short-term employee benefits	\$ 543,857	640,343
Post-employment benefits	4,818	4,776
Share-based payments	40,022	66,081
	\$ <u>588,697</u>	<u>711,200</u>

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

8. Pledged Assets

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

Asset	Purpose of pledge	December 31, 2014	December 31, 2013
Other financial asset	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.	\$ 45,255	75,151
Non-current assets held-for-sale	Bank loans	88,517	-
Property, plant and equipment	Bank loans	1,858,372	1,988,922
Long-term prepaid rentals	Bank loans	12,333	11,957
Refundable deposits	Customs duty guarantee, custom deposits, and deposits for performance guarantee	27,044	35,705
		\$ <u>2,031,521</u>	<u>2,111,735</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
EUR	\$ 2,973	2,558
JPY	5,882,425	1,569,171
USD	30,633	15,417

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
NTD	<u>\$ 11,997</u>	<u>20,105</u>

C. As of December 31, 2014 and 2013, the significant contracts for purchase of properties by the Group amounted to \$5,219,870 and \$4,393,035, of which \$2,894,149 and \$1,950,522, respectively, were unpaid.

D. As of December 31, 2014 and 2013, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$16,488,504 and \$24,353,209, respectively.

E. As of December 31, 2014, the Group issued a tariff guarantee of \$450,745 to the bank for the purpose of importing goods.

F. The board of directors of Ability (TW) decided to build a new office building with its own land. Construction will be provided by Ta Chen Construction & Engineering Corp. The whole contract price for this construction is \$824,775 (tax included).

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS:

On May 13, 2014, the Group's inventories were destroyed due to the anti-China protests in Vietnam. This resulted in inventory losses of \$142,682. According to management, the manufacturer, SOLEREBELS, has filed an insurance claim with the insurance company, and the payment for such insurance claim will be given to the Group as reimbursement for losses. The Group had recognized the said loss of \$142,682 through AsiaRock Technology Ltd. The Group management is expecting to recognize the amount of reimbursement as compensation revenue upon receipt.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

11. SUBSEQUENT EVENTS:

CASETEK CAYMAN signed a one year joint accounts receivable factoring agreement with seven banks on January 30, 2015 in order to increase its sufficiency of working capital. Please refer to the website of Market Observation Post System for detail.

12. OTHER

The employee benefits, depreciation, depletion and amortization expenses categorized by function, were as follows:

By item	For the Year Ended December 31,2014			For the Year Ended December 31,2013		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 37,138,087	13,614,362	50,752,449	33,540,108	13,611,850	47,151,958
Health and labor insurance	3,337,938	818,849	4,156,787	2,776,504	884,338	3,660,842
Pension	3,152,526	679,551	3,832,077	2,305,213	613,600	2,918,813
Others	1,851,880	666,358	2,518,238	2,126,054	745,095	2,871,149
Depreciation	11,717,766	1,833,947	13,551,713	11,397,935	1,924,359	13,322,294
Amortization	29,509	170,813	200,322	308,838	283,308	592,146

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

	For the Years Ended December 31	
	2014	2013
Depreciation in investment property	\$ <u>10,379</u>	<u>10,380</u>

13. SEGMENT INFORMATION

(1) General Information

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (2) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, excluding any extraordinary activity and foreign exchange gain or losses, because taxation, extraordinary activity and foreign exchange gain or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 “significant accounting policies” except for the recognition and measurement of pension cost, which is on a cash basis. The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

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

For the Year Ended December 31, 2014	DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue :				
Revenue from external customers	\$ 922,718,932	97,019,901	-	1,019,738,833
Intersegment revenues	1,567,605	13,604,269	(15,171,874)	-
Total revenue	<u>\$ 924,286,537</u>	<u>110,624,170</u>	<u>(15,171,874)</u>	<u>1,019,738,833</u>
Share of profit of associates and joint ventures accounted for using equity method	\$ <u>4,145,662</u>	<u>10,561,052</u>	<u>(15,027,037)</u>	<u>(320,323)</u>
Other significant non-monetary items:				
Goodwill	\$ -	1,106,886	164,860	1,271,746
Reportable segment profit or loss	<u>\$ 18,894,004</u>	<u>22,389,431</u>	<u>(15,021,348)</u>	<u>26,262,087</u>
Assets:				
Investments accounted for using equity method	\$ <u>47,572,890</u>	<u>82,269,314</u>	<u>(129,351,832)</u>	<u>490,372</u>
Reportable segment assets	<u>\$ 373,500,846</u>	<u>212,802,987</u>	<u>(129,210,692)</u>	<u>457,093,141</u>
Reportable segment liabilities	<u>\$ 239,829,916</u>	<u>42,415,715</u>	<u>(23,720)</u>	<u>282,221,911</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the Year Ended December 31, 2013	DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue :				
Revenue from external customers	\$ 858,250,084	91,501,944	-	949,752,028
Intersegment revenues	530,944	20,294,169	(20,825,113)	-
Total revenue	\$ 858,781,028	111,796,113	(20,825,113)	949,752,028
Share of profit of associates and joint ventures accounted for using equity method	\$ 5,224,406	2,299,738	(7,599,730)	(75,586)
Other significant non-monetary items:				
Goodwill	\$ -	1,042,450	497,424	1,539,874
Reportable segment profit or loss	\$ 10,577,564	16,066,148	(7,613,840)	19,029,872
Assets:				
Investments accounted for using equity method	\$ 43,754,617	70,283,430	(112,850,294)	1,187,753
Reportable segment assets	\$ 342,465,112	186,307,238	(112,876,826)	415,895,524
Reportable segment liabilities	\$ 235,161,318	37,202,982	(523,955)	271,840,345

(3) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

A. External Sales

Region	2014	2013
Taiwan	\$ 224,249,202	319,248,545
USA	301,753,238	322,771,406
Ireland	255,592,297	138,964,961
Japan	61,244,411	50,341,544
China	55,944,888	5,625,166
Others	120,954,797	112,800,406
Total	\$ 1,019,738,833	949,752,028

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Non-current assets

<u>Region</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Taiwan	\$ 19,067,524	17,278,849
China	60,116,829	61,939,554
Others	1,100,357	1,274,110
Total	<u>\$ 80,284,710</u>	<u>80,492,513</u>

Non-current assets include property, plant and equipment, investment property, intangible assets, and other non-current assets, excluding financial instruments, deferred tax assets, pension fund assets, and rights arising from an insurance contract (non-current).

(4) Major Customer

Major customers from DMS in 2014 and 2013 were as follows:

<u>Customer</u>	<u>2014</u>	<u>2013</u>
A	\$ 498,050,147	390,919,709
B	118,818,477	109,115,869
C	61,794,430	123,534,981
	<u>\$ 678,663,054</u>	<u>623,570,559</u>

Attachment II

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

**To the Board of Directors of
Pegatron Corporation**

We have audited the accompanying balance sheets of Pegatron Corporation (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 then ended. 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 did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 22,255,615 thousand, NT\$ 22,241,985 thousand, representing 5.14% and 5.80% of total assets as of December 31, 2014 and 2013, respectively, and related investment income was NT\$ 1,069,407 thousand and NT\$ 1,697,446 thousand, representing 6.51% and 17.78% of net income before tax for the years ended December 31, 2014 and 2013, respectively. The financial statements of these investees were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, the results of its operations and its cash flows for the years then ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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

March 23, 2015

Note to Readers

The accompanying non-consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers. 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 accepted and applied in the Republic of China.

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 6(1))	\$ 31,092,242	7	19,170,052	5
Notes and accounts receivable, net (Note 6(3))	103,145,200	24	85,155,913	22
Accounts receivable, net – Related parties (Note 7)	150,393,887	35	133,504,038	35
Other receivables, net (Notes 6(3) and 7)	12,895,589	3	23,296,254	6
Inventories (Note 6(4))	18,350,385	4	21,985,422	6
Other financial assets – current (Note 6(8))	42,141	-	55,820	-
Other current assets (Note 6(8))	136,624	-	120,548	-
	316,056,068	73	283,288,047	74
Non-current assets:				
Investments accounted for using equity method (Note 6(5))	112,093,393	26	95,704,186	25
Property, plant and equipment (Notes 6(6) and 7)	4,478,327	1	4,444,544	1
Intangible assets (Note 6(7))	48,713	-	58,990	-
Deferred tax assets (Note 6(15))	180,305	-	173,059	-
Other financial assets – noncurrent (Note 6(8))	26,684	-	32,492	-
Other noncurrent assets (Note 6(8))	-	-	34,370	-
	116,827,422	27	100,447,641	26
TOTAL ASSETS	\$ 432,883,490	100	383,735,688	100

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED BALANCE SHEETS (CONT'D)

DECEMBER 31, 2014 AND 2013

(All Amounts Expressed in Thousands of New Taiwan Dollars)

