

Flytech Technology Co., Ltd. and Subsidiaries
Consolidated Financial Statements
December 31, 2014 and 2013
(With Independent Auditors' Report Thereon)



安侯建業聯合會計師事務所

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Independent Auditors' Report

The Board of Directors
Flytech Technology Co., Ltd.:

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

We conducted our audits in accordance with the Regulations 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Flytech Technology Co., Ltd. and subsidiaries as of December 31, 2014 and 2013, and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of Flytech Technology Co., Ltd. as of and for the years ended December 31, 2014 and 2013 on which we have issued an unqualified opinion.

Taipei, Taiwan (the Republic of China)
March 13, 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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China. 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 auditors' 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 auditors' report and consolidated financial statements shall prevail.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

Assets	2014.12.31	2013.12.31
Current assets:		
Cash and cash equivalents (notes 6(1) and (17))	\$ 2,394,500	1,617,777
Financial assets at fair value through profit or loss — current (notes 6(2), (17) and (18))	-	180
Notes and accounts receivable, net (notes 6(3) and (17))	1,040,820	765,277
Other receivables (notes 6(3) and (17))	4,539	8,917
Inventories (note 6(4))	470,493	425,736
Prepayments and other current assets	25,955	25,491
Other financial assets — current (notes 6(1) and (17) and 8)	<u>149,488</u>	<u>800,403</u>
Total current assets	<u>4,085,795</u>	<u>3,643,781</u>
Non-current assets:		
Financial assets at fair value through profit or loss — non-current (notes 6(2), (7) and (17))	-	225
Investments in associates (note 6(5))	4,349	-
Property, plant and equipment (note 6(6))	1,148,004	1,199,433
Intangible assets	10,399	9,654
Deferred income tax assets (note 6(11))	27,546	25,497
Other financial assets — non-current (note 6(17))	32,684	60,900
Prepayments for equipment	<u>5,017</u>	<u>2,050</u>
Total non-current assets	<u>1,227,999</u>	<u>1,297,759</u>
Total assets	\$ <u>5,313,794</u>	<u>4,941,540</u>

(Continued)

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

Liabilities and Equity	2014.12.31	2013.12.31
Current liabilities:		
Financial liabilities at fair value through profit or loss—current (notes 6(2), (17) and (18))	\$ 5,929	2,155
Notes and accounts payable (notes 6(17) and (18))	428,529	377,504
Other payables (notes 6(12), (17) and (18))	219,784	209,336
Current income tax liabilities	125,155	125,671
Provisions (note 6(8))	27,332	10,506
Other current liabilities	21,960	25,128
Current portion of bonds payable (notes 6(7), (17) and (18))	<u>302,789</u>	<u>-</u>
Total current liabilities	<u>1,131,478</u>	<u>750,300</u>
Non-current liabilities:		
Bonds payable (notes 6(7), (17) and (18))	-	310,767
Deferred income tax liabilities (note 6(11))	35,431	30,080
Accrued pension liabilities (note 6(10))	<u>28,686</u>	<u>28,454</u>
Total non-current liabilities	<u>64,117</u>	<u>369,301</u>
Total liabilities	<u>1,195,595</u>	<u>1,119,601</u>
Equity (notes 6(10), (11), (12) and (13)) :		
Common stock	1,329,472	1,199,651
Capital surplus	586,395	674,190
Retained earnings:		
Legal reserve	555,984	470,015
Special reserve	-	10,675
Unappropriated earnings	<u>1,595,149</u>	<u>1,431,823</u>
	<u>2,151,133</u>	<u>1,912,513</u>
Other equity	<u>14,471</u>	<u>700</u>
Equity attributable to shareholders of the Company	<u>4,081,471</u>	<u>3,787,054</u>
Non-controlling interests	<u>36,728</u>	<u>34,885</u>
Total equity	<u>4,118,199</u>	<u>3,821,939</u>
Total liabilities and equity	<u>\$ 5,313,794</u>	<u>4,941,540</u>

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars, except earnings per share)

	2014	2013
Net revenue (note 6(15))	\$ 4,748,478	4,065,218
Cost of revenue (notes 6(4), (6), (8), (10) and (12) and 12)	<u>3,223,533</u>	<u>2,734,249</u>
Gross profit	<u>1,524,945</u>	<u>1,330,969</u>
Operating expenses (notes 6(3), (6), (9), (10) and (12), 7 and 12):		
Selling expenses	228,801	175,872
Administrative expenses	117,816	105,807
Research and development expenses	<u>156,637</u>	<u>140,505</u>
Total operating expenses	<u>503,254</u>	<u>422,184</u>
Operating income	<u>1,021,691</u>	<u>908,785</u>
Non-operating income and loss:		
Other income (note 6(16))	37,820	41,188
Other gains and losses (notes 6(5), (7) and (16))	52,225	64,378
Finance costs (notes 6(7) and (16))	(6,127)	(9,819)
Share of losses of associates (note 6(5))	<u>(604)</u>	<u>-</u>
Total non-operating income and loss	<u>83,314</u>	<u>95,747</u>
Income before income tax	1,105,005	1,004,532
Income tax expense (note 6(11))	<u>140,103</u>	<u>136,340</u>
Net income	<u>964,902</u>	<u>868,192</u>
Other comprehensive income:		
Exchange differences on translation of foreign operations	13,771	8,537
Actuarial gain (losses) from defined benefit plans (note 6(10))	(268)	1,259
Less: Income tax related to components of other comprehensive income (note 6(11))	<u>(46)</u>	<u>214</u>
Other comprehensive income for the year, net of income tax	<u>13,549</u>	<u>9,582</u>
Total comprehensive income for the year	<u>\$ 978,451</u>	<u>877,774</u>
Net income attributable to:		
Shareholders of the Company	\$ 959,324	859,686
Non-controlling interests	<u>5,578</u>	<u>8,506</u>
	<u>\$ 964,902</u>	<u>868,192</u>
Total comprehensive income attributable to:		
Shareholders of the Company	\$ 972,873	869,268
Non-controlling interests	<u>5,578</u>	<u>8,506</u>
	<u>\$ 978,451</u>	<u>877,774</u>
Earnings per share (in New Taiwan dollars, note 6(14)) :		
Basic earnings per share	\$ <u>7.25</u>	<u>6.69</u>
Diluted earnings per share	\$ <u>6.88</u>	<u>6.17</u>

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

	Attributable to shareholders of the Company						Non-controlling interests	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total		
Balance at January 1, 2013	\$ 1,004,249	245,559	409,103	3,872	1,107,330	1,520,305	26,379	2,788,655
Appropriation approved by the stockholders:								
Legal reserve	-	-	60,912	-	(60,912)	-	-	-
Special reserve	-	-	-	6,803	(6,803)	-	-	-
Cash dividends	-	-	-	-	(364,407)	(364,407)	-	(364,407)
Stock dividends	104,116	-	-	-	(104,116)	(104,116)	-	-
Convertible bonds converted into common stock	78,576	375,516	-	-	-	-	-	454,092
Issuance of common stock for exercise of employee stock options	12,710	53,115	-	-	-	-	-	65,825
Net income in 2013	-	-	-	-	859,686	859,686	8,506	868,192
Other comprehensive income in 2013	-	-	-	-	1,045	1,045	-	9,582
Total comprehensive income in 2013	-	-	-	-	860,731	860,731	8,506	877,774
Balance at December 31, 2013	1,199,651	674,190	476,015	10,675	1,431,823	1,912,513	34,885	3,821,939
Appropriation approved by the stockholders:								
Legal reserve	-	-	85,969	-	(85,969)	-	-	-
Reversal of special reserve	-	-	-	(10,675)	10,675	-	-	-
Cash dividends	-	-	-	-	(720,482)	(720,482)	-	(720,482)
Distribution of stock dividends from capital surplus	120,080	(120,080)	-	-	-	-	-	-
Convertible bonds converted into common stock	2,891	11,211	-	-	-	-	-	14,102
Issuance of common stock for exercise of employee stock options	6,850	21,074	-	-	-	-	-	27,924
Changes in non-controlling interests	-	-	-	-	-	-	(3,735)	(3,735)
Net income in 2014	-	-	-	-	959,324	959,324	5,578	964,902
Other comprehensive income in 2014	-	-	-	-	(222)	(222)	-	13,549
Total comprehensive income in 2014	-	-	-	-	959,102	959,102	5,578	978,451
Balance at December 31, 2014	\$ 1,329,472	586,395	555,984	-	1,595,149	2,151,133	36,728	4,118,199

