(English Translation of Financial Report Originally Issued in Chinese)

COMPAL ELECTRONICS, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(With Independent Auditor's Report Thereon)

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安侯建業聯合會計師事務所
KPMG
台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)
Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

To Compal Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Compal Electronics, Inc. and its subsidiaries (the "Group") as of December 31, 2015 and 2014 (retrospectively adjusted), the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014 (retrospectively adjusted). 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 Attestation of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014 (retrospectively adjusted), and the results of its consolidated operations and its consolidated cash flows for the years then ended, in conformity with the Guidelines 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.

KPMG

As stated in note (6)(d) of the consolidated financial statements, the Group recognized an impairment loss of NT$4,730,000 thousand on its equity investment in Chunghwa Picture Tubes, Ltd. for the three months ended March 31, 2014.

As stated in note (3)(a) of the consolidated financial statements, effective January 1, 2015, the consolidated financial statements of the Group are prepared in conformity with International Financial Reporting Standards (2013), International Accounting Standards (2013), IFRIC Interpretations (2013) and SIC Interpretations (not including International Financial Reporting Standards 9) endorsed by the Financial Supervisory Commissions of the Republic of China, and the consolidated financial statements for the year ended December 31, 2014 are retrospectively adjusted accordingly. The adjustment did not have any significant impact on the consolidated financial statements of the Group.

Compal Electronics Inc. has prepared the annual parent company only financial statements as of and for the years ended December 31, 2015 and 2014, on which we have issued a modified unqualified opinion.

KPMG

Taipei, Taiwan (the Republic of China)
March 30, 2016

Note to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (2013), International Accounting Standards (2013), IFRIC Interpretations (2013) and SIC Interpretations (not including International Financial Reporting Standards 9) endorsed by the Financial Supervisory Commissions 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.

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

(English Translation of Financial Report Originally Issued in Chinese)
COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014
(expressed in thousands of New Taiwan Dollars)

Assets	December 31, 2015 Amount	%	December 31, 2014 (retrospectively adjusted) Amount	%
Current assets:				
Cash and cash equivalents (note (6)(a))	$ 62,751,542	19.1	74,708,130	19.7
Current financial assets at fair value through profit or loss (note (6)(b))	25,412	-	184,093	-
Current available-for-sale financial assets (note (6)(d))	29,738	-	44,538	-
Current derivative financial assets used for hedging (note (6)(c))	21,360	-	-	-
Current bond investment without active market (note (6)(f))	350,000	0.1	350,000	0.1
Notes and accounts receivable, net (notes (6)(g) and (8))	164,799,743	50.3	178,552,207	47.2
Notes and accounts receivable due from related parties, net (notes (6)(g) and (7))	62,245	-	343,030	0.1
Other receivables (notes (6)(g) and (7))	824,160	0.3	788,334	0.2
Inventories (note (6)(h))	46,520,021	14.2	67,270,875	17.8
Other current assets (note (8))	2,399,255	0.7	2,604,042	0.7
	277,783,476	84.7	324,845,249	85.8
Non-current assets:				
Investments accounted for using equity method (note (6)(i))	11,788,042	3.6	11,694,855	3.1
Non-current available-for-sale financial assets (note (6)(d))	9,063,101	2.8	12,402,009	3.3
Non-current financial assets carried at cost (note (6)(e))	103,867	-	83,202	-
Non-current bond investment without active market (note (6)(f))	1,050,000	0.3	1,400,000	0.4
Property, plant and equipment (notes (6)(m) and (8))	24,308,631	7.4	24,472,732	6.4
Intangible assets	1,194,193	0.4	1,035,162	0.3
Deferred tax assets (note (6)(s))	1,377,465	0.4	1,653,141	0.4
Long-term prepaid rents (note (6)(q))	747,066	0.2	735,246	0.2
Other non-current assets (note (6)(r))	509,734	0.2	429,122	0.1
	50,142,099	15.3	53,905,469	14.2
Total assets	$ 327,925,575	100.0	378,750,718	100.0