LIABILITIES	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
Current Liabilities:				
Short-term loans (Note 6(9))	\$ 21,965,100	5	18,628,125	6
Financial liabilities at fair value through profit or loss—current (Notes 6(2) and 6(11))	1,117,653	-	-	-
Notes and accounts payable	110,563,613	26	105,537,143	27
Accounts payable—Related parties (Note 7)	114,141,212	26	93,203,009	24
Other payables (Notes 6(17) and 7)	19,210,958	5	13,921,682	4
Current income tax liabilities	1,764,795	-	366,613	-
Provisions—current (Note 6(12))	64,030	-	62,923	-
Deferred revenue	535,714	-	504,324	-
Bonds payable—current portion (Note 6(11))	1,808,230	-	-	-
Long-term loans payable—current portion (Note 6(10))	5,064,000	1	4,768,800	1
Other current liabilities (Note 7)	10,754,198	3	14,093,534	4
	<u>286,989,503</u>	<u>66</u>	<u>251,086,153</u>	<u>66</u>
Non-current liabilities:				
Financial liabilities at fair value through profit or loss —noncurrent (Notes 6(2) and 6(11))	-	-	235,162	-
Bonds payable (Note 6(11))	-	-	8,116,490	2
Long-term loans (Note 6(10))	11,982,400	3	16,746,400	4
Deferred tax liabilities (Note 6(15))	205,445	-	217,397	-
Other noncurrent liabilities (Note 6(14))	35,211	-	30,292	-
	<u>12,223,056</u>	<u>3</u>	<u>25,345,741</u>	<u>6</u>
Total Liabilities	<u>299,212,559</u>	<u>69</u>	<u>276,431,894</u>	<u>72</u>
EQUITY (Note 6(16))				
Share capital	<u>25,156,805</u>	<u>6</u>	<u>23,211,555</u>	<u>6</u>
Capital surplus:				
Capital surplus, premium on capital stock	70,531,321	16	61,420,285	16
Capital surplus, others	3,764,399	1	1,755,534	-
	<u>74,295,720</u>	<u>17</u>	<u>63,175,819</u>	<u>16</u>
Retained earnings:				
Legal reserve	3,413,566	1	2,458,117	1
Special reserve	-	-	3,280,485	1
Unappropriated retained earnings	25,911,678	6	15,405,350	4
	<u>29,325,244</u>	<u>7</u>	<u>21,143,952</u>	<u>6</u>
Other equity interest:				
Exchange differences on translation of foreign financial statements	4,788,058	1	(48,637)	-
Unrealized gains on available-for-sale financial assets	177,810	-	79,871	-
Deferred compensation cost arising from issuance of restricted stock (Note 17)	(64,523)	-	(241,370)	-
	<u>4,901,345</u>	<u>1</u>	<u>(210,136)</u>	<u>-</u>
Treasury stock	<u>(8,183)</u>	<u>-</u>	<u>(17,396)</u>	<u>-</u>
Total Equity	<u>133,670,931</u>	<u>31</u>	<u>107,303,794</u>	<u>28</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 432,883,490</u>	<u>100</u>	<u>383,735,688</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NON-CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Years ended December 31			
	2014		2013	
	Amount	%	Amount	%
Operating revenues (Notes 6(19) and 7)	\$ 900,073,512	100	796,040,889	100
Less: Sales returns and allowances	2,109,924	-	1,816,161	-
Net sales	897,963,588	100	794,224,728	100
Cost of sales (Notes 6(4), 6(13) and 7)	873,094,844	97	783,471,961	99
Gross profit	24,868,744	3	10,752,767	1
Realized profit on intercompany transactions	16,005	-	49,334	-
Gross profit	24,884,749	3	10,802,101	1
Operating expenses (Notes 6(13), 6(14) and 7)				
Selling expenses	7,602,091	1	3,252,575	-
General and administrative expenses	2,541,792	-	1,995,092	-
Research and development expenses	6,769,560	1	5,265,356	1
	16,913,443	2	10,513,023	1
Results from operating activities	7,971,306	1	289,078	-
Non-operating income and expenses				
Other income (Notes 6(20) and 7)	599,273	-	438,071	-
Other gains and losses (Notes 6(11) and 6(20))	(3,374,868)	-	514,234	-
Financial costs (Notes 6(11) and 6(20))	(702,460)	-	(917,669)	-
Share of profit (loss) of associates and joint ventures accounted for under equity method (Note 6(5))	11,976,103	1	9,242,598	1
Other losses (Note 7)	(30,887)	-	(19,912)	-
	8,467,161	1	9,257,322	1
Profit before tax	16,438,467	2	9,546,400	1
Income tax expense (benefit) (Note 6(15))	1,780,329	-	(8,096)	-
Profit for the year	14,658,138	2	9,554,496	1
Other comprehensive income (Note 6(16))				
Foreign currency translation differences—foreign operations	2,715,588	-	1,777,556	-
Defined benefit plan actuarial gains (losses)	1,364	-	(1,195)	-
Share of other comprehensive income of associates and joint ventures accounted for under equity method	2,228,932	-	1,572,974	-
Income tax relating to components of other comprehensive income	-	-	-	-
Other comprehensive income for the year, net of tax	4,945,884	-	3,349,335	-
Total comprehensive income for the year	\$ 19,604,022	2	12,903,831	1
Earnings per share, net of tax (Note 6(18))				
Basic earnings per share	\$ 6.24		4.16	
Diluted earnings per share	\$ 6.17		3.74	

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PEGATRON CORPORATION
NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Thousands of New Taiwan Dollars)

	Attributable to Owners of the Company												
	Share capital			Retained earnings				Other adjustments to equity					
	Common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated	Total	Foreign currency translation differences	Unrealized gains (losses) on available-for-sale financial assets	Other	Total	Treasury stock	Total equity
Balance, January 1, 2013	\$ 22,903,049	-	61,723,110	1,847,737	734,859	12,422,970	15,005,566	(3,398,256)	88,302	(497,698)	(3,807,652)	(18,794)	95,805,279
Profit for the year	-	-	-	-	-	9,554,496	9,554,496	-	-	-	-	-	9,554,496
Other comprehensive income for the period	-	-	-	-	-	8,147	8,147	-	(8,431)	-	3,341,188	-	3,349,335
Total comprehensive income for the period	-	-	-	-	-	9,562,643	9,562,643	3,349,619	(8,431)	-	3,341,188	-	12,903,831
Appropriation and distribution of retained earnings (Note 1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	610,380	-	(610,380)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	2,545,626	(2,545,626)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	(3,435,457)	(3,435,457)	-	-	-	-	-	(3,435,457)
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	1,955	-	-	-	-	-	-	-	-	2,178	4,133
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	116,741	-	-	-	-	-	-	-	-	-	116,741
Changes in ownership interest in subsidiaries	-	-	608,763	-	-	-	-	-	-	-	-	-	608,763
Share-based payments	258,960	7,210	557,408	-	-	-	-	-	-	-	-	-	823,578
Expiration of restricted shares of stock issued to employees	(18,284)	-	19,064	-	-	-	-	-	-	-	-	(780)	-
Compensation cost arising from restricted shares of stock	60,620	-	148,778	-	-	11,200	11,200	-	-	256,328	256,328	-	476,926
Balance, December 31, 2013	23,204,345	7,210	63,175,819	2,458,117	3,280,485	15,405,350	21,143,952	(48,637)	79,871	(241,370)	(210,136)	(17,396)	107,303,794
Profit for the year	-	-	-	-	-	14,658,138	14,658,138	-	-	-	-	-	14,658,138
Other comprehensive income for the period	-	-	-	-	-	11,250	11,250	4,836,695	97,939	-	4,934,634	-	4,945,884
Total comprehensive income for the period	-	-	-	-	-	14,669,388	14,669,388	4,836,695	97,939	-	4,934,634	-	19,604,022
Appropriation and distribution of retained earnings (Note 2)	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	955,449	-	(955,449)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(3,280,485)	3,280,485	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	(6,497,217)	(6,497,217)	-	-	-	-	-	(6,497,217)
Conversion of convertible bonds	377,318	1,472,500	8,507,771	-	-	-	-	-	-	-	-	-	10,357,589
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	9,629	-	-	-	-	-	-	-	-	10,503	20,132
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	2,266,315	-	-	-	-	-	-	-	-	-	2,266,315
Changes in ownership interest in subsidiaries	-	-	16,721	-	-	-	-	-	-	-	-	-	16,721
Share-based payments	104,890	(2,010)	266,598	-	-	-	-	-	-	-	-	-	369,478
Expiration of restricted shares of stock issued to employees	(7,448)	-	8,738	-	-	-	-	-	-	-	-	-	-
Compensation cost arising from restricted shares of stock	-	-	44,129	-	-	9,121	9,121	-	-	176,847	176,847	(1,290)	230,097
Balance, December 31, 2014	\$ 23,679,105	1,477,700	74,295,720	3,413,566	-	25,911,678	29,325,244	4,788,058	177,810	(64,523)	4,901,345	(8,183)	133,670,931

Note 1: The directors' and supervisors' remuneration of \$29,000 for the year ended December 31, 2012 had been deducted from comprehensive income for the year ended December 31, 2012. Please refer to Note 6(1) for details of earning distribution.

Note 2: The directors' and supervisors' remuneration of \$85,000 and employees' bonuses of \$870,000 for the year ended December 31, 2013 had been deducted from comprehensive income for the year ended December 31, 2013. Please refer to Note 6(1) for details of earning distribution.

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

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PEGATRON CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2014	2013
Cash flows from operating activities:		
Profit before tax	\$ 16,438,467	9,546,400
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation	611,252	572,928
Amortization	31,572	51,141
Allowance for uncollectable accounts	1,680,594	31,280
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	4,172,368	(534,768)
Interest expense	486,420	690,881
Interest income	(164,737)	(69,968)
Amortization of issuance costs on bonds payable	13,782	12,787
Compensation cost arising from employee stock options	237,421	508,571
Loss on foreign currency exchange of bonds payable	517,134	212,436
Share of profit of associates and joint ventures accounted for under equity method	(11,976,103)	(9,242,598)
Loss on disposal of property, plant and equipment	30,184	17,389
Gain on reversal of impairment loss	-	(3,878)
Realized profits on intercompany transactions	(16,005)	(49,334)
Loss on foreign currency exchange on long-term loans	295,200	244,800
	<u>(4,080,918)</u>	<u>(7,558,333)</u>
Change in operating assets and liabilities		
Change in operating assets		
Increase in notes and accounts receivable	(36,559,730)	(23,043,667)
Decrease (increase) in other receivables	10,394,767	(12,153,839)
Decrease (increase) in inventories	3,635,037	(9,953,266)
Decrease (increase) in other current assets	(15,397)	159,600
Decrease in other financial assets	13,679	41,113
Total changes in operating assets	<u>(22,531,644)</u>	<u>(44,950,059)</u>
Change in operating liabilities		
Increase in notes and accounts payable	25,964,673	16,659,923
Increase in other payables	3,215,317	1,147,613
Increase in provisions — current	1,107	1,784
Increase (decrease) in deferred revenue	31,390	(19,729)
Increase (decrease) in other current liabilities	(3,339,336)	6,762,488
Increase in other non-current liabilities	6,283	3,228
Total changes in operating liabilities	<u>25,879,434</u>	<u>24,555,307</u>
Net changes in operating assets and liabilities	<u>3,347,790</u>	<u>(20,394,752)</u>
Total changes in operating assets and liabilities	<u>(733,128)</u>	<u>(27,953,085)</u>
Cash provided by (used in) operating activities	15,705,339	(18,406,685)
Interest received	170,635	61,154
Dividend received	5,220,940	2,475,281
Interest paid	(429,111)	(287,997)
Income taxes paid	(296,005)	(48,335)
Net cash provided by (used in) operating activities	<u>20,371,798</u>	<u>(16,206,582)</u>