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

	2014	2013
Cash flows from operating activities:		
Income before income taxes	\$ 1,105,005	1,004,532
Adjustments for:		
Depreciation	86,505	83,403
Amortization	5,152	1,953
Impairment loss on accounts receivables	2,352	765
Valuation loss on financial assets and liabilities at fair value through profit or loss, net	4,179	1,904
Interest expense	6,127	9,819
Interest income	(32,544)	(34,838)
Share of losses of associates	604	-
Impairment loss on non-financial assets	10,047	-
Loss on disposal of investments	-	2,433
Loss (gain) on disposal of property, plant and equipment	(496)	85
Total non-cash profit and loss	<u>81,926</u>	<u>65,524</u>
Changes in operating assets and liabilities:		
Notes and accounts receivable, net	(277,895)	(57,619)
Other receivables	(2,871)	(176)
Inventories	(44,757)	(40,153)
Prepayments and other current assets	(464)	(188)
Notes and accounts payable	51,025	(91,737)
Other payables	10,448	9,604
Other current liabilities	(3,168)	7,560
Provisions	16,826	276
Accrued pension liabilities	(36)	(116)
Total changes in operating assets and liabilities	<u>(250,892)</u>	<u>(172,549)</u>
Cash provided by operations	936,039	897,507
Interest paid	-	(30)
Income taxes paid	<u>(137,271)</u>	<u>(78,743)</u>
Net cash provided by operating activities	<u>798,768</u>	<u>818,734</u>

(Continued)

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

	2014	2013
Cash flows from investing activities:		
Proceeds from disposal of available-for-sale financial assets	-	12,175
Capital injection to an associates	(15,000)	-
Additions to property, plant and equipment (including prepayments for equipment)	(37,318)	(89,268)
Proceeds from disposal of property, plant and equipment	507	81
Additions to intangible assets	(5,897)	(10,574)
Increase in other financial assets	-	(605,010)
Decrease in other financial assets	679,131	-
Interest received	39,795	27,782
Net cash provided by (used in) investing activities	<u>661,218</u>	<u>(664,814)</u>
Cash flows from financing activities:		
Decrease in short-term borrowings	-	(3,132)
Cash dividends	(720,482)	(364,407)
Proceeds from exercise of employee stock options	27,924	65,825
Cash dividends paid to non-controlling interests	(3,735)	-
Net cash used in financing activities	<u>(696,293)</u>	<u>(301,714)</u>
Effects of foreign exchange rate changes	<u>13,030</u>	<u>7,708</u>
Net increase (decrease) in cash and cash equivalents	776,723	(140,086)
Cash and cash equivalents at beginning of year	<u>1,617,777</u>	<u>1,757,863</u>
Cash and cash equivalents at end of year	\$ <u>2,394,500</u>	<u>1,617,777</u>

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(amounts expressed in thousands of New Taiwan dollars
except for earnings per share information and unless otherwise noted)

1. Organization and business

Flytech Technology Co., Ltd. (the "Company") was incorporated on August 13, 1984, as a company limited by shares under the laws of the Republic of China ("R.O.C.") and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is No. 168, Sing-Ai Road, Neihu, Taipei, Taiwan. The Company and its subsidiaries (collectively the "Group") are engaged in the design and manufacture and sale of Book PCs, Net PCs, POS PCs, and IPCs.

2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 13, 2015.

3. New standards and interpretations not yet adopted

- (1) International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations (collectively "IFRSs") endorsed by the Financial Supervisory Commission of the R.O.C. (FSC) but not yet in effect

According to Ruling No. 1030010325 issued by the FSC on April 3, 2014, starting from 2015, companies with shares listed on the Taiwan Stock Exchange or traded on the Taipei Exchange or Emerging Stock Market are required to prepare their financial statements in accordance with the 2013 IFRSs endorsed by the FSC (2013 Taiwan-IFRSs version). IFRS 9 *Financial Instruments* is excluded from the 2013 Taiwan-IFRSs.

The new or amended standards and interpretations issued by the International Accounting Standards Board ("IASB") and endorsed by the FSC but not yet in effect are as follows:

New or amended standards and interpretations	Effective date per IASB
• Amendments to IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
• Amendments to IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
• Amendments to IFRS 1 <i>Government Loans</i>	January 1, 2013
• Amendments to IFRS 7 <i>Disclosure — Transfers of Financial Assets</i>	July 1, 2011
• Amendments to IFRS 7 <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

New or amended standards and interpretations	Effective date per IASB
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (investment entities amendments to IFRS 10, IFRS 12 and IAS 27) effective January 1, 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
• Amendments to IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
• Amendments to IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
• Amendments to IAS 19 (Revised 2011) <i>Employee Benefits</i>	January 1, 2013
• Amendments to IAS 27 (Revised 2011) <i>Separate Financial Statements</i>	January 1, 2013
• Amendments to 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

Except for the following items, the Group believed that the adoption of the aforementioned 2013 Taiwan-IFRSs will not have a significant impact on the Group's consolidated financial statements.

A. Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

According to the amendments to IAS 1, the items of other comprehensive income will be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis.

B. IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 integrates the disclosure requirements stated in other standards with respect to an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Group will expand the disclosure relating to the consolidated entities and associates in accordance with the standard.

C. IFRS 13 *Fair Value Measurement*

IFRS 13 defines fair value and establishes a framework for measuring fair value and requires disclosures on fair value measurement. Based on the Group's assessment, the adoption of IFRS 13 will not have significant impact on the consolidated financial position and results of operations. The Group will expand the disclosure relating to fair value measurement in accordance with the standard.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Below is a summary of IFRS issued by the IASB but not yet endorsed by the FSC.

New or amended standards and interpretations	Effective date per IASB
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	January 1, 2016
• Amendments to IFRS10, IFRS12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	January 1, 2016
• Amendments to 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
• Amendments to IAS1 <i>Disclosure Initiative</i>	January 1, 2016
• Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
• Amendments to IAS 16 and IAS 41 <i>Bearer Plants</i>	January 1, 2016
• Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
• Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i>	January 1, 2016
• Amendments to IAS 36 <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	January 1, 2014
• Amendments to IAS 39 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	January 1, 2014
• IFRIC 21 <i>Levies</i>	January 1, 2014

The Group continues to evaluate the impact on the consolidated financial position and the results of operations as a result of the adoption of the above standards or interpretations. The related impact will be disclosed when the Group completes the assessments.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****4. Summary of significant accounting policies**

The significant accounting policies presented in the financial statements are summarized as follows and have been applied consistently to all periods presented in these financial statements.

The consolidated financial statements are the English translation of the original Chinese version prepared and used in the R.O.C. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese language consolidated financial statements shall prevail.

(1) Statement of compliance

The Group's accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations") and the IFRSs, IASs, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (collectively "Taiwan-IFRSs").

(2) Basis of preparation**(a) Basis of measurement**

The accompanying consolidated financial statements have been prepared on a historical cost basis except for the following items in the balance sheets:

- i. Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- ii. Available-for-sale financial assets measured at fair value;
- iii. Accrued pension liabilities recognized as the present value of the benefit obligation less the fair value of plan assets.

(b) Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(3) Basis of consolidation**(a) Basis of preparation of consolidated financial statements**

The accompanying consolidated financial statements include the financial statements of the Company and its controlled entities (the subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Profits and losses attributable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-group balances and transactions, and any unrealized profit and loss 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.

When necessary, financial statements of subsidiaries are adjusted to align their accounting policies with those adopted by the Company.

(b) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements:

Name of Investor	Name of investee	Main Business and Products	Percentage of Ownership	
			2014.12.31	2013.12.31
The Company	Flytech USA International Co., Ltd. ("Flytech USA BVI, British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flytech JP International Co., Ltd. ("Flytech JP BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flytech HK International Co., Ltd. ("Flytech HK BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flytech CN International Co., Ltd. ("Flytech CN BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flycom Investment Co., Ltd. ("Flycom Investment", Taiwan)	Investment and holding activity	100.00	100.00
Flytech USA BVI	Flytech Technology (U.S.A.) Inc. ("Flytech USA", U.S.A.)	Sale of computers and peripheral equipments	100.00	100.00
Flytech HK BVI	Flytech Technology Hong Kong Ltd. ("Flytech HK", Hong Kong)	Sale of computers and peripheral equipments	100.00	100.00
Flytech CN BVI	Flytech Technology (Shanghai) Co., Ltd. ("Flytech CN", China)	Sale of computers and peripheral equipments	100.00	100.00
Flycom Investment	OTEK System Co., Ltd. ("OTEK System", Taiwan)	Sale of computers and peripheral equipments	68.88	68.88

(c) List of subsidiaries which are not included in the consolidated financial statements: None.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Foreign currency

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period (the reporting date) of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in a foreign currency that are measured at historical cost are not retranslated.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisitions, are translated into New Taiwan dollars at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into New Taiwan dollars at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

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

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets.

- (a) It is expected to be realized, or sold or consumed in 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 date; or
- (d) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

- (a) It is expected to be settled in the normal operating cycle;
- (b) It is held primarily for the purpose of trading;
- (c) It is due to be settled within twelve months after the reporting date; or

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- (d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the aforesaid criteria and are not held for investing purposes are also classified as cash equivalents.

(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

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Regular way purchases or sales of financial assets are recognized or derecognized based on the trade date, the date on which the Group commits to purchase or sell the assets.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.

At initial recognition, financial assets carried at fair value through profit or losses are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value (including dividend income and interest income) are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivables, other receivables, and investment in debt security with no active market. At initial recognition, such assets are recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method less any impairment losses.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

iii. Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these assets 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 monetary financial assets, are recognized in other comprehensive income and presented in "unrealized gain/loss from available-for-sale financial assets" in equity. When the financial asset is derecognized, the gain or loss previously accumulated in equity is reclassified to profit or loss.