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

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PEGATRON CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2014	2013
Cash flows from investing activities		
Acquisition of investments accounted for using equity method	(2,370,351)	(561,165)
Acquisition of property, plant and equipment	(541,258)	(438,505)
Proceeds from disposal of property, plant and equipment	626	2,323
Decrease (increase) in other financial assets	5,808	(789)
Acquisition of intangible assets	(21,295)	(5,498)
Net cash inflows from business combination	-	3,413,490
Net cash provided by (used in) investing activities	(2,926,470)	2,409,856
Cash flows from financing activities		
Increase in short-term loans	3,336,975	12,268,365
Proceeds from long-term loans	20,599,580	12,000,000
Repayments of long-term loans	(25,368,380)	(2,323,200)
Increase in other payables—related parties	2,043,750	1,643,250
Dividends paid	(6,497,217)	(3,435,457)
Employee stock options	362,154	746,281
Proceeds from issuance and retrieve of restricted stock	-	60,620
Net cash provided by (used in) financing activities	(5,523,138)	20,959,859
Net increase in cash and cash equivalents	11,922,190	7,163,133
Cash and cash equivalents, beginning of the year	19,170,052	12,006,919
Cash and cash equivalents, end of the year	\$ 31,092,242	19,170,052

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

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PEGATRON CORPORATION

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 AND 2013

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

COMPANY HISTORY

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

In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged with UNIHAN CORPORATION, pursuant to the resolutions of the board of directors in November, 2013. Please refer to Note 6(5) for details.

APPROVAL DATE AND PROCEDURES OF THE NON-CONSOLIDATED FINANCIAL STATEMENTS

The non-consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2015.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

New standards and amendments	Effective date per IASB
• Amended IFRS 1 “ <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ”	July 1, 2010
• Amended IFRS 1 “ <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ”	July 1, 2011
• Amended IFRS 1 “ <i>Government Loans</i> ”	January 1, 2013
• Amended IFRS 7 “ <i>Disclosure — Transfers of Financial Assets</i> ”	July 1, 2011
• Amended IFRS 7 “ <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Investment Entities amendments, effective 1 January 2014.)
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
• Amended IAS 1 “ <i>Presentation of Items of Other Comprehensive Income</i> ”	July 1, 2012
• Amended IAS 12 “ <i>Deferred Tax: Recovery of Underlying Assets</i> ”	January 1, 2012
• Amended IAS 19 “ <i>Employee Benefits</i> ”	January 1, 2013
• Amended IAS 27 “ <i>Separate Financial Statements</i> ”	January 1, 2013
• Amended IAS 32 “ <i>Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2014
• IFRIC 20 — <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

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

A. IFRS 10 Consolidated Financial Statements

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

The adoption of the above standards may not change the method of accounting of investees and disclosure for certain subsidiaries and associates.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

B. Amendments to IAS 1 Presentation of Financial Statements

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

C. IFRS 12 Disclosure of Interests in Other Entities

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

D. IFRS 13 Fair Value Measurement

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

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

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

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amended IAS 28 and IFRS 10 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	January 1, 2016
• Amended IAS 28, IFRS 10, and IFRS 12 “ <i>Investment Entities: Applying the Consolidation Exception</i> ”	January 1, 2016
• Amended IFRS 11 “ <i>Accounting for Acquisitions of Interests in Joint Operations</i> ”	January 1, 2016
• IFRS 14 “ <i>Regulatory Deferral Accounts</i> ”	January 1, 2016
• IFRS 15 “ <i>Revenue from Contracts with Customers</i> ”	January 1, 2017
• Amended IAS 1 “ <i>Disclosure Initiative</i> ”	January 1, 2016
• Amended IAS 16 and IAS 38 “ <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ”	January 1, 2016

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

New standards and amendments	Effective date per IASB
• Amended IAS 16 and IAS 41 “ <i>Agriculture : Bearer Plants</i> ”	January 1, 2016
• Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
• Amended IAS 27 “ <i>Equity method in separate financial statements</i> ”	January 1, 2016
• Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
• Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
• Amended IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

As the standards and amendments above have not been endorsed by the FSC, the Group is in the process of assessing the impact on the financial position and the results of operations.

Related impact will be disclosed following the completion of its assessments.

4. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in the non-consolidated financial statements, and to the non-consolidated balance sheet

(1) Statement of compliance

The non-consolidated financial statements are prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China.

(2) Basis of preparation

A. Basis of measurement

The non-consolidated financial statements have been prepared on the historical cost basis except for the following material items in the balance sheets:

- (a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- (b) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (c) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

B. Functional and presentation currency

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

(3) Foreign currency

A. Foreign currency transaction

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

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

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

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

B. Foreign operations

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

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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

income, and are presented in the exchange differences on translation of foreign financial statements in equity.

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

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

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

- A. It is expected to be settled during the in its normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

All other liabilities are classified as non-current.

(5) Cash and cash equivalents

Cash comprise cash balances and call deposits with maturities within three months. Cash equivalents are assets that are readily convertible into cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(6) Financial instruments

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

A. Financial assets

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

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

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

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

At initial recognition, financial assets classified under this category are measured at fair

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

value. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

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

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (might be the ex-dividend date), and is included in non-operating income and expenses.

(b) Loans and receivables

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

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

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

- i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

- ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:
 - An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
 - The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

(c) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Such impairment loss is not reversible in subsequent periods.

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

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

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

(d) Derecognition of financial assets

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

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

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

iii. Hybrid instrument contains one or more embedded derivatives.

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

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

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

(c) Other financial liabilities

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

(d) Derecognition of financial liabilities

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(e) Offsetting of financial assets and liabilities

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

(f) Financial guarantee contract

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

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Company is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

C. Derivative financial instruments, including hedge accounting

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

(a) Fair value hedge

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

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

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

(b) Cash flow hedge

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(7) Inventories

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

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

(8) Investment in associates

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(9) Subsidiaries

The subsidiaries in which the Company holds controlling interest are accounted for under equity method in the non-consolidated financial statements. Under equity method, the net income, other comprehensive income and equity in the non-consolidated financial statement are the same as those attributable to the owners of parent in the consolidated financial statements.

The changes in ownership of the subsidiaries are recognized as equity transaction.

(10) Interests in joint ventures

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

(11) Property, plant and equipment

A. Recognition and measurement

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

B. Subsequent cost

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

C. Depreciation

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Buildings	3-50 years
Plant and equipment	2-6 years
Instrument equipment	1-5 years
Miscellaneous equipment	1-8 years

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

(12) Leased assets

A. Lessor

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

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

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

B. Lessee

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

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

If the Company concludes for an operating lease that it is impracticable to separate the payment reliably, then treat all payments under the arrangement as lease payments, and disclose the situation accordingly.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(13) Intangible assets

A. Other Intangible Assets

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

B. Subsequent Expenditure

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

C. Amortization

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date when they are made available for use. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

Computer software cost	2-5 years
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The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each financial year-end. Any change thereof is accounted for as a change in accounting estimate.

(14) Impairment – Non-derivative financial assets

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

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

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

The Company assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss.

(15) Provisions

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

(16) Treasury stock

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(17) Revenue

A. Goods sold

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of timber and paper products, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port. Generally, the customer has no right of return for such products. For sales of livestock, transfers occur upon receipt by the customer.

B. Service

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(18) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

All actuarial gains and losses at 1 January, 2012, the date for the first time adoption of IFRS as endorsed by the FSC were recognized in retained earnings. All actuarial gains and losses arising subsequently from defined benefit plans are recognized in other comprehensive income.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

C. Short-term employee benefits

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

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

(19) Share-based payment

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(20) Income Taxes

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

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

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

- A. Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- B. Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation.

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

- A. if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- B. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - (a) levied by the same taxing authority; or
 - (b) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

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

(21) Business combination

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

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

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

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

Business combinations under common control are accounted for in the non-consolidated accounts prospectively from the date the Company acquires the ownership interest. Assets and liabilities of the merged entities are recognized at their carrying amount in the non-consolidated financial statements.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(22) Earnings per share

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

(23) Operating segments

Please refer to the consolidated financial report for the year ended December 31, 2014 and 2013 for operating segments information.

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

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

Management continuously review the estimates and basic assumptions. Changes in accounting estimates are recognized in the period of change.

Information on critical judgments in applying accounting policies that have the most significant effect to the amounts recognized in the non-consolidated financial statements is included in the following notes:

(1) Note 6(13), Lease classification

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next years are included in the following notes:

(1) Note 6(3), Accounts receivable impairment evaluation

(2) Note 6(4), Inventories subsequent measurement

(3) Note 6(15), Utilization of tax losses

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6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	\$ 160	160
Cash in banks	17,512,686	9,494,278
Time deposits	13,579,396	9,675,614
	\$ 31,092,242	19,170,052

A. The above cash and cash equivalents were not pledged as collateral. Please refer to Notes 6(8) and 8 for pledged time deposits accounted for under other financial assets.

B. Refer to note 6(21) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

C. Please refer to Note 6(5) for the Company's assets acquired from the merger with UniHan Corporation effective from December 31, 2013.

(2) Investment in financial assets and liabilities

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

	December 31, 2014	December 31, 2013
Financial assets carried at cost — noncurrent:		
Equity securities — common stock	\$ -	-
Current financial liabilities at fair value through profit or loss		
Foreign convertible bonds — conversion options	\$ 256,763	-
Adjustments	860,890	-
	\$ 1,117,653	-
Non-current financial liabilities at fair value through profit or loss:		
Foreign convertible bonds — conversion options	\$ -	1,262,770
Adjustments	-	(1,027,608)
	\$ -	235,162

B. The aforementioned investments held by the Company are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably. As of December 31, 2014 and 2013, the Company had accumulated impairment loss thereon of \$150,000.

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As of December 31, 2014 and 2013, the aforesaid financial assets were not pledged as collateral.

C. The convertible bond issued by the Company was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as “Financial liabilities at fair value through profit or loss.” For the years ended December 31, 2014 and 2013, the Company recognized a gain (loss) on financial liability reported at fair value through profit or loss of \$(4,172,368) and \$534,768, respectively. Please refer to Note 6(11) for details.

D. Please refer to Note 6(5) for the Company’s assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(3) Notes and accounts receivable, net

	December 31, 2014	December 31, 2013
Notes receivable	\$ -	10
Accounts receivable	104,906,500	85,236,609
Other receivable	12,895,589	23,296,254
Less: Allowance for impairment	(1,761,300)	(80,706)
	<u>\$ 116,040,789</u>	<u>108,452,167</u>

A. Refer to Note 6(21) for the Company’s notes receivable, accounts receivable and other receivable exposure to credit risk and currency risk.

B. Please refer to Note 6(5) for the Company’s assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

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

December 31, 2014						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	<u>\$ -</u>	<u>USD 300,000,000</u>	<u>USD -</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ -</u>
ANZ(Note)	<u>\$ 41,145,000</u>	<u>USD 1,300,000,000</u>	<u>USD 894,000,000</u>	None	"	<u>\$ 41,145,000</u>
December 31, 2013						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	<u>\$ 7,701,648</u>	<u>USD 300,000,000</u>	<u>USD 258,401,191</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ 7,701,648</u>
ANZ(Note)	<u>\$ 38,746,500</u>	<u>USD 1,300,000,000</u>	<u>USD 523,000,000</u>	None	"	<u>\$ 38,746,500</u>

Note: In October 2014 and 2013, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and seven other banks where each bank will factor on pro-rata basis.

For the years ended December 31, 2014 and 2013, the Company recognized a loss of \$202,998 and \$221,482, respectively, from the assignment of accounts receivable, which was charged to profit or loss under financial costs. Also, the difference of \$12,849,900 and \$23,158,485 between the amount of accounts receivable assigned and the amount advanced was accounted under other receivable as of December 31, 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

	December 31, 2014	December 31, 2013
Merchandise	\$ 18,129,325	22,092,811
Finished goods	26,643	31,981
Work in process	249,111	64,217
Raw materials	546,006	362,875
Subtotal	<u>18,951,085</u>	<u>22,551,884</u>
Less: Allowance for inventory market decline and obsolescence	(600,700)	(566,462)
Total	<u><u>\$ 18,350,385</u></u>	<u><u>21,985,422</u></u>

For the years ended December 31, 2014 and 2013, the components of cost of goods sold were as follows:

	For the Years Ended December 31	
	2014	2013
Cost of goods sold	\$ 872,959,939	783,162,313
Provision on inventory market price decline	34,238	149,065
Loss on disposal of inventory	17,185	18,935
Unamortized manufacturing expenses	81,776	141,763
Loss (gain) on physical inventory	1,706	(115)
	<u><u>\$ 873,094,844</u></u>	<u><u>783,471,961</u></u>

A. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

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

(5) Investments accounted for using equity method

The Company's financial information for equity-accounted investees at reporting date was as follows:

	December 31, 2014	December 31, 2013
Subsidiary	<u><u>\$ 112,093,393</u></u>	<u><u>95,704,186</u></u>

A. Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2014 and 2013.

B. For the years ended December 31, 2014 and 2013, the Company had participated in the capital increase of PEGATRON HOLDING LTD., and invested USD69,000 thousand (approximately NTD2,072,301) and USD19,000 thousand (approximately NTD561,165), respectively. For the years ended December 31, 2014, the Company had participated in the capital increase of UNIHAN HOLDING LTD., and invested USD10,000 thousand (approximately NTD298,050).

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- C. For the years ended December 31, 2014 and 2013, the Company received cash dividend of \$5,220,940 and \$2,475,281, respectively, from its investee companies accounted for under equity method.
- D. For the years ended December 31, 2014 and 2013, the Company's shares held by its subsidiaries are treated as treasury stock as described in Note 6(16).
- E. In November 2013, pursuant to the resolutions of the board of directors, the Company had set December 31, 2013 as the effective date of the statutory merger with Unihan Corporation, with the Company as the surviving entity from the merger. The business combination had been approved by the Ministry of Economic Affairs, R.O.C. on February 7, 2014, and the legal procedure for the change in the registration had been completed. On the effective date of the statutory merger, the details of identifiable assets acquired, the liabilities assumed, and equity-accounted investees merged were as follows:

	<u>December 31, 2013</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,413,490
Notes receivable, Accounts receivable and Other receivables	4,090,181
Inventories	14,005
Other financial assets and other current assets	64,910
NON-CURRENT ASSETS	
Financial assets carried at cost	-
Equity-accounted investees	8,659,762
Property, plant and equipment	182,899
Deferred tax assets	109,874
Other financial assets and other current assets	12,172
CURRENT LIABILITIES	
Accounts payable and Other payables	(1,765,327)
Provisions	(1,900)
Other current liabilities	(853,448)
NON-CURRENT LIABILITIES	
Other non-current liabilities	(6,437)
NET ASSETS	<u>3,920,181</u>
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD-UNIHAN CORPORATION	(13,920,181)
	<u><u>\$ -</u></u>

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F. As of December 31, 2014 and 2013, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(6) Property, plant and equipment

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

	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2014	\$ 2,233,032	2,271,183	48,745	314,655	729,701	5,597,316
Additions	125,489	-	4,765	97,132	50,358	277,744
Disposals and obsolescence	-	(31,679)	(9,236)	(82,103)	(622,690)	(745,708)
Reclassifications	-	-	-	-	398,101	398,101
Balance on December 31, 2014	<u>\$ 2,358,521</u>	<u>2,239,504</u>	<u>44,274</u>	<u>329,684</u>	<u>555,470</u>	<u>5,527,453</u>
Balance on 1 January 2013	\$ 2,233,032	2,345,796	48,766	149,384	863,519	5,640,497
Additions	-	-	18,161	9,652	23,208	51,021
Disposals and obsolescence	-	(74,613)	(18,182)	(21,884)	(618,546)	(733,225)
Reclassifications	-	-	-	905	325,229	326,134
Acquisition from business combination	-	-	-	176,598	136,291	312,889
Balance on December 31, 2013	<u>\$ 2,233,032</u>	<u>2,271,183</u>	<u>48,745</u>	<u>314,655</u>	<u>729,701</u>	<u>5,597,316</u>
Depreciation and impairment loss :						
Balance on January 1, 2014	\$ -	633,008	23,180	153,998	342,586	1,152,772
Depreciation for the period	-	58,684	6,921	103,021	442,626	611,252
Disposals and obsolescence	-	(28,777)	(9,084)	(80,979)	(596,058)	(714,898)
Balance on December 31, 2014	<u>\$ -</u>	<u>662,915</u>	<u>21,017</u>	<u>176,040</u>	<u>189,154</u>	<u>1,049,126</u>
Balance on January 1, 2013	\$ -	630,226	37,498	60,296	439,224	1,167,244
Depreciation for the period	-	77,135	4,188	47,202	444,403	572,928
Reversal of impairment loss	-	-	(3,088)	-	(790)	(3,878)
Disposals and obsolescence	-	(74,353)	(15,418)	(21,133)	(602,608)	(713,512)
Acquisition from business combination	-	-	-	67,633	62,357	129,990
Balance on December 31, 2013	<u>\$ -</u>	<u>633,008</u>	<u>23,180</u>	<u>153,998</u>	<u>342,586</u>	<u>1,152,772</u>
Carrying amounts :						
Balance on December 31, 2014	<u>\$ 2,358,521</u>	<u>1,576,589</u>	<u>23,257</u>	<u>153,644</u>	<u>366,316</u>	<u>4,478,327</u>
Balance on December 31, 2013	<u>\$ 2,233,032</u>	<u>1,638,175</u>	<u>25,565</u>	<u>160,657</u>	<u>387,115</u>	<u>4,444,544</u>

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

	For the Years Ended December 31	
	2014	2013
Reversal of impairment loss	\$ -	3,878

- B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.
- C. As of December 31, 2014 and 2013, the property, plant and equipment were not pledged as collateral.

(7) Intangible assets

The intangible assets of the Company consisted of computer software. The components of the costs of intangible assets, amortization, and impairment loss thereon of the years ended December 31, 2014 and 2013 were as follows :

Costs:

Balance on January 1, 2014	\$	113,001
Additions		21,295
Disposals		(32,972)
Balance on December 31, 2014	\$	101,324
Balance on January 1, 2013	\$	310,061
Additions		5,498
Disposals		(220,066)
Acquisition from business combination		17,508
Balance on December 31, 2013	\$	113,001

Amortization and Impairment Loss:

Balance on January 1, 2014	\$	54,011
Amortization for the period		31,572
Disposals		(32,972)
Balance on December 31, 2014	\$	52,611
Balance on January 1, 2013	\$	216,547
Amortization for the period		51,141
Disposals		(220,066)
Acquisition from business combination		6,389
Balance on December 31, 2013	\$	54,011

Carrying value:

Balance on December 31, 2014	\$	48,713
Balance on December 31, 2013	\$	58,990

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- A. The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.
- B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(8) Other financial assets and other assets

	December 31, 2014	December 31, 2013
Other financial assets — current	\$ 42,141	55,820
Other financial assets — noncurrent	26,684	32,492
Other current assets	136,624	120,548
Other noncurrent assets	-	34,370
	<u>\$ 205,449</u>	<u>243,230</u>

- A. Other financial assets are assets that do not qualify as cash and cash equivalents which consisted of time deposits with maturity period of over three months, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.
- B. Other current assets consisted of prepayments, current tax assets and others.
- C. Other noncurrent assets consisted of prepayments for business facilities.
- D. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(9) Short-term loans

	December 31, 2014	December 31, 2013
Unsecured bank loans	\$ 21,965,100	18,628,125
Unused credit line	\$ 41,832,735	22,455,863
Interest rate	<u>0.60%~0.95%</u>	<u>0.82%~0.95%</u>

The Company's promissory notes were pledged as a guarantee for the Company's credit loan facility. In addition, the Company shared most of its credit line with its subsidiary, UNIHAN CORPORATION for the year ended December 31, 2013.