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

Dividends received from equity investments are recognized as non-operating income on the date of entitlement to receive dividends (usually the ex-dividend date).

iv. Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been negatively impacted.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, such asset is included in a group of financial assets with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Group's collection experience in the past, an increase in delayed payments, and national or local economic conditions that correlate with overdue receivables.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

When an impairment loss is recognized for an available-for-sale asset, the cumulative gains or loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. 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 the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

An impairment loss in respect of a financial asset measured at cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. A subsequent reversal of the impairment loss is prohibited.

The impairment loss and the reversal gain for accounts receivable are recognized as administrative expenses, and as non-operating income and loss for financial assets other than accounts receivable.

v. Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

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 accumulated in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in the non-operating income and loss of the consolidated statement of comprehensive income.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that had been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(b) Financial liabilities and equity instruments**i. Classification of debt or equity**

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognized at the amount of consideration received less the direct issuing cost.

Compound financial instruments issued by the Group, to which the bondholders were granted an option to convert a fixed amount of bonds into a fixed number of common shares.

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

Subsequent to initial recognition, bonds payable is measured at amortized cost using the effective interest method, and the redemption options and conversion of the embedded bonds payable are measured at fair value. The equity component is not re-measured subsequent to initial recognition. Interest and gain or loss related to the financial liability is recognized in profit or loss.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

ii. 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 a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

At initial recognition, this type of financial liability is recognized at fair value and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial liabilities are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

iii. Other financial liabilities

Financial liabilities not classified as held for trading or not designated as at fair value through profit or loss, which comprise loans and borrowings, accounts payable, and other payables, are measured at fair value plus any directly attributable transaction cost at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

iv. Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. 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.

v. Offsetting of financial assets and liabilities

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

(c) Derivative financial instruments

Derivative financial instruments are held to hedge the Group's foreign currency exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and included in non-operating income and loss. If the valuation of a derivative instrument results in a positive fair value, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other cost incurred in bringing them to the location and condition ready for sale. 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 represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(9) 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 plus any transaction costs. The carrying amount of the investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. Such impairment loss is not allocated to goodwill or other assets but reduces the carrying amount of the investments.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized as other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized profits resulting from 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.

Adjustments are made to associates' financial statements to conform to the accounting policies applied by the Group.

(10) Property, plant and equipment**(a) Recognition and measurement**

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 and 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 asset and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(b) Subsequent costs**

Subsequent costs are capitalized only when it is probable that future economic benefits associated with the costs will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized in profit or loss. All other repairs and maintenance are charged to expense as incurred.

(c) Depreciation

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. Land is not depreciated. The depreciation is recognized in profit or loss.

The estimated useful lives for property, plant and equipment are as follows: machinery and equipment: 3 to 12 years; transportation equipment: 5 years; mold equipment: 2 to 5 years; office and other equipment: 2 to 15 years; buildings—main structure: 50 years; mechanical & electrical power equipment: 20 years; and air-conditioning system: 10 years.

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(11) Leases

Leases are classified as finance leases when the Group assumes substantially all of the risks and rewards of ownership of the leased assets. All other leases are classified as operating leases and are not recognized in the Group's balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are charged to expense over the lease term on a straight-line basis. Contingent rents are recognized as expense in the period when the lease adjustments are confirmed.

(12) Intangible assets

Intangible assets represent acquired software and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss using the straight-line method over the estimated useful lives of 3 to 5 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end and, with the effect of any changes in estimate accounted for on a prospective basis.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(13) Impairment of non-financial assets****(a) Goodwill**

For the purpose of impairment testing, goodwill arising from a business combination is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. The CGUs with goodwill are tested annually (or when there are indications that a CGU may have been impaired) for impairment. When the recoverable amount of a CGU is less than the carrying amount of the CGU, the impairment loss is recognized firstly by reducing the carrying amount of any goodwill allocated to the CGU and then proportionately allocated to the other assets of the CGU on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in profit or loss. A subsequent reversal of the impairment loss on goodwill is prohibited.

(b) Other tangible and intangible assets

Non-financial assets other than inventories, deferred income tax assets, and assets arising from employee benefits are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the CGU to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized in the profit or loss immediately. The Group assesses at each reporting date whether there is any evidence that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(14) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A provision for warranties is recognized when the underlying products or services are sold. This provision reflects the historical warranty claim rate and the weighting of all possible outcomes against their associated probabilities.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(15) Revenue recognition

Revenue from the sale of goods or services is measured at the fair value of consideration received or receivable, net of returns, rebates and other similar discounts.

(a) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

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

(b) Services

Revenue from services rendered is recognized by reference to the stage of completion at the reporting date.

(c) Interest income and dividend income

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(16) Employee benefits

(a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

(b) Defined benefit plans

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date, less the fair value of plan assets. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the term of the related pension liability.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

When the defined benefit obligation calculation results in a benefit to the Group, the asset is recognized but is limited to the total amount of any unrecognized past service costs and the present value of economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and recognizes them immediately in retained earnings.

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 or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the 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 during the period in which employees render services. 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 make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(17) Share-based payment

Share-based payment awards granted to employees are measured at fair value at the date of grant. The fair value determined at the grant date is expensed over the period that the employees become unconditionally entitled to the awards, with a corresponding increase in equity. The compensation cost is adjusted to reflect the number of awards given to employees for which the performance and non-market conditions are expected to be met, such that the amount ultimately recognized shall be based on the number of equity instruments that eventually vested.

For share-based payment awards vested or settled prior to January 1, 2012, the Group elected not to adjust the compensation cost retrospectively in accordance with the accounting policy mentioned above. Instead, the Group recognizes the compensation cost in accordance with the "Regulations Governing the Preparation of Financial Reports by Security Issuers" issued by the FSC on January 10, 1999, and the financial accounting standards and interpretations issued by the Accounting Research and Development Foundation (hereinafter referred to collectively as the "previous GAAP").

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(18) Income Taxes**

Income tax expenses include both current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to business combinations or items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- (a) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- (b) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the differences will not reverse in the foreseeable future; and
- (c) Temporary differences arising from initial recognition of goodwill.

Deferred tax is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(19) Earnings per share ("EPS")

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the consolidated financial statements. Basic EPS is calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Group's dilutive potential common shares include convertible bonds, stock options, and profit sharing to employees to be settled in the form of common stock and to be approved by the shareholders in the following year.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn 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 on the allocation of resources to the segment and assess its performance for which discrete financial information is available.

5. Critical accounting judgments and key sources of estimation and uncertainty

The preparation of the consolidated financial statements in conformity with Taiwan-IFRSs requires the 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in the future periods affected. There is not any information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimates to determine the net realizable value of inventory at each reporting date.

Due to the rapid technological changes, the Group estimates the net realizable value of inventory based on obsolescence and unmarketable items at the reporting date and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

6. Significant account disclosures

(1) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	\$ 1,264	3,786
Demand deposits and checking accounts	1,575,876	847,505
Time deposits with original maturities less than 3 months	<u>817,360</u>	<u>766,486</u>
	<u>\$ 2,394,500</u>	<u>1,617,777</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, the time deposits with original maturities of more than three months amounted to \$146,341, and \$797,267, respectively, which were classified as other financial assets—current.

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

	December 31, 2014	December 31, 2013
Financial assets at fair value through profit or loss—current:		
Financial assets held-for-trading—Forward foreign exchange contracts	\$ <u> -</u>	<u> 180</u>
Financial assets at fair value through profit or loss—non-current:		
Redemption options of convertible bonds (note 6(7))	\$ <u> -</u>	<u> 225</u>
Financial liabilities at fair value through profit or loss—current:		
Financial liabilities held-for-trading—Forward foreign exchange contracts	\$ <u> 5,929</u>	<u> 2,155</u>

The Group entered into derivative contracts to manage foreign currency exchange risk resulting from its operating activities. The derivative financial instruments that did not conform to the criteria for hedge accounting were classified as financial assets and liabilities at fair value through profit or loss.

At each reporting date, the outstanding forward foreign exchange contracts consisted of the following:

December 31, 2014		
Contract amount (USD in thousands)	Buy/Sell	Maturity period
\$ <u>9,000</u>	USD/NTD	2015/1/2~2015/3/20
December 31, 2013		
Contract amount (USD in thousands)	Buy/Sell	Maturity period
\$ <u>9,000</u>	USD/NTD	2014/1/10~2014/3/10

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Notes and accounts receivable, and other receivables

	December 31, 2014	December 31, 2013
Notes receivable	\$ 10,208	12,261
Accounts receivable	1,040,764	762,974
Less: allowance for doubtful receivables	<u>(10,152)</u>	<u>(9,958)</u>
	1,040,820	765,277
Others receivables	<u>4,539</u>	<u>8,917</u>
	<u>\$ 1,045,359</u>	<u>774,194</u>

(a) Movements of the allowance for doubtful receivables were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2014	\$ 2,158	7,800	9,958
Provision for impairment loss	-	2,352	2,352
Write-off	<u>(2,158)</u>	<u>-</u>	<u>(2,158)</u>
Balance at December 31, 2014	<u>\$ -</u>	<u>10,152</u>	<u>10,152</u>
	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2013	\$ 2,102	7,091	9,193
Provision for impairment loss	<u>56</u>	<u>709</u>	<u>765</u>
Balance at December 31, 2013	<u>\$ 2,158</u>	<u>7,800</u>	<u>9,958</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) The aging analysis of notes and accounts receivable that are overdue but not impaired is as follows:

	December 31, 2014	December 31, 2013
Past due 0-30 days	\$ 241,238	213,727
Past due 31-120 days	<u>42,324</u>	<u>42,673</u>
	<u>\$ 283,562</u>	<u>256,400</u>

The allowance for doubtful receivables is assessed by referring to the collectability of receivables based on historical payment behavior and an analysis of specific customer credit quality. Notes and accounts receivable that are past due but for which the Group has not recognized a specific allowance for doubtful receivables after the assessment are still considered recoverable.