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(10) Long-term loans

December 31, 2014				
	Currency	Interest rate	Expiration	Amount
Unsecured bank loans	USD	1.2949%	2010.10~2015.10	\$ 5,064,000
Unsecured bank loans	NTD	1.5979%~1.6137%	2013.09~2018.09	12,000,000
Total				17,064,000
Less : Arrangement fee				(17,600)
Less : Current portion				(5,064,000)
Total				<u>\$ 11,982,400</u>
Unused credit line				<u>\$ -</u>

December 31, 2013				
	Currency	Interest rate	Expiration	Amount
Unsecured bank loans	USD	0.8775%~1.7442%	2010.10~2015.10	\$ 9,537,600
Unsecured bank loans	NTD	1.5789%~1.6074%	2013.09~2018.09	12,000,000
Total				21,537,600
Less : Arrangement fee				(22,400)
Less : Current portion				(4,768,800)
Total				<u>\$ 16,746,400</u>
Unused credit line				<u>\$ -</u>

A. Securities for bank loans

The Company's promissory notes were pledged as a guarantee for the Company's credit loan facility.

B. Loan covenants

(a) According to the Company's credit loan facility agreement with the banks, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited annual and semi-annual consolidated financial statements (June 30 and December 31) as follows:

- i. Current ratio (current assets/current liabilities): should not be less than 100%.
- ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

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- iv. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- v. Factoring line of accounts receivable factoring/ net book value of accounts receivable before derecognition: less than 50%

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 31, 2014 and 2013.

- (b) On August 01, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement, the Company must comply with the following financial covenants:
 - i. Current ratio (current assets/current liabilities): should not be less than 100%.
 - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
 - iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
 - iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

The compliance of the aforesaid financial covenants is determined on the reviewed quarterly consolidated financial statements (March 31, June 30 and September 30) and audited annual (December 31) stand alone and consolidated financial statements of the Company.

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 31, 2014 and 2013.

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(11) Bonds payable

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

	December 31, 2014	December 31, 2013
Convertible bonds issued	\$ 8,874,000	8,874,000
Unamortized discounted on bonds payable	(120,577)	(824,809)
Accumulated amount of Converted bonds	(7,069,620)	-
Bonds payable, end of the period	1,683,803	8,049,191
Foreign currency valuation, end of the period	124,427	67,299
Bonds payable, net	1,808,230	8,116,490
Less: current portion	(1,808,230)	-
	\$ -	8,116,490
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	\$ 1,117,653	235,162
	For the Years Ended December 31	
	2014	2013
Embedded derivative instruments –conversion options, accounted under other gains and losses	\$ (4,172,368)	534,768
Interest expense	\$ 39,852	381,313

The put option of the bonds payable is exercisable at three years after the first day of issue (February 6, 2015). Bonds payable of \$1,808,230 as of December 31, 2014 were classified as current liabilities for those convertible bonds whose holders bear the right to require for bond redemption within a year. Those bonds payable which are not expected to be settled within twelve months after the redemption period will reclassify as noncurrent liabilities.

As of December 31, 2014, the convertible bonds with face value of USD 239,000 had been converted into 184,982 thousand shares. The legal procedure for the issuance of 147,250 thousand shares had not yet been completed, and were classified as advance receipts for share capital. Please refer to Note 6(16) for the information on capital surplus - conversion of convertible bonds of \$8,507,771 generated from the conversion.

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The offering information on the unsecured convertible bonds was as follows:

<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
1. Offering amount	USD 300 million with each unit valued at USD 200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7. Redemption at the option of the Company	<p>(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = USD 1.00).</p> <p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.</p>

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<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
8. Redemption at the option of the Holder	<p>(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period</p> <p>Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at any time during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price</p> <p>The conversion price was NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT\$40.11 per share effective October 7, 2013. The conversion price has been adjusted to NT\$38.28 per share effective September 15, 2014 due to the distribution of cash dividends in 2014.</p> <p>(3) Conversion to common shares</p> <p>Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = USD 1.00) divided by the conversion price on the conversion date.</p>

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(12) Provisions

	Allowance for sales returns and discounts	
Balance on January 1, 2014	\$	62,923
Provisions made during the period		1,107
Balance on December 31, 2014	\$	64,030
Balance on January 1, 2013	\$	59,239
Provisions made during the period		1,784
Acquisition from business combination		1,900
Balance on December 31, 2013	\$	62,923

A. Allowance for sales return and discounts

Allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized as sales revenue deduction in the same period in which sales are made.

B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(13) Operating leases

A. Lessee

At the end of reporting period, the lease commitments were as follows:

	December 31, 2014	December 31, 2013
Less than one year	\$ 105,523	106,094
Between one and five years	70,329	107,076
	\$ 175,852	213,170

The Company lease a number of office, warehouse, factory facilities and parking lots under operating leases. The leases typically run for a period of 1 to 4 years, with an option to renew the lease after that date. Also, lease obligations payable of UNIHAN CORPORATION, the dissolved company, was included in the above lease commitments as of December 31, 2013.

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For the years ended December 31, 2014 and 2013, expenses recognized in profit or losses in respect of operating leases were as follows:

	For the years Ended December 31	
	2014	2013
Cost of sales	\$ 518	573
Operating expenses	117,365	95,024
	<u>\$ 117,883</u>	<u>95,597</u>

(14) Employee benefits

A. Defined benefit plans

The Company's defined benefit obligations and fair value of plan assets were as follows:

	December 31,	December 31,
	2014	2013
Total present value of obligations	\$ 27,988	25,267
Fair value of plan assets	(8,040)	(7,305)
Accrued pension liabilities	<u>\$ 19,948</u>	<u>17,962</u>

The Company makes defined benefit plans contributions to the pension fund account with Bank of Taiwan that provide pension for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for six months prior to retirement.

(a) Composition of plan assets

The Company set aside pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

The Company's contributions to the pension funds were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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

The movements in the present value of the defined benefit obligations for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Defined benefit obligation, January 1	\$ 25,267	17,960
Current service costs and interest	4,066	2,688
Actuarial losses (gains)	(1,345)	1,160
Liabilities assumed from business combination	-	3,459
Defined benefit obligation, December 31	<u>\$ 27,988</u>	<u>25,267</u>

(c) Movements of defined benefit plan assets

The movements in the present value of the defined benefit assets for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Fair value of plan assets, January 1	\$ 7,305	6,070
Benefits paid by the plan	570	669
Expected return on plan assets	146	106
Actuarial (losses) gains	19	(35)
Others	-	495
Fair value of plan assets, December 31	<u>\$ 8,040</u>	<u>7,305</u>

(d) Expenses recognized in profit or loss

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

	For the Years Ended December 31	
	2014	2013
Current service cost	\$ 3,561	2,419
Interest on obligation	505	269
Expected return on plan assets	(146)	(106)
	<u>\$ 3,920</u>	<u>2,582</u>
Operating Expense	<u>\$ 3,920</u>	<u>2,582</u>
Actual return on plan assets	<u>\$ 165</u>	<u>71</u>

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

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

	For the Years Ended December 31	
	2014	2013
Cumulative amount, January 1	\$ (1,195)	-
Recognized during the period	1,364	(1,195)
Cumulative amount, December 31	<u>\$ 169</u>	<u>(1,195)</u>

(f) Actuarial assumptions

The following were the key actuarial assumptions at the reporting date:

	2014	2013
Discount rate on December 31	2.25%	2.00%
Expected return on plan assets on January 1	2.25%	2.00%
Future salary increases	3.00%	3.00%

The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the returns on individual asset categories. Also, such return was based exclusively on historical returns, without adjustments.

(g) Experience adjustments based on historical information

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	\$ 27,988	25,267	17,960	13,910
Fair value of plan assets	(8,040)	(7,305)	(6,070)	(5,044)
Deficit in the plan	<u>\$ 19,948</u>	<u>17,962</u>	<u>11,890</u>	<u>8,866</u>
Experience adjustments arising on plan liabilities	<u>\$ (894)</u>	<u>(521)</u>	<u>1,605</u>	<u>-</u>
Experience adjustments arising on plan assets	<u>\$ (19)</u>	<u>35</u>	<u>47</u>	<u>-</u>

The Company expected \$568 worth of contributions to be paid to its benefit plans within a year starting from the reporting date of December 31, 2014.

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- (h) In determining the present value of the defined benefit obligation, the Company's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

As of December 31, 2014, the Company's defined benefit obligation had a present value of \$27,988. An increase (decrease) of 0.5% in future salary increase rate would have (decreased) increased the present value of the defined benefit obligation by \$(3,228) and \$3,687, respectively.

B. Defined contribution plans

The Company contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Company's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2014 and 2013 amounted to \$258,491 and \$199,159, respectively.

C. Short-term employee benefits

The Company's short-term holiday paid liabilities are \$89,184 and \$76,333 for the year ended December 31, 2014 and 2013, respectively.