(4) Inventories

	December 31, 2014	December 31, 2013
Raw materials	\$ 273,813	232,475
Work in process	149,821	138,882
Finished goods	46,232	39,565
Merchandise	<u>627</u>	<u>14,814</u>
	<u>\$ 470,493</u>	<u>425,736</u>

For the years ended December 31, 2014 and 2013, the write-downs of inventories to net realizable value amounted to \$4,413 and \$1,163, respectively, and were included in cost of revenue.

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

(5) Investments in associates

(a) Associates:

Name of Associates	December 31, 2014		December 31, 2013	
	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
NeoVideo Technology Corp. ("NeoVideo")	27.27%	\$ <u>4,349</u>	-	<u>-</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (b) For the years ended December 31, 2014 and 2013, the Group's shares of losses of associates are as follows:

	2014	2013
Share of losses of associates	\$ <u>(604)</u>	<u>-</u>

In October 2014, the Group invested \$15,000 in NeoVideo and acquired 1,500 shares of its common stock. In 2014, as the goodwill arising from the investment was impaired, the Group recognized impairment loss of \$10,047 in the non-operating income and loss. Refer to note 6(16).

- (c) Summarized financial information on investments in associates is as follows (before being adjusted to the Group's proportionate share):

	December 31, 2014	December 31, 2013
Total assets	\$ <u>31,131</u>	<u>-</u>
Total liabilities	\$ <u>15,186</u>	<u>-</u>
	2014	2013
Revenue	\$ <u>37,255</u>	<u>-</u>
Net loss	\$ <u>(1,921)</u>	<u>-</u>

The Group did not share any contingent liabilities of NeoVideo jointly with other investors, neither did the Group have any contingent liabilities that arised from being liable for all or part of the liabilities of the associate.

As of December 31, 2014 and 2013, the investments in associates were not pledged as collateral.

(6) Property, plant and equipment

The movements of cost and accumulated depreciation of the property, plant and equipment were as follows:

	Land	Buildings	Machinery	Mold equipment	Furniture and fixtures	Other equipment	Total
Cost:							
Balance at January 1, 2014	\$ 319,238	634,683	288,936	249,512	46,248	27,693	1,566,310
Additions	-	-	762	16,109	701	328	17,900
Reclassification from prepayment	-	-	-	14,201	-	2,250	16,451
Disposals	-	-	-	(217)	(3,058)	(4,613)	(7,888)
Effect of exchange rate changes	-	1,256	37	-	264	234	1,791
Balance at December 31, 2014	\$ <u>319,238</u>	<u>635,939</u>	<u>289,735</u>	<u>279,605</u>	<u>44,155</u>	<u>25,892</u>	<u>1,594,564</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Land	Buildings	Machinery	Mold equipment	Furniture and fixtures	Other equipment	Total
Balance at January 1, 2013	\$ 319,238	633,267	276,601	186,883	40,886	23,805	1,480,680
Additions	-	-	14,209	24,722	(4,149)	1,263	36,045
Reclassification from prepayment	-	-	335	37,907	9,676	3,255	51,173
Disposals	-	-	(2,263)	-	(338)	(768)	(3,369)
Effect of exchange rate changes	-	1,416	54	-	173	138	1,781
Balance at December 31, 2013	\$ <u>319,238</u>	<u>634,683</u>	<u>288,936</u>	<u>249,512</u>	<u>46,248</u>	<u>27,693</u>	<u>1,566,310</u>
Depreciation:							
Balance at January 1, 2014	\$ -	76,268	103,468	145,576	22,400	19,165	366,877
Depreciation	-	14,013	24,371	41,471	4,636	2,014	86,505
Disposals	-	-	-	(217)	(5,047)	(4,613)	(7,877)
Effect of exchange rate changes	-	574	33	-	230	218	1,055
Balance at December 31, 2014	\$ <u>-</u>	<u>90,855</u>	<u>127,872</u>	<u>186,830</u>	<u>24,219</u>	<u>16,784</u>	<u>446,560</u>
Balance at January 1, 2013	\$ -	61,130	80,140	109,111	17,678	17,667	285,726
Depreciation	-	14,501	25,415	36,465	4,870	2,152	83,403
Disposals	-	-	(2,137)	-	(304)	(762)	(3,203)
Effect of exchange rate changes	-	637	50	-	156	108	951
Balance at December 31, 2013	\$ <u>-</u>	<u>76,268</u>	<u>103,468</u>	<u>145,576</u>	<u>22,400</u>	<u>19,165</u>	<u>366,877</u>
Carrying amount:							
Balance at December 31, 2014	\$ <u>319,238</u>	<u>545,084</u>	<u>161,863</u>	<u>92,775</u>	<u>19,936</u>	<u>9,108</u>	<u>1,148,004</u>
Balance at December 31, 2013	\$ <u>319,238</u>	<u>558,415</u>	<u>185,468</u>	<u>103,936</u>	<u>23,848</u>	<u>8,528</u>	<u>1,199,433</u>
Balance at January 1, 2013	\$ <u>319,238</u>	<u>572,137</u>	<u>196,461</u>	<u>77,772</u>	<u>23,208</u>	<u>6,138</u>	<u>1,194,954</u>

As of December 31, 2014 and 2013, property, plant and equipment were not pledged as collateral.

(7) Bonds payable

	December 31, 2014	December 31, 2013
Par value of convertible bonds	\$ 800,000	800,000
Unamortized discount on bonds payable	(3,611)	(10,033)
Cumulative amount converted into common stock	<u>(493,600)</u>	<u>(479,200)</u>
	302,789	310,767
Less: current portion of bonds payable	<u>(302,789)</u>	-
Ending balance	\$ <u>-</u>	<u>310,767</u>
Embedded derivative — redemption options (included in financial assets at fair value through profit or loss) (note 6(2))	\$ <u>-</u>	<u>225</u>
Equity component — conversion right (included in capital surplus — conversion right) (note 6(12))	\$ <u>25,878</u>	<u>27,094</u>
	2014	2013
Embedded derivative instruments — evaluation gain (loss) on redemption options at fair value (included in other gains or losses)	\$ <u>(221)</u>	<u>228</u>
Interest expense (effective interest rate of 2.09%)	\$ <u>6,126</u>	<u>9,789</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On August 9, 2010, the Company issued \$800,000 of domestic unsecured zero coupon convertible bonds (the "Bonds"). The significant terms and conditions of convertible bonds were as follows:

(a) Maturity date

Five Years, from August 9, 2010 to August 9, 2015.

(b) Conversion period

Bondholders may convert bonds into the Company's common shares at any time starting one month from the issue date until 10 days prior to the maturity date. The Company will issue new common shares for the conversion of the bonds.

(c) Conversion price

The conversion price was initially \$90.9 (dollars) per share and is subject to adjustment by the formula provided in the issue terms if the Company's common shares are increased. As of December 31, 2014 and 2013, the adjusted conversion price was \$47.1 (dollars), and \$54.2 (dollars) per share, respectively.

(d) Redemption at the option of the Company

The Company may redeem all or some of the bonds at the principal amount after one month from the issue date until 40 days before the maturity date when the closing price of the Company's common shares on Taiwan Stock Exchange is at least 130% of the conversion price for 30 consecutive trading days, or the outstanding balance of convertible bonds is less than 10% of the original of issuance amount.

(e) Redemption at the option of the bondholders

On August 9, 2012, bondholders shall have right to require the Company to redeem the bonds, in whole or in part, at a redemption price of the principal amount plus a gross yield of 0.5% per annum interest (calculated on compound interest basis).

(8) Provision for warranties

	2014	2013
Balance at January 1	\$ 10,506	10,230
Provisions made	23,563	5,699
Amount utilized	<u>(6,737)</u>	<u>(5,423)</u>
Balance at December 31	\$ <u><u>27,332</u></u>	<u><u>10,506</u></u>

The provision for warranties is estimated based on historical warranty data associated with similar products. The Group expects to settle most of the warranty liability for one to three years from the date of the sale of the product.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Operating lease (the Group is a lessee)

Non-cancellable rentals payable of operating leases are as follows:

	December 31, 2014	December 31, 2013
Not later than 1 year	\$ 3,091	1,340
Later than 1 year but not later than 5 years	<u>2,969</u>	<u>-</u>
	<u>\$ 6,060</u>	<u>1,340</u>

The Group leases offices and parking lots under operating leases. The leases typically run for a period of 1 to 3 years, with an option to renew. In 2014 and 2013, the rental expenses of operating leases amounted to \$5,441 and \$4,680, respectively, and were included in operating expenses.

(10) Employee benefits

(a) Defined benefit plans

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

	December 31, 2014	December 31, 2013
Present value of unfunded benefit obligations	\$ -	-
Present value of funded benefit obligations	<u>47,927</u>	<u>46,089</u>
Present value of benefit obligations	47,927	46,089
Fair value of plan assets	<u>(19,241)</u>	<u>(17,635)</u>
Recognized liabilities for defined benefit obligations (classified under accrued pension liabilities)	<u>\$ 28,686</u>	<u>28,454</u>

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

i. Composition of plan assets

The pension fund (the "Fund") contributed by the Group is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Fund). According to the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014, the Group's labor pension fund account balance at Bank of Taiwan amounted to \$19,241. Refer to the website of the Bureau of Labor Funds for information on the labor pension fund assets including the asset portfolio and yield of the fund.

ii. Movements in present value of defined benefit obligations

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

	2014	2013
Present value of defined benefit obligations at January 1	\$ 46,089	46,097
Service costs	515	535
Interest costs	853	737
Actuarial losses (gains)	<u>470</u>	<u>(1,280)</u>
Defined benefit obligations at December 31	\$ <u><u>47,927</u></u>	<u><u>46,089</u></u>

iii. Movements in fair value of plan assets

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

	2014	2013
Fair value of plan assets at January 1	\$ 17,635	16,268
Expected return on plan assets	214	197
Contributions by plan participants	1,190	1,191
Actuarial gains (losses)	<u>202</u>	<u>(21)</u>
Fair value of plan assets at December 31	\$ <u><u>19,241</u></u>	<u><u>17,635</u></u>

iv. Expenses recognized in profit or loss

The expenses recognized in profit or losses were as follows:

	2014	2013
Current service costs	\$ 515	535
Interest costs	853	737
Expected return on plan assets	<u>(214)</u>	<u>(197)</u>
	\$ <u><u>1,154</u></u>	<u><u>1,075</u></u>
Operating expenses	\$ <u><u>1,154</u></u>	<u><u>1,075</u></u>
Actual return on plan assets	\$ <u><u>416</u></u>	<u><u>176</u></u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

v. Actuarial gains and losses recognized in other comprehensive income

The actuarial gains and losses recognized in other comprehensive income were as follows:

	2014	2013
Cumulative amount at January 1	\$ 1,259	-
Recognized during the period	<u>(268)</u>	<u>1,259</u>
Cumulative amount at December 31	\$ <u><u>991</u></u>	<u><u>1,259</u></u>

The actuarial gains and losses (net of taxes) were recognized in retained earnings.

vi. Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	December 31, 2014	December 31, 2013
Discount rate	1.90%	1.60%
Expected return rate on plan assets	1.90%	1.20%
Future salary increases rate	2.00%	2.00%

The expected rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

vii. Experience adjustments based on historical information

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligations	\$ 47,927	46,089	46,097	44,802
Fair value of plan assets	<u>(19,241)</u>	<u>(17,635)</u>	<u>(16,268)</u>	<u>(14,818)</u>
Liabilities of defined benefit obligations	\$ <u><u>28,686</u></u>	<u><u>28,454</u></u>	<u><u>29,829</u></u>	<u><u>29,984</u></u>
Experience adjustments arising from the present value of defined benefit obligations	\$ <u><u>738</u></u>	<u><u>239</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Experience adjustments arising from the fair value of plan assets	\$ <u><u>202</u></u>	<u><u>(21)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The Group expects to contribute \$1,031 to the defined benefit plans in the year following December 31, 2014.

viii. When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions for each measurement date, including discount rates and future salary changes. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014, the Group's accrued pension liabilities were \$28,686. If the discount rate had increased or decreased by 0.25%, the Group's accrued pension liabilities would have decreased by \$818 or increased by \$783. If the salary adjustment rate had increased or decreased by 1%, the Group's accrued pension liabilities would have increased by \$3,457 or decreased by \$2,963, respectively.

(b) Defined contribution plans

The Company and its domestic subsidiary, OTEK system, contribute monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Foreign subsidiaries make contributions in compliance with their respective local regulations. Under this defined contribution plan, the Group has no legal or constructive obligations to pay additional amounts after contributing a fixed amount to the Bureau of Labor Insurance.

For the years ended December 31, 2014 and 2013, the Group recognized pension expenses of \$13,448 and \$11,706, respectively, in relation to the defined contribution plans.

(11) Income taxes

(a) In 2014 and 2013, the components of income tax expense were as follows:

	2014	2013
Current income tax expense		
Current period	\$ 144,420	127,550
Adjustments for prior periods	<u>(7,665)</u>	<u>448</u>
	136,755	127,998
Deferred tax expense		
Origination and reversal of temporary differences	<u>3,348</u>	<u>8,342</u>
Income tax expense	\$ <u><u>140,103</u></u>	\$ <u><u>136,340</u></u>

In 2014 and 2013, the Group's income tax (expenses) benefit recognized in other comprehensive income were as follows.

	2014	2013
Actuarial loss (gain) from defined benefit plan	\$ <u><u>46</u></u>	\$ <u><u>(214)</u></u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Reconciliation of the expected income tax expense calculated based on the R.O.C. statutory tax rate compared with the actual income tax expense as reported in the consolidated statements of comprehensive income for 2014 and 2013 was as follows:

	2014	2013
Income before income tax	\$ <u>1,105,005</u>	<u>1,004,532</u>
Income tax using the Company's statutory tax rate	\$ 187,851	170,770
Effect of different tax rates in foreign jurisdictions	4,870	6,439
Tax-exempt income	(120,084)	(100,966)
Share of income of the domestic subsidiaries	(295)	(3,048)
10% surtax on undistributed earnings	8,249	7,894
Alternative minimum tax	66,348	55,070
Prior year adjustments	(7,665)	448
Others	829	(267)
	\$ <u>140,103</u>	<u>136,340</u>

(b) Deferred income tax assets and liabilities

i. Unrecognized deferred income tax assets

	December 31, 2014	December 31, 2013
Aggregate deductible temporary differences related to investments in associates	\$ <u>1,811</u>	<u>-</u>

ii. Recognized deferred income tax assets and liabilities

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

Deferred income tax assets:

	Defined benefit plans	Allowance for inventory obsolescence	Others	Total
Balance at January 1, 2014	\$ 5,218	5,766	14,513	25,497
Recognized in profit or loss	(7)	170	1,840	2,003
Recognized in other comprehensive income	46	-	-	46
Balance at December 31, 2014	\$ <u>5,257</u>	<u>5,936</u>	<u>16,353</u>	<u>27,546</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Defined benefit plans	Allowance for inventory obsolescence	Others	Total
Balance at January 1, 2013	\$ 5,451	5,569	12,330	23,350
Recognized in profit or loss	(19)	197	2,183	2,361
Recognized in other comprehensive income	<u>(214)</u>	<u>-</u>	<u>-</u>	<u>(214)</u>
Balance at December 31, 2013	\$ <u>5,218</u>	<u>5,766</u>	<u>14,513</u>	<u>25,497</u>

Deferred income tax liabilities:

	Unremitted earnings from subsidiaries	Unrealized foreign exchange gain	Others	Total
Balance at January 1, 2014	\$ 21,218	7,775	1,087	30,080
Recognized in profit or loss	<u>2,496</u>	<u>2,821</u>	<u>34</u>	<u>5,351</u>
Balance at December 31, 2014	\$ <u>23,714</u>	<u>10,596</u>	<u>1,121</u>	<u>35,431</u>
Balance at January 1, 2013	\$ 18,303	-	1,074	19,377
Recognized in profit or loss	<u>2,915</u>	<u>7,775</u>	<u>13</u>	<u>10,703</u>
Balance at December 31, 2013	\$ <u>21,218</u>	<u>7,775</u>	<u>1,087</u>	<u>30,080</u>

(c) The Company's income tax returns for the years through 2011 have been examined and approved by the R.O.C. income tax authorities.

(d) Information about the integrated income tax system:

	December 31, 2014	December 31, 2013
Unappropriated earnings earned before January 1, 1997	\$ 177	177
Unappropriated earnings earned commencing from January 1, 1998	<u>1,594,972</u>	<u>1,431,646</u>
	\$ <u>1,595,149</u>	<u>1,431,823</u>
Balance of imputation credit account	\$ <u>117,255</u>	<u>96,644</u>
	2014 (Estimated)	2013 (Actual)
Creditable ratio for distribution of earnings to R.O.C. residents	<u>13.90%</u>	<u>12.79%</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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The creditable ratio is calculated based on the Rule No. 10204562810 issued by the Ministry of Finance.