(15) Taxes

- A. The components of income tax expense (benefit) for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Current income tax expense		
Currently incurred	\$ 1,439,672	277,296
Adjustment to prior year's income tax charged to current income tax	(180,311)	(152,308)
10% surtax on undistributed earnings	540,166	-
Deferred tax expense		
The origination and reversal of temporary differences	(19,198)	(133,084)
Income tax expense (benefit)	\$ 1,780,329	(8,096)

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- B. Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2014 and 2013 as follows :

	For the Years Ended December 31	
	2014	2013
Profit before income tax	\$ 16,438,467	9,546,400
Income tax on pre-tax financial income calculated at the domestic rate	2,794,539	1,622,888
Permanents differences	(64,440)	(1,343,523)
Change of unrecognized temporary differences	(1,262,195)	(318,630)
Prior years income tax adjustment	(180,311)	(152,308)
10% surtax on undistributed earnings	540,166	-
Others	(47,430)	183,477
Income tax expense	\$ <u>1,780,329</u>	<u>(8,096)</u>

- C. Deferred tax assets and liabilities

- (a) Unrecognized deferred tax liabilities

As of December 31, 2014 and 2013, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	December 31, 2014	December 31, 2013
The aggregate temporary differences associated with investments in subsidiaries	\$ <u>15,189,625</u>	<u>7,764,950</u>
Unrecognized deferred tax liabilities	\$ <u>2,582,236</u>	<u>1,320,041</u>

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(b) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2014 and 2013 were as follows:

	<u>Gain on foreign investments</u>	<u>Convertible bonds</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:				
Balance, January 1, 2014	\$ 225,261	(7,864)	-	217,397
Recognized in profit	-	(11,952)	-	(11,952)
Balance, December 31, 2014	<u>\$ 225,261</u>	<u>(19,816)</u>	<u>-</u>	<u>205,445</u>
Balance, January 1, 2013	\$ 225,261	26,531	101,285	353,077
Recognized in profit	-	(34,395)	(101,285)	(135,680)
Balance, December 31, 2013	<u>\$ 225,261</u>	<u>(7,864)</u>	<u>-</u>	<u>217,397</u>
Deferred tax assets:				
Balance, January 1, 2014	\$ 96,298	43,578	33,183	173,059
Recognized in profit (loss)	5,821	(32,076)	33,501	7,246
Balance, December 31, 2014	<u>\$ 102,119</u>	<u>11,502</u>	<u>66,684</u>	<u>180,305</u>
Balance, January 1, 2013	\$ 48,409	20,439	(3,067)	65,781
Recognized in profit (loss)	25,341	23,139	(51,076)	(2,596)
Arising from business combination	22,548	-	87,326	109,874
Balance, December 31, 2013	<u>\$ 96,298</u>	<u>43,578</u>	<u>33,183</u>	<u>173,059</u>

D. Income tax

The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.

E. Stockholders' imputation tax credit account and tax rate:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Stockholders' imputation tax credit account	<u>\$ 1,458,156</u>	<u>1,310,701</u>
	<u>2014 (Expect)</u>	<u>2013 (Actual)</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>12.44%</u>	<u>9.29%</u>

There were no retained earnings accumulated in 1997 and prior years, which were not appropriated.

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

Please refer to Note 6(5) for the Company's assets acquired and liabilities assumed from the merger with Unihan Corporation effective from December 31, 2013.

(16) Capital and reserves

As of December 31, 2014 and 2013, the authorized capital of the Company consisted of 3,000,000 thousand shares, with par value of \$10 per share. The outstanding shares consisted of 2,367,911 and 2,320,435 common shares, respectively, and the capital that rose from the shares had all been retrieved.

The movements in ordinary shares of stock outstanding for the year ended December 31, 2014 and 2013 were as follows:

Ordinary Shares (In thousands of shares)	For the Years Ended December 31	
	2014	2013
Beginning balance, January 1	2,320,435	2,290,305
Expiration of restricted stock	(745)	4,234
Exercise of employee stock options	10,489	25,896
From conversion of convertible bonds	37,732	-
Ending balance, December 31	2,367,911	2,320,435

A. Nominal ordinary shares

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at \$296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees, of which 1,828 thousand shares were retired in 2013. Also, the Company issued 6,062 thousand shares of restricted Company shares of stock to employees in 2013. New common shares of stock totaling 26,617 thousand shares were issued from the exercise of employee stock options, of which 721 thousand shares were accounted under advance receipts for share capital as the registration procedures were yet to be completed.

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In 2014, the Company had retired 745 thousand shares of restricted Company shares of stock to employees, and 10,288 thousand shares and 184,982 thousand shares of common shares of stock were issued from the exercise of employee stock options and conversion of convertible bonds, respectively, of which 520 thousand shares and 147,250 thousand shares were accounted under advance receipts for share capital as the registration procedures were yet to be completed. As of December 31, 2014 and 2013, the authorized capital of the Company both consisted of 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,367,911 thousand common shares of stock and 2,320,435 thousand common shares of stock, respectively.

As of December 31, 2014 and 2013, the restricted Company shares of stock issued to employees have expired and of which 207 and 78 thousand shares have not been retired.

B. Global depositary receipts

ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive new ASUSTeK GDRs and the Company's entitlement. The Company's entitlement represents the rights to receive 60,819,026 of the Company's common shares in Taiwan.

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2014, the Company has listed, in total, 6,589 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 32,946 thousand shares of stock. Major terms and conditions for GDRs were as follows:

(a) Voting Rights

Holders of GDRs may exercise voting rights with respect to the common shares in the manner set out in "Terms and Conditions of the Global Depositary Shares – Voting Rights," as such provisions may be amended from time to time to comply with applicable ROC law.

(b) Dividend Distributions, Pre-emptive Rights, and Other Rights

Holders of GDRs have same rights on dividend distribution and share distribution as the Company's existing common shareholders.

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C. Capital surplus

The components of the capital surplus were as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
From issuance of share capital	\$ 62,023,550	61,420,285
From conversion of convertible bonds	8,507,771	-
From treasury stock-transactions	96,553	86,924
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	116,741
Changes in ownership interest in subsidiaries	729,852	713,131
Employee share options	13,171	119,265
Restricted stock to employees	131,850	309,556
Other	409,917	409,917
	<u>\$ 74,295,720</u>	<u>63,175,819</u>

In accordance with Amended Companies Act 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

D. Retained earnings

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

(a) Legal reserve

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

(b) Up to 1% as remuneration to directors and supervisors.

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- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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

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

- (a) Legal reserve

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

- (b) Special reserve

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

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(c) Earnings Distribution

For the years ended December 31, 2014 and 2013, employee bonuses of \$1,325,000 and \$870,000, and directors' and supervisors' remuneration of \$131,000 and \$85,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the years ended December 31, 2014 and 2013, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the years ended December 31, 2014 and 2013. The earnings distribution for the year ended December 31, 2014 has not yet been approved through shareholders' meeting. Related information can be accessed from the Market Observation Post System on the web site. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

On June 18, 2014 and June 19, 2013, the Company's shareholders' meeting resolved to appropriate the 2013 and 2012 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

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

The 2013 and 2012 earnings approved for distribution agreed with those accrued in the financial statements for the years ended December 31, 2013 and 2012.

Related information of distributions of employee bonus and remuneration to directors and supervisors can be accessed from the Market Observation Post System on the web site.

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of December 31, 2014 and 2013, the Company's shares held by its subsidiaries were 553 thousand shares and 1,503 thousand shares, amounting to \$40,369 thousand and \$57,715 thousand at fair value.

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F. Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available-for- sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance, January 1, 2014	\$ (48,637)	79,871	(241,370)	(210,136)
Exchange differences on foreign operation	2,715,588	-	-	2,715,588
Exchange differences on subsidiaries accounted for using equity method	2,121,107	-	-	2,121,107
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries accounted for using equity method	-	97,939	-	97,939
Deferred compensation cost	-	-	176,847	176,847
Balance, December 31, 2014	<u>\$ 4,788,058</u>	<u>177,810</u>	<u>(64,523)</u>	<u>4,901,345</u>
Balance, January 1, 2013	\$ (3,398,256)	88,302	(497,698)	(3,807,652)
Exchange differences on foreign operation	1,777,556	-	-	1,777,556
Exchange differences on subsidiaries accounted for using equity method	1,572,063	-	-	1,572,063
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries accounted for using equity method	-	(8,431)	-	(8,431)
Deferred compensation cost	-	-	256,328	256,328
Balance, December 31, 2013	<u>\$ (48,637)</u>	<u>79,871</u>	<u>(241,370)</u>	<u>(210,136)</u>

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(17) Share-based payment

Information on share-based payment transactions as of December 31, 2014 was as follows:

Equity-settled share-based payment

Restricted stock to employee	Issued in	
	2013	2012
Thousand units granted	6,062	34,167
Contractual life	3 years	3 years
Vesting period	Note A	Note A
Actual turnover rate of employees	3.79%	8.28%
Estimated future turnover rate for each or the three years of employees	10.94% , 25.07%, 33.76%	14.28%, 22.84%, 28.85%

Employee stock option

	Issued in	
	2012	2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	21.52%	24.88%
Estimated future turnover rate of employees	19.01%	19.88%

Cash-settled share-based payment

Stock appreciation rights plan

	Issued in 2012
Thousand units granted	Note B
Contractual life	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	8.27%
Estimated future turnover rate of employees	8.97%

Note A: Employees are entitled to receive 40%, 30%, and 30% of the restricted stock in the first, second and third year, respectively, of their service.

Note B: The option will be granted only if the earnings per share target be reached.

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On April 14, 2011, the Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares of stock per unit. For these employee stock options, the Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and stock option granted to an employee is not transferable to any person. If the exercise period expires, the employee forfeits his/her right to exercise the option and purchase the shares. Except for the forfeiture of vested options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the stock option vested in them pursuant to the stock option plan.

On October 19, 2012, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of November 9, 2012, the Board of Directors approved the list of eligible employees and resolved to issue 34,167 thousand shares effective December 20, 2012. The actual number of newly issued shares was 33,938 thousand shares with a par value of \$10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

On August 12, 2013, pursuant to the resolutions of its board of directors, the Company issued 6,062 thousand shares of restricted shares of stock to employees with par value of \$10 per share. These were unissued shares whose total number is limited to up to 40,000 thousand shares of stock approved by the Financial Supervisory Commission for purposes of issuing restricted Company shares of stock to employees on October 19, 2012. The effective date of this capital increase was September 12, 2013. The legal procedure for the change in the registration of capital stock has been completed. Unless the vesting conditions have lapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

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In order to encourage employees to stay and contribute their skills to the Company, the Board of Directors resolved on March 19, 2012 to issue 30,000 thousand units of Employee Stock Appreciation Rights. The Company will pay the stock appreciation rights as employee bonus in cash based on the difference between the base price and the settlement price of the stock appreciation right where the base price on settlement of the right is the closing price of the Company's common stock on grant date, and the settlement price is the closing price of the Company's common share on exercise date.