Effective January 1, 2015, the creditable ratio for distribution of earnings to R.O.C. residents will be half of the original creditable ratio mentioned above in accordance with the amended Income Tax Act. Non-resident shareholders are not eligible for the imputation credit. However, the 10% income surtax paid on any unappropriated earnings can be credited against the dividend withholding tax for non-resident stockholders upon distribution of earnings. Starting from January 1, 2015, only half of the surtax paid can be credited against the dividend withholding tax.

(12) Capital and other equity

(a) Common stock

As of December 31, 2014 and 2013, the Company's authorized shares of common stock consisted of 180,000 and 120,000 thousand shares, with par value of \$10 (dollars) per share, of which 132,947, and 119,965 thousand shares, respectively, were issued and outstanding. All issued shares were paid up upon issuance.

The movements in outstanding common shares of stock in 2014 and 2013 were as follows (In thousands of shares):

	2014	2013
Balance at January 1	119,965	100,425
Distribution of stock dividends from unappropriated earnings	-	10,412
Distribution of stock dividends from capital surplus	12,008	-
Exercise of employees stock options	685	1,271
Convertible bonds converted into common stock	<u>289</u>	<u>7,857</u>
Balance at December 31	<u><u>132,947</u></u>	<u><u>119,965</u></u>

On June 11, 2014 and June 13, 2013, the Company's stockholders resolved to transfer capital surplus of \$120,080 to common stock by issuing 12,008 thousand shares of common stock and unappropriated earnings of \$104,116 to common stock by issuing 10,412 thousand shares of common stock dividend. The record date for stock issuance was August 26, 2014 and August 26, 2013, respectively. The respective stock issuances had been authorized by and registered with the governmental authorities.

In 2014 and 2013, the Company issued 685 and 1,271 thousand shares, respectively, for the exercise of employee stock options.

In 2014 and 2013, the Company issued 289 and 7,857 thousand shares at a face value, respectively, for the conversion of convertible bonds.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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(b) Capital surplus

	December 31, December 31,	
	2014	2013
Share premium:		
Paid-in capital in excess of par value	\$ 60,743	153,461
Premium on common stock issued from conversion of convertible bonds	497,326	484,899
Conversion right of convertible bonds (note 6(7))	25,878	27,094
Employee stock options	-	8,721
Forfeited employee stock options	2,433	-
Gain on disposal of assets	<u>15</u>	<u>15</u>
	\$ <u>586,395</u>	<u>674,190</u>

Pursuant to the amended Company Law, which was announced in January 2012, any realized capital surplus is initially used to cover an accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed as cash dividends based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations from stockholders received by the Company. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

(c) Retained earnings

i Legal reserve

According to the amended Company Act which was announced in January 2012, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. Legal reserve can be used to offset a deficit. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

ii Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iii Appropriation of earnings

The Company's articles of incorporation stipulate that at least 10% of annual net income after deducting an accumulated deficit, if any, must be retained as a legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve should be set aside in accordance with applicable laws and regulations. The remaining balance of annual net income, if any, can be distributed as follows:

- 3% to 15% as employee bonuses;
- 3% or less as directors' and supervisors' remuneration; and
- the remaining balance, together with unappropriated earnings from previous years, should be distributed according to the resolution of the shareholders' meeting. Appropriation of earnings should be at least 60% of net income after deducting an accumulated deficit, legal reserve and special reserve.

In view of the overall economic environment and the development of the industry, and in order to meet the Company's long-term financial planning, and cash requirements of stockholders, the Company has adopted a stable dividend policy, in which a cash dividend comprises at least 10% of total distribution of dividends.

For the years ended December 31, 2014 and 2013, the Company accrued employee bonuses of \$73,000 and \$70,000, directors' and supervisors' remuneration of \$2,100 and \$2,400, respectively. These amounts are calculated based on the Company's net income for 2014 and 2013, and earnings distribution policies stipulated in the Company's articles of incorporation and are expensed under cost of sales and operating expenses in 2014 and 2013.

If profit sharing to employee is resolved to distributed in stock, the number of shares is determined by dividing the amount of employee bonuses by the closing price (after considering the effect of dividends) of the shares on the day before the approval of the stockholder's meeting. If the actual amounts subsequently approved by the shareholders differ from the amounts estimated, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate.

The distribution of earnings for 2013 and 2012 had been approved in meeting of shareholders held on June 11, 2014 and June 13, 2013, respectively. The relevant dividend distributions to shareholders, employee bonuses, and directors' and supervisors' remunerations were as follows:

	2013		2012	
	Dividends per share	Total Amount	Dividends per share	Total Amount
Dividends distributed to shareholders				
Cash	\$ 6.00	720,482	3.50	364,407
Stock	-	-	1.00	104,116
		<u>720,482</u>		<u>468,523</u>
Employee bonuses - cash		\$ 70,000		67,600
Directors' and supervisors' remunerations		2,400		2,400
		<u>\$ 72,400</u>		<u>70,000</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Additionally, the shareholders also approved a distribution of 2013 stock dividend by transferring capital surplus of \$120,080 to common stock and issuing 12,008 thousand shares of common stock. There is no difference between the aforementioned distribution amounts and the amounts charged against earnings for 2013 and 2012. Related information on the distribution of employee bonus and directors' and supervisors' remunerations is available on the Market Observation Post System website of the Taiwan Stock Exchange. The distribution of earnings, employee bonuses and directors' and supervisors' remunerations for 2014 is yet to be approved by the board of directors and the meeting of shareholders.

(d) Other equity items (net of tax)

	Foreign currency translation differences
Balance at January 1, 2014	\$ 700
Foreign currency translation differences (net of tax)	<u>13,771</u>
Balance at December 31, 2014	\$ <u><u>14,471</u></u>
Balance at January 1, 2013	\$ (7,837)
Foreign currency translation differences (net of tax)	<u>8,537</u>
Balance at December 31, 2013	\$ <u><u>700</u></u>

(13) Share-based payment

As of December 31, 2014, the Company had a share-based payment arrangements as follows:

Equity-settled employee stock options

Grant date	2007/12/27
Granted units	3,000 units, each unit eligible to subscribe for 1,000 common shares
Contract term	7 years
Qualified employees	Eligible employees of the Company
Vesting conditions	2~4 years of service subsequent to grant date

Details of the employee stock options are as follows:

	2014		2013	
	Weighted average exercise price (in dollars)	Number of options (in thousands)	Weighted average exercise price (in dollars)	Number of options (in thousands)
Outstanding, beginning of year	\$ 46.30	943	52.30	2,221
Exercised	40.76	(685)	51.79	(1,271)
Forfeited	-	<u>(258)</u>	-	<u>(7)</u>
Outstanding, end of year	-	<u>-</u>	46.30	<u>943</u>
Exercisable, end of year	-	<u>-</u>	46.30	<u>943</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In 2014 and 2013, the weighted-average share price of the Company amounted to \$116.38 and \$85.22, respectively.

Information on outstanding employee stock option plans for each reporting date was as follows:

	December 31, 2014	December 31, 2013
Range of exercise price (dollars)	-	46.30
Weighted-average remaining contractual years	-	1 year

(14) Earnings per share ("EPS")

(a) Basic EPS

	2014	2013
Profit attributable to shareholders of the Company	\$ <u>959,324</u>	<u>859,686</u>
Weighted-average number of ordinary shares outstanding	<u>132,308</u>	<u>128,510</u>
Basic EPS (dollars)	\$ <u><u>7.25</u></u>	<u><u>6.69</u></u>

(b) Diluted EPS

	2014	2013
Profit attributable to shareholders of the Company (basic)	\$ 959,324	859,686
Interest expense from convertible bonds, net of tax	<u>6,126</u>	<u>9,789</u>
Profit attributable to shareholders of the Company (diluted)	<u>965,450</u>	<u>869,475</u>
Weighted-average number of ordinary shares outstanding (basic)	132,308	128,510
Effect of convertible bonds	6,684	10,155
Effect of employee stock options	309	1,023
Effect of employee bonuses	1,041	1,149
Weighted-average number of ordinary shares outstanding (diluted)	<u>140,342</u>	<u>140,837</u>
Diluted EPS (dollars)	\$ <u><u>6.88</u></u>	<u><u>6.17</u></u>

(15) Revenue

	2014	2013
Revenue from sale of goods	\$ 4,721,996	4,024,552
Revenue from services rendered	18,465	29,530
Others	<u>8,017</u>	<u>11,136</u>
	\$ <u><u>4,748,478</u></u>	<u><u>4,065,218</u></u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Non-operating income and loss

(a) Other income

	2014	2013
Interest income from bank deposits	\$ 32,544	34,838
Others	<u>5,276</u>	<u>6,350</u>
	<u>\$ 37,820</u>	<u>41,188</u>

(b) Other gains and losses

	2014	2013
Foreign currency exchange gain, net	\$ 65,955	68,800
Loss on financial assets and liabilities at fair value through profit or loss	(4,179)	(1,904)
Loss on disposal of investments	-	(2,433)
Gain (loss) on disposal of property, plant and equipment, net	496	(85)
Impairment loss on investment in associates (note 6(5))	<u>(10,047)</u>	<u>-</u>
	<u>\$ 52,225</u>	<u>64,378</u>