The previously recognized compensation cost was reversed because the stock appreciation right fails to meet the vesting condition on December 31, 2014 and 2013.

A. Determining the fair value of equity instruments granted

The Company adopted the Black-Scholes model to calculate the fair value of the stock option at grant date, and the assumptions adopted in this valuation model were as follows:

Equity-settled share-based payment

Restricted stock to employee

	Issued in	
	2013	2012
Fair value at grant date	08/12/2013	11/09/2012
Share price at grant date	\$ 45.20	39.45
Exercise price (Note A)	10.00	10.00
Expected life of the option	3 years	3 years
Current market price	45.20	39.45
Expected volatility	32.68%	38.49%
Expected dividend yield rate (Note A)	- %	- %
Risk-free interest rate	(Note C)	(Note B)

Employee stock option

	Issued in	
	2012	2011
Fair value at grant date	04/02/2012	07/01/2011
Share price at grant date	44.85	30.00
Exercise price (Note A)	44.85	30.00
Expected life of the option	3 years	3 years
Current market price	44.85	30.00
Expected volatility	44.41%	37.0531%
Expected dividend yield rate (Note A)	-%	-%
Risk-free interest rate	0.95%	1.0838%

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Cash-settled share-based payment

Restricted stock to employee	Issued in
	2012
Fair value at grant date	04/02/2012
Share price at grant date	N/A
Exercise price (Note A)	N/A
Expected life of the option	07/01/2013~06/30/2014
Current market price	-
Expected volatility	40.12%
Expected dividend yield rate (Note A)	- %
Risk-free interest rate	1.355%

Note A: After the issuance of the employee stock options, if the Company increases its capital through the surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

Note B: The risk-free interest rate is 0.6953% for the 1st year, 0.7363% for the 2nd year, and 0.7873% for the 3rd year.

Note C: The risk-free interest rate is 0.5997% for the 1st year, 0.7167% for the 2nd year, and 0.8764% for the 3rd year.

B. Restricted stock to employee

For the years ended December 31, 2013 and 2012, the Company issued restricted shares of stock to employees of 6,062 and 33,938 thousand shares respectively, which resulted in a capital surplus — restricted employee stock of \$112,511 and \$478,366 thousand dollars. Also, for the years ended December 31, 2014 and 2013, 874 and 1,906 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$8,738 and \$19,064. As of December 31, 2014 and 2013, the Company has deferred compensation cost arising from issuance of restricted stock of \$64,523 and \$241,370 thousand dollars respectively.

For the years ended December 31, 2014 and 2013, the Company recognized salary cost of \$9,121 thousand and \$11,200 thousand from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

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

C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2014

	<u>Issued in 2012</u>	
	<u>Number of Exercisable Thousand Shares</u>	<u>Weighted-average Exercise Price</u>
Balance, beginning of the period	6,501	\$ 42.67
Granted	-	-
Exercised	4,762	42.67
Exercised	686	40.80
Forfeited	181	-
Expired	-	-
Balance, end of the period	<u>872</u>	40.80
Exercisable, end of the period	<u>863</u>	
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>40.80</u>	
Remaining contractual life	<u>0.25</u>	
Expenses incurred on share-based payment transactions	<u>8,462</u>	

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

(b) For the year ended December 31, 2013

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	7,389	44.33
Granted	-	-
Exercised	-	-
Forfeited	888	-
Expired	-	-
Balance, end of the period	6,501	42.67
Exercisable, end of the period	-	
Weighted-average fair value of options granted	13.8	
Exercise price of share option outstanding, end of the period	42.67	
Remaining contractual life	1.25	
Expenses incurred on share-based payment transactions	33,501	

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	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	32,909	28.11
Granted	-	-
Exercised	24,786	28.11
Exercised	1,831	27.06
Forfeited	1,242	-
Expired	-	-
Balance, end of the period	5,050	27.06
Exercisable, end of the period	4,787	
Weighted-average fair value of options granted	7.9	
Exercise price of share option outstanding, end of the period	27.06	
Remaining contractual life	0.50	
Expenses incurred on share-based payment transactions	43,796	

D. Expenses resulted from share-based payments

The Company incurred expenses from share-based payments transactions for the years ended December 31, 2014 and 2013 as follows:

	For the Years Ended December 31	
	2014	2013
Expenses resulting from issuance of restricted stock to employees	\$ 230,097	431,274
Expenses arising from granting of employee share options(including granted by the company to subsidiaries)	7,324	77,297
Total	\$ 237,421	508,571

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(18) Earnings per share

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

	For the Years Ended December 31	
	2014	2013
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ 14,658,138	9,554,496
Weighted-average number of ordinary shares	2,348,719	2,296,456
	<u>\$ 6.24</u>	<u>4.16</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders	\$ 14,658,138	9,554,496
Effect of potentially dilutive ordinary shares		
Conversion of convertible bonds	-	(5,844)
Profit attributable to ordinary shareholders (diluted)	<u>\$ 14,658,138</u>	<u>9,548,652</u>

	For the Years Ended December 31	
	2014	2013
Weighted-average number of ordinary shares	2,348,719	2,296,456
Effect of potentially dilutive ordinary shares		
Employee stock bonus	25,528	25,329
Employee stock option	337	9,662
Conversion of convertible bonds	-	222,596
Weighted-average number of ordinary shares (diluted)	2,374,584	2,554,043
	<u>\$ 6.17</u>	<u>3.74</u>

For the year ended December 31, 2014, convertible bonds of \$4,360,446 were not included in the calculation of weighted-average number of shares, due to its' anti-dilutive impact on earnings per share.

(19) Revenue

	For the Years Ended December 31	
	2014	2013
Sale of goods	\$ 878,000,008	785,304,870
Others	19,963,580	8,919,858
	<u>\$ 897,963,588</u>	<u>794,224,728</u>

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(20) Non-operation income and expenses

A. Other income

	For the Years Ended December 31	
	2014	2013
Interest income	\$ 164,737	69,968
Rental income	57,739	92,409
Technical service income	219,823	139,651
Other income	156,974	136,043
	\$ 599,273	438,071

B. Other gains and losses

	For the years Ended December 31	
	2014	2013
Loss on disposal of property, plant and equipment	\$ (385)	(149)
Foreign exchange gains (losses)	797,885	(25,234)
Gain on reversal of impairment loss	-	3,878
Net gains (losses) on evaluation of financial assets (liabilities) measured at fair value through profit or loss	(4,172,368)	535,739
	\$ (3,374,868)	514,234

C. Finance costs

	For the Years Ended December 31	
	2014	2013
Interest expenses	\$ 486,420	690,881
Finance expense – bank fees	216,040	226,788
	\$ 702,460	917,669

(21) Financial instruments

A. Categories of financial instruments

(a) Financial assets

	December 31, 2014	December 31, 2013
Financial assets carried at cost	\$ -	-
Loans and receivables:		
Cash and cash equivalent	31,092,242	19,170,052
Notes receivable, Accounts receivable and Other receivables	266,434,676	241,956,205
Other financial assets	68,825	88,312
Subtotal	297,595,743	261,214,569
Total	\$ 297,595,743	261,214,569

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(b) Financial liabilities

	December 31, 2014	December 31, 2013
Financial liabilities at fair value through profit or loss		
Financial liabilities at fair value through profit or loss, designated as upon initial recognition	\$ 1,117,653	235,162
Financial liabilities at amortized cost		
Short-term borrowings	21,965,100	18,628,125
Payable	243,915,783	212,661,834
Bonds payable	1,808,230	8,116,490
Long-term borrowings (including current portion)	17,046,400	21,515,200
Guarantee deposit (recognized in other noncurrent liabilities)	15,264	12,330
Subtotal	<u>284,750,777</u>	<u>260,933,979</u>
Total	<u>\$ 285,868,430</u>	<u>261,169,141</u>

B. Credit risk

(a) Exposure to credit risk

The carrying amount of financial assets represents the Company's maximum credit exposure. As of December 31, 2014 and 2013, the maximum exposures to credit risk amounted to \$297,595,743 thousand and \$261,214,569 thousand, respectively.

As of December 31, 2014 and 2013, the accounts receivable from the Company's top three customers amounted to \$165,298,716 and \$127,407,751, representing 65% and 58% of accounts receivable, respectively, which exposes the Company to credit risk.

(b) Impairment losses

Aging analysis of the receivables on the balance sheet date was as follows:

	December 31, 2014	December 31, 2013
Not past due	\$ 263,999,211	236,007,515
Past due 0 - 30 days	2,090,426	4,278,284
Past due 31 - 120 days	382,288	246,285
Past due 121 - 365 days	101,601	1,482,773
Past due more than 1 year	1,622,450	22,054
	<u>\$ 268,195,976</u>	<u>242,036,911</u>

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The movement in the allowance for impairment with respect to the receivables during the period was as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2014	\$ -	80,706	80,706
Impairment loss	-	1,680,594	1,680,594
Balance on December 31, 2014	<u>\$ -</u>	<u>1,761,300</u>	<u>1,761,300</u>
Balance on January 1, 2013	\$ -	29,641	29,641
Impairment loss	-	31,280	31,280
Written off unrecoverable amount	-	(2,732)	(2,732)
Acquisition from business combination	-	22,517	22,517
Balance on December 31, 2013	<u>\$ -</u>	<u>80,706</u>	<u>80,706</u>

Based on historical default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due. Also, the payment term of the receivables from related parties depend on the Company's capital movement, and there's no penalty interest due for late payment. The Company's management believes that there's no significant change on the credit quality of the aforesaid receivables which are past due but not impaired, thus they assess the receivables can be recovered. In addition, the Company does not hold any collateral and of other credit enhancement to mitigate the credit risk of the foresaid receivables.