(c) Finance costs

	2014	2013
Interest expense from bank loans	\$ 1	30
Interest expense from convertible bonds (note 6(7))	<u>6,126</u>	<u>9,789</u>
	<u>\$ 6,127</u>	<u>9,819</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Financial instruments

(a) Categories of financial instruments

i. Financial assets

	December 31, 2014	December 31, 2013
Financial assets at fair value through profit or loss – current	\$ <u> -</u>	<u> 180</u>
Financial assets at fair value through profit or loss – non-current	<u> -</u>	<u> 225</u>
Loans and receivables measured at amortized cost:		
Cash and cash equivalents	2,394,500	1,617,777
Notes and accounts receivable	1,040,820	765,277
Other receivables	4,539	8,917
Other financial assets – current	149,488	800,403
Other financial assets – non-current	<u> 32,684</u>	<u> 60,900</u>
Subtotal	<u> 3,622,031</u>	<u> 3,253,274</u>
Total	\$ <u><u> 3,622,031</u></u>	<u><u> 3,253,679</u></u>

ii. Financial liabilities

	December 31, 2014	December 31, 2013
Financial liabilities at fair value through profit or loss – current	\$ <u> 5,929</u>	<u> 2,155</u>
Financial liabilities measured at amortized cost:		
Notes and accounts payable	428,529	377,504
Other payables	50,547	54,170
Bonds payable (including current portion)	<u> 302,789</u>	<u> 310,767</u>
Subtotal	<u> 781,865</u>	<u> 742,441</u>
Total	\$ <u><u> 787,794</u></u>	<u><u> 744,596</u></u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Fair value

Except for those described in the table below, the Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Bonds payable (including current portion)	\$ 302,789	304,807	310,767	315,122

(c) Financial instruments that are measured at fair value

The table below analyses financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

- i. Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- ii. 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).
- iii. Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign currency forward contracts	\$ -	5,929	-	5,929
December 31, 2013				
Assets:				
Financial assets at fair value through profit or loss				
Foreign currency forward contracts	\$ -	180	-	180
Redemption options of convertible bonds	-	225	-	225
	\$ -	405	-	405
Liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign currency forward contracts	\$ -	2,155	-	2,155

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

There were no transfers between fair value levels for the years ended December 31, 2014 and 2013.

(d) Valuation techniques and assumptions used in fair value measurement

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

- i. The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and that are readily available to the Group.
- ii. The fair value of bonds payable is determined using the Binomial Tree Convertible Bond Model, which considered the expected volatility and risk-free interest rate.

(18) Financial risk management

The Group is exposed to credit risk, liquidity risk and market risk (including currency risk, interest rate risk, and other market price risk). The Group has disclosed the information on exposure to the aforementioned risks, the Group's policies and procedures to measure and manage those risks as well as the quantitative information below.

The Company's Board of Directors is responsible for developing and monitoring the Group's risk management policies. 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 adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

The Group's management monitors and reviews the financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's Board of Directors.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, derivative instruments, receivables from customers, and other receivables. The maximum exposure to credit risk is equal to the carrying amount of the Group's financial assets.

The Group maintains cash and enters into derivative transactions with reputable financial institutions; therefore, the exposure related to potential default by those counter-parties is not considered significant.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, three clients accounted to totalize for 45% and 46%, respectively, of the Company's notes and accounts receivable. In order to reduce credit risk, the Group has established a credit policy under which each customer is analyzed individually for creditworthiness for the purpose of setting the credit limit. Additionally, the Group continuously evaluates the credit quality of customers and utilizes insurance to minimize the credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling its financial liabilities by delivering cash or other financial assets. The Group manages liquidity risk by monitoring regularly the current and mid-to long-term cash demand, maintaining adequate cash and banking facilities. As of December 31, 2014 and 2013, the Group had unused credit facilities of \$688,250, and \$679,025, respectively.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principles and interests.

	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years
December 31, 2014					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 428,529	428,529	-	-	-
Other payables	50,547	48,283	1,498	471	295
Convertible bonds payable	<u>306,400</u>	<u>-</u>	<u>306,400</u>	<u>-</u>	<u>-</u>
	\$ <u><u>785,476</u></u>	<u><u>476,812</u></u>	<u><u>307,898</u></u>	<u><u>471</u></u>	<u><u>295</u></u>
Derivative financial instruments:					
Foreign currency forward contracts:					
Outflow	\$ (284,969)	(284,969)	-	-	-
Inflow	<u>279,040</u>	<u>279,040</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u><u>(5,929)</u></u>	<u><u>(5,929)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
December 31, 2013					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 377,504	377,504	-	-	-
Other payables	54,170	53,182	513	85	390
Convertible bonds payable	<u>320,800</u>	<u>-</u>	<u>-</u>	<u>320,800</u>	<u>-</u>
	\$ <u><u>752,474</u></u>	<u><u>430,686</u></u>	<u><u>513</u></u>	<u><u>320,885</u></u>	<u><u>390</u></u>
Derivative financial instruments:					
Foreign currency forward contracts:					
Outflow	\$ (268,245)	(268,245)	-	-	-
Inflow	<u>265,762</u>	<u>265,762</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u><u>(2,483)</u></u>	<u><u>(2,483)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The Group does not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

(c) Market risk

Market risk is the 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 financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Group utilizes derivative financial instruments to manage market risk and the volatility of profit or loss. All such transactions are carried out within the guidelines set by the Company's Board of Directors.

i. Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and deposit in bank that are denominated in a currency other than the respective functional currencies of the Group's entities. The foreign currencies used in these transactions are mainly denominated in USD and RMB.

The Group utilizes spot exchange transactions and forward exchange contracts to hedge its foreign currency exposure.

i) Exposure to foreign currency risk

At the reporting date, the carrying amount of the Group's monetary assets and liabilities denominated in a currency other than the respective functional currencies of Group entities were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

	December 31, 2014		
	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>			
USD	\$ 35,971	31.650	1,138,482
RMB	114,043	5.092	580,707
<u>Financial liabilities</u>			
USD	7,604	31.650	240,667
	December 31, 2013		
	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>			
USD	\$ 29,254	29.805	871,928
RMB	247,530	4.919	1,217,600
<u>Financial liabilities</u>			
USD	7,389	29.805	220,238

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable, notes and accounts payable, and other financial assets that are denominated in a currency other than the respective functional currencies of the Group entities. As of December 31, 2014 and 2013, 1% depreciation (appreciation) of NTD against the USD and RMB would have increased (decreased) pre-tax income by \$14,785 and \$18,693 in 2014 and 2013, respectively. The analysis is performed on the same basis for 2014 and 2013.

ii. Interest rate risk

The Group primarily operated by its own funds. On the reporting date, there was no debt carried floating interest rates outstanding, and financial assets exposure to changes in interest rates is not significant. As a result, the interest rate risk is not considered significant.

(19) Capital management

In consideration of the industry dynamics and future developments, as well as external environment factors, the Group maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders. The Group monitors the capital through reviewing the liability-to-equity ratio periodically.

The Group's liability-to-equity ratio at the end of each reporting period was as follows:

	December 31, 2014	December 31, 2013
Total liabilities	\$ <u>1,195,595</u>	<u>1,119,601</u>
Total equity	\$ <u>4,118,199</u>	<u>3,821,939</u>
Liability-to-equity ratio	<u>29.03%</u>	<u>29.29%</u>

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

7. Related-party transactions

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(2) Significant related-party transactions: None.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Compensation of key management personnel

	2014	2013
Short-term employee benefits	\$ 39,505	33,397
Share-based payments	<u>648</u>	<u>584</u>
	<u>\$ 40,153</u>	<u>33,981</u>

8. Pledged assets

The carrying amounts of assets pledged as collateral are detailed below:

Pledge assets	Pledged to secure	December 31, 2014	December 31, 2013
Time deposits	Credit lines of short-term borrowings	\$ 3,035	3,025
Time deposits	Guarantee deposit of custom duties	<u>112</u>	<u>111</u>
		<u>\$ 3,147</u>	<u>3,136</u>

9. Significant commitments and contingencies

- (1) As of December 31, 2014 and 2013, the Group had unused letters of credit totaling to \$0 and \$35,408, respectively.
- (2) As of December 31, 2014 and 2013, the Group had issued promissory notes amounting to \$500,000 for credit lines of short-term borrowings.

10. Significant loss from casualty: None.

11. Significant subsequent events:

To expand market share of POS products and enhance the Group's competitiveness, in January 2015, the Group invested \$160,000 in Poindus System Corp. and owned 25% of its ownership.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Others

Employee benefits, depreciation, and amortization expenses, categorized by function, were as follows:

	2014			2013		
	Cost of revenue	Operating expenses	Total	Cost of revenue	Operating expenses	Total
Employee benefits:						
Salaries	\$ 136,826	263,420	400,246	130,279	218,629	348,908
Insurance	11,190	17,656	28,846	10,200	14,491	24,691
Pension	4,774	9,828	14,602	4,623	8,158	12,781
Other	4,595	4,383	8,978	4,802	3,790	8,592
Depreciation	73,507	12,998	86,505	66,861	16,542	83,403
Amortization	544	4,608	5,152	319	1,634	1,953

13. Additional disclosures

(1) Information on significant transactions:

- (a) Financing provided to other parties: None.
- (b) Guarantees and endorsements provided to other parties: None.
- (c) Marketable securities held at the reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities): None.
- (d) Marketable securities for which the accumulated purchase or sale amounts for the year exceed \$300 million or 20% of the paid-in capital: None.
- (e) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (f) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (g) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital:

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (payable)		Note
			Purchase/(Sales)	Amount (Note 3)	% of Total Purchase/(Sales)	Payment Terms	unit price	Payment Terms	Ending Balance	% of Total	
The Company	IFTCN	Subsidiary	(Sales)	10,212	(2)%	EM 90	(Note 1)	(Note 2)	21,624	2%	

Note 1: The selling prices with related parties are not significantly different from those with third-parties customers except for certain products where the specifications of the product are different.

Note 2: The trade terms of sales with related parties are between EM 30-90 days and the trade terms with third parties are between OA 30-75 days.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (h) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: None.
- (i) Transactions in derivative instruments : Refer to note 6(2).
- (j) Business relationships and significant intercompany transactions:

(Amounts in Thousands of New Taiwan Dollars)

Number (Note 1)	Company Name	Counter Party	Relationship	Transaction details			Percentage of consolidated total revenues or total assets (Note 3)
				Account (Note 2)	Amount	Transaction Terms	
0	The Company	Flytech HK	Subsidiary	Sales	55,942	EM 60	1.18%
0	The Company	Flytech CN	Subsidiary	Sales	101,212	EM 90	2.13%
0	The Company	OTEK System	Subsidiary	Sales	84,100	EM 60	1.77%
1	OTEK System	The Company	Parent	Sales	54,946	EM 60	1.16%

Note 1: Parties to intercompany transactions are identified and numbered as follows:

1. "0" represents the Company.
2. Subsidiaries are numbered from "1"

Note 2: Intercompany relationships and significant intercompany transactions are disclosed only for the amounts that exceed 1% of consolidated revenue or total assets. The corresponding purchases and accounts payables are not disclosed.

Note 3: Based on the transaction amount divided by consolidated revenue or total assets.

(2) Information on investees:

(Amounts in Thousands of New Taiwan Dollars and United States Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment amount		Balances as of December 31, 2014			Maximum percentage of ownership during 2014		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2014	December 31, 2013	Shares (in thousands)	Percentage of Ownership	Carrying value	Shares (in thousands)	Percentage of Ownership			
The Company	Flytech USA BVI	British Virgin Islands	Investment and holding activity	38,652	38,652	100	100	33,298	100	100	(1,794)	(1,794)	Note
The Company	Flytech Japan BVI	British Virgin Islands	Investment and holding activity	3,446	3,446	50	100	3,075	50	100	2	2	Note
The Company	Flytech HK BVI	British Virgin Islands	Investment and holding activity	10,392	10,392	50	100	127,183	50	100	12,501	12,501	Note
The Company	Flytech CN BVI	British Virgin Islands	Investment and holding activity	84,343	69,089	150	100	121,253	150	100	3,976	3,976	Note
The Company	Flycom Investment	Taiwan	Investment and holding activity	120,000	50,000	12,000	100	145,004	12,000	100	42	42	Note
Flytech USA BVI	Flytech USA	USA	Sale of computer and peripherals	36,358 (USD1,072)	36,358 (USD1,072)	700	100	32,218 (USD1,018)	700	100	(1,794) (USD(59))	(1,744) (USD(59))	Note
Flytech HK BVI	Flytech HK	Hong Kong	Sale of computer and peripherals	10,433 (USD298)	10,433 (USD298)	1,000	100	127,160 (USD4,108)	1,000	100	12,501 (USD412)	12,501 (USD412)	Note
Flycom Investment	OTEK System	Taiwan	Sale of computer and peripherals	48,946	48,946	5,510	68.88	78,900	5,510	68.88	17,920	12,342	Note
Flycom Investment	NeoVideo	Taiwan	Sale of computer and peripherals	15,000	-	1,500	27.27	4,349	1,500	27.27	(1,921)	(604)	

Note: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Information on investment in Mainland China:

(a) Information on investment in Mainland China

(Amounts in Thousands of New Taiwan Dollars and United States Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2014	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2014	Net Income (Loss) of Investee	% of Ownership of Direct and Indirect Investment	Maximum percentage of ownership during 2014		Investment Income (Loss) (Note 2)	Carrying Value as of December 31, 2014	Accumulated Inward Remittance of Earnings as of December 31, 2014
					Outflow	Inflow				Shares (in thousands)	Percentage of Ownership			
Flytech CN	Sale of computer and peripherals	69,089 (USD 2,000)	Note 1	69,089 (USD 2,000)	-	-	69,089 (USD 2,000)	3,974 (USD 131)	100	2,000	100	3,974 (USD 131)	103,431 (USD 3,268)	-

Note 1: Indirect investment in Mainland China through a holding company established in a third country

Note 2: Investment income or loss was recognized based on financial statements audited by the auditors of the parent company.

Note 3: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(b) Limits on investment in Mainland China

(Amounts in Thousands of New Taiwan Dollars and United States Dollars)

Accumulated investment in Mainland China as of December 31, 2014	Authorized investment amount by Ministry of Economic Affairs Investment Commission	Upper limit on investment authorized by Ministry of Economic Affairs Investment Commission
69,089 (USD 2,000)	69,089 (USD 2,000)	2,448,883

(c) Significant transactions with the investee in Mainland China:

The transactions with the investee company in Mainland China have been eliminated when preparing the consolidated financial statements. Refer to Section (l)(j) "business relationships and significant intercompany transactions".

14. Segment Information

(1) General information

The Group has two reportable segments: Point of Sales system (POS) and Original Design Manufacturer (ODM). POS segment engages mainly in the design, manufacturing, and sales of POS system and the related peripheral products. ODM segment engages mainly in design, manufacturing, and sales of POS system and the related products for world-class companies.

The Group's operating activities are separately by orders from each sales department, since the Group needs to manage and cater for the needs of different scale and nature of customers.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Except as described below, the accounting policies of the operating segments are the same as those described in Note 4. Operating expenses and non-operating income and losses that are not directly attributable to the segments are allocated by 50% of the proportion of segmental revenue and 50% of the proportion of segmental expenses. The Group evaluates the performance of its operating segments based on the segment profit or loss before taxes. Sales and transfers among reportable segments are recorded in line with sales with third party customers.

- (2) Reportable segments' profit or loss, segment assets, segment liabilities, basis of measurement, and reconciliation

The Group uses income (loss) before income tax as the measurement for segment profit and the basis of resource allocation and performance assessment. The reporting amount is consistent with the report used by chief operating decision maker.

The Group's operating segment information and reconciliation are as follows:

	2014				
	POS	ODM	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 3,630,892	440,828	676,758	-	4,748,478
Intra-group revenue	<u>220,797</u>	<u>21,587</u>	<u>55,414</u>	<u>(297,798)</u>	-
Total segment revenue	<u>\$ 3,851,689</u>	<u>462,415</u>	<u>732,172</u>	<u>(297,798)</u>	<u>4,748,478</u>
Segment income before income tax	<u>\$ 886,335</u>	<u>85,297</u>	<u>133,373</u>	<u>-</u>	<u>1,105,005</u>
	2013				
	POS	ODM	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 3,058,968	361,065	645,185	-	4,065,218
Intra-group revenue	<u>88,094</u>	<u>25,626</u>	<u>63,078</u>	<u>(176,798)</u>	-
Total segment revenue	<u>\$ 3,147,062</u>	<u>386,691</u>	<u>708,263</u>	<u>(176,798)</u>	<u>4,065,218</u>
Segment income before income tax	<u>\$ 842,175</u>	<u>69,707</u>	<u>92,650</u>	<u>-</u>	<u>1,004,532</u>

- (2) Product information

Revenues from external customers are detailed below:

Products	2014	2013
Industrial computer	\$ 4,036,343	3,400,776
Peripherals and others	<u>712,135</u>	<u>664,442</u>
	<u>\$ 4,748,478</u>	<u>4,065,218</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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.

Revenues from external customers are detailed below:

Region	2014	2013
Europe	\$ 1,979,650	1,666,335
America	1,603,941	1,577,342
Asia	850,251	666,412
Taiwan	314,636	155,129
	<u>\$ 4,748,478</u>	<u>4,065,218</u>

Non-current assets:

Region	December 31, 2014	December 31, 2013
Taiwan	\$ 1,145,994	1,193,080
Asia	17,341	18,011
America	85	46
	<u>\$ 1,163,420</u>	<u>1,211,137</u>

Non-current assets include property, plant and equipment, intangible assets, and other assets—non-current, but do not include financial instruments and deferred income tax assets.

(4) Major customer information

	2014	2013
Total consolidated revenue from POS segment- Customer A	\$ 1,122,044	478,035
Total consolidated revenue from POS segment- Customer B	783,431	628,548
Total consolidated revenue from POS segment- Customer C	-	365,537