Allowance for bad debts or accumulated impairment are the accounts used to record bad debt expense or impairment loss. If the Company believes the related receivables cannot be recovered, the carrying amount of the financial assets will be reduced through the allowance for bad debts accounts and accumulated impairment.

No accounts receivable and its allowance were offset as of December 31, 2014 and 2013.

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C. Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2014					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 39,029,100	39,029,100	27,029,100	-	12,000,000
Unsecured domestic bonds	1,808,230	1,808,230	1,808,230	-	-
Non-interest bearing liabilities	245,680,578	245,680,578	245,680,578	-	-
Derivative financial liabilities					
Overseas convertible bonds — conversion options	1,117,653	1,117,653	1,117,653	-	-
	<u>\$ 287,635,561</u>	<u>287,635,561</u>	<u>275,635,561</u>	<u>-</u>	<u>12,000,000</u>
December 31, 2013					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 40,165,725	40,165,725	23,396,925	4,768,800	12,000,000
Unsecured domestic bonds	8,116,490	8,116,490	-	8,116,490	-
Non-interest bearing liabilities	213,028,447	213,028,447	213,028,447	-	-
Derivative financial liabilities					
Overseas convertible bonds — conversion options	235,162	235,162	-	235,162	-
	<u>\$ 261,545,824</u>	<u>261,545,824</u>	<u>236,425,372</u>	<u>13,120,452</u>	<u>12,000,000</u>

The liquidity of the aforesaid bank loans does not include interest expense on cash outflow.

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

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D. Currency risk

(a) Currency risk exposure

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

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2014			December 31, 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	8,577,700	31.65	271,484,205	7,682,705	29.805	228,983,023
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	8,112,727	31.65	256,767,810	7,939,846	29.805	236,647,110

(b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2014 and 2013 would have decreased the after-tax net income by \$122,146 and \$63,612, respectively. The analysis is performed on the same basis for both periods.

E. Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

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

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

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If the interest rate increases / decreases by 1%, the Company's net income will decrease /increase by \$141,631 and \$190,945 for the years ended December 31, 2014 and 2013, respectively, assuming all other variable factors remain constant. This is mainly due to the Company's variable rate borrowing.

F. Fair value of financial instruments

(a) Fair value and carrying amount

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

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

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

- The fair value of financial assets and liabilities traded in active markets is based on quoted market prices.
- The fair value of stock of unlisted company is determined using market method, under which market price is extrapolated from similar stock of a listed company.
- For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis of expected future cash flows.

(c) Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

December 31, 2014	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	1,117,653	-	1,117,653
December 31, 2013				
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	235,162	-	235,162

There have been no transfers from each level for the years ended December 31, 2014 and 2013.

(22) Financial risk management

A. Overview

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

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

B. Risk management framework

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

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

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

C. Credit risk

Credit risk means the potential loss of the Company if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Company deposits cash in different financial institutions. The Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

The Company transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk.

(a) Accounts receivables and other receivables

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

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

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

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

(b) Investment

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

(c) Guarantee

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

D. Liquidity risk

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

The funds and marketable securities investments held by the Company have publicly quoted prices and could be sold at approximate market price.

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

E. Market risk

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

(a) Currency risk

The functional currency of the Company is the New Taiwan Dollars (NTD). The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency. The currencies used in these transactions are denominated in NTD, EUR, and USD.

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

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company. This provides an economic hedge without derivatives being entered into, and therefore, hedge accounting is not applied in these circumstances.

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

(b) Interest rate risk

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

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(c) Price floating risk on equity instruments

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

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

(23) Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, non-redeemable preference shares, retained earnings and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Company used the liability-to-equity ratio, debt-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

The Company's debt to equity ratios at the balance sheet date were as follows:

	December 31, 2014	December 31, 2013
Total liabilities	\$ 299,212,559	276,431,894
Less: cash and cash equivalents	31,092,242	19,170,052
Net debt	\$ 268,120,317	257,261,842
Total capital (Note)	\$ 401,791,248	364,565,636
Debt to equity ratio	66.73%	70.57%

Note: Total capital includes share capital, capital surplus, retained earnings, other equity and non-controlling interest and net debt.

Management believes that there were no changes in the Company's approach to capital management for the year ended December 31, 2014.

(24) Non-cash transactions of investment and financing activity

For the years ended December 31, 2014 and 2013, non-cash investing and financing activity of the Company were as follows:

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- A. Short-form mergers with Unihan Corporation, a wholly owned subsidiary of the Company. Please refer to Note 6(5) for details.
- B. Convertible bonds payable converted into ordinary shares. Please refer to Note 6(11) for details.

7. RELATED PARTY TRANSACTIONS

(1) List of subsidiaries :

Subsidiary	Shareholding ratio	
	2014.12.31	2013.12.31
UNIHAN CORPORATION (Note)	- %	- %
ABILITY ENTERPRISE CO., LTD.	11.68%	12.26%
UNIHAN HOLIDNG LTD.	100.00%	100.00%
AZUREWAVE TECHNOLOGY CO., LTD.	38.08%	38.08%
AMA PRECISION INC.	100.00%	100.00%
PEGATRON HOLLAND HOLDING B.V.	100.00%	100.00%
PEGATRON HOLDING LTD.	100.00%	100.00%
ASUSPOWER INVESTMENT CO., LTD.	100.00%	100.00%
ASUS INVESTMENT CO., LTD.	100.00%	100.00%
ASUSTEK INVESTMENT CO., LTD.	100.00%	100.00%
PEGATRON USA, INC.	100.00%	100.00%

Note: Unihan Corporation was merged with the Company and Unihan Corporation was dissolved from the merger, which resulted in elimination of assets and liabilities from related parties transactions on the effective date of the merger.

(2) The ultimate parent company

- A. On April 29, 2013, the entity (“A Company”) in which the Company has significant influence has disposed a portion of its share holding in the Company which resulted in losing its significant influence over the Company. Therefore, A Company has become a non-related party as of the said date.
- B. The Company is the ultimate parent company.

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(3) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

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

	<u>Sales</u>		<u>Receivables from Related Parties</u>	
	<u>2014</u>	<u>2013</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Entity with significant influence over the Company	\$ -	21,311,808	-	-
Subsidiaries	7,048,092	7,255,389	150,393,887	133,504,038
Other related parties	-	748	-	-
	<u>\$ 7,048,092</u>	<u>28,567,945</u>	<u>150,393,887</u>	<u>133,504,038</u>

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

B. Purchase of Goods from Related Parties

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

	<u>Purchases</u>		<u>Payables to Related Parties</u>	
	<u>2014</u>	<u>2013</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Entity with significant influence over the Company	\$ -	17,046,948	-	-
Subsidiaries	192,760,657	168,974,930	114,129,456	92,726,651
Others	434,515	1,603,358	11,756	476,358
	<u>\$ 193,195,172</u>	<u>187,625,236</u>	<u>114,141,212</u>	<u>93,203,009</u>

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. Warranty repair expense paid to Related Parties

	For the Years Ended December 31	
	2014	2013
Subsidiaries	\$ 239,119	234,105
Others	-	12,817
	\$ 239,119	246,922

D. Other income and expenses from Related Parties

	For the Years Ended December 31	
	2014	2013
Entity with significant influence over the Company	\$ -	(60,913)
Subsidiaries	12,384	37,728
Others	-	2,003
	\$ 12,384	(21,182)

E. Rental revenue

For the years ended December 31, 2014 and 2013, the Company incurred other related party transactions of \$28,026 and \$62,063, respectively, which were accounted for as rental revenue.

F. Other related party transactions recorded as expenses

For the years ended December 31, 2014 and 2013, the Company incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$988,831 and \$379,504, respectively.

G. Purchase and sales of real estate property and other assets

For the years ended December 31, 2014 and 2013, molds purchased from other related parties amounted to \$3,738 and \$4,643, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Other receivables		
Subsidiaries	\$ 18,559	36,307
Others	-	234
	<u>\$ 18,559</u>	<u>36,541</u>
Other payables		
Subsidiaries	<u>\$ 998,762</u>	<u>714,872</u>
Other financial liabilities — current		
Subsidiaries	\$ 19,099	261,402
Others	-	1,794
	<u>\$ 19,099</u>	<u>236,196</u>

I. Borrowings from related parties

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Subsidiaries	<u>\$ 9,495,000</u>	<u>7,451,250</u>
Interest rate	<u>0.2276%~0.2341%</u>	<u>0.2691%~0.2733%</u>

(4) Key management personnel compensation:

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Short-term employee benefits	\$ 130,490	121,357
Post-employment benefits	2,151	2,277
Share-based payments	32,209	65,931
	<u>\$ 164,850</u>	<u>189,565</u>

Please refer to Note 6(17) for further explanations related to share-based payment transactions.

8. PLEDGED ASSETS

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

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Other financial asset	Deposits for customs duties and provisional seizure	\$ 42,141	55,820
Refundable deposits	Deposits for performance guarantee	26,684	32,492
		<u>\$ 68,825</u>	<u>88,312</u>

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

9. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
EUR	\$ 2,540	2,540

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
NTD	\$ 11,997	20,105

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER

(1) The nature of employee benefits, depreciation and amortization expenses categorized by function, were as follows:

By item	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 1,052,748	7,288,752	8,341,500	971,365	5,325,035	6,296,400
Health and labor insurance	83,992	397,786	481,778	71,674	290,956	362,630
Pension	41,794	220,617	262,411	36,525	165,216	201,741
Others	93,145	380,176	473,321	91,856	327,092	418,948
Depreciation	388,222	223,030	611,252	368,065	204,863	572,928
Amortization	27,382	4,190	31,572	41,721	9,420	51,141

The Company has the total number of employees of 6,783 and 6,355(including 781 employees of UNIHAN CORPORATION), respectively under the year of 2014 and 2013.

(2) Certain accounts in the non-consolidated financial statements as of and for the year ended December 31, 2013, were reclassified to conform to the presentation adopted in the non-consolidated financial statements as of and for the year ended December 31, 2014.

13. SEGMENT INFORMATION

Please refer to the consolidated financial report for the years ended December 31, 2014 and 2013.

Pegatron Corporation



T.H. Tung, Chairman