Liabilities and equity	December 31, 2015 Amount	%	December 31, 2014 (retrospectively adjusted) Amount	%
Current liabilities:				
Short-term borrowings (note (6)(n))	$ 29,481,176	9.0	46,692,373	12.3
Current financial liabilities at fair value through profit or loss (note (6)(b))	29,215	-	39,310	-
Notes and accounts payable	127,152,784	38.8	170,739,133	45.1
Notes and accounts payable to related parties (note (7))	1,473,760	0.4	1,167,152	0.3
Other payables	18,141,188	5.5	18,216,304	4.8
Current tax liabilities	4,196,978	1.3	2,180,985	0.6
Current provisions (note (6)(p))	2,388,710	0.7	2,066,581	0.5
Other current liabilities	3,929,073	1.2	3,233,431	0.9
Unearned revenue	1,747,574	0.5	2,294,765	0.6
Long-term borrowings, current portion (note (6)(o))	14,216,617	4.3	3,634,233	1.0
	202,757,075	61.7	250,264,267	66.1
Non-current liabilities:				
Long-term borrowings (note (6)(o))	14,356,563	4.4	20,504,301	5.4
Deferred tax liabilities (note (6)(s))	481,497	0.2	1,136,411	0.3
Net defined benefit liabilities (note (6)(r))	545,460	0.2	462,009	0.1
Non-current liabilities	186,864	0.1	163,793	-
	15,570,384	4.9	22,266,514	5.8
Total liabilities	218,327,459	66.6	272,530,781	71.9
Equity attributable to owners of parent:				
Ordinary shares (notes (6)(t) and (6)(u))	44,711,266	13.6	44,232,366	11.7
Capital surplus (note (6)(t))	12,838,638	3.9	14,296,445	3.8
Retained earnings (note (6)(t))	51,877,511	15.8	47,721,872	12.6
Other equity interest (note (6)(t))	(3,926,881)	(1.2)	(3,139,021)	(0.8)
Treasury shares (note (6)(t))	(1,724,739)	(0.5)	(1,724,739)	(0.5)
	103,775,795	31.6	101,386,923	26.8
Non-controlling interests	5,822,321	1.8	4,833,014	1.3
Total equity	109,598,116	33.4	106,219,937	28.1
Total liabilities and equity	$ 327,925,575	100.0	378,750,718	100.0

See accompanying notes to the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

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

	2015		2014 (Retrospectively adjusted)	
	Amount	**%**	**Amount**	**%**
Net sales revenue (notes (6)(w) and (7))	$ 847,305,698	100.0	845,700,752	100.0
Cost of sales (notes (6)(h), (6)(r), (7) and (12))	813,927,341	96.1	813,336,090	96.2
Gross profit	33,378,357	3.9	32,364,662	3.8
Operating expenses (notes (6)(q), (6)(r) and (12)):				
Selling expenses	5,011,950	0.6	3,746,315	0.4
Administrative expenses	4,804,295	0.6	4,842,391	0.6
Research and development expenses	12,249,660	1.4	12,111,034	1.4
	22,065,905	2.6	20,699,740	2.4
Net operating income	11,312,452	1.3	11,664,922	1.4
Non-operating income and expenses:				
Other gains and losses (notes (6)(d) and (6)(y))	(323,839)	-	1,119,338	0.1
Finance costs	(899,702)	(0.1)	(1,019,504)	(0.1)
Other income (notes (6)(q) and (6)(y))	1,495,156	0.2	1,800,129	0.2
Miscellaneous disbursements	(37,562)	-	(37,566)	-
Impairment loss (note (6)(d))	(121,574)	-	(4,777,920)	(0.5)
Share of gain of associates and joint ventures accounted for using equity method (note (6)(i))	367,162	-	977,953	0.1
Total non-operating income and expenses	479,641	0.1	(1,937,570)	(0.2)
Profit before tax	11,792,093	1.4	9,727,352	1.2
Less: tax expense (note (6)(s))	2,784,946	0.3	2,181,971	0.3
Profit	9,007,147	1.1	7,545,381	0.9
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss				
Other comprehensive income, before tax, remeasurement of defined benefit obligation	(93,596)	-	(42,088)	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method that will not be reclassified subsequently to profit or loss	(794)	-	(743)	-
Less: income tax relating to items that will not be reclassified	(15,911)	-	(6,010)	-
Items that will not be reclassified subsequently to profit or loss (note (6)(s))	(78,479)	-	(36,821)	-
Items that will be reclassified subsequently to profit or loss				
Other comprehensive income, before tax, exchange differences on translation of foreign financial statements	1,766,330	0.2	2,882,064	0.3
Other comprehensive income, before tax, available-for-sale financial assets	(1,629,927)	(0.2)	1,667,628	0.2
Loss on effective portion of cash flow hedges	21,360	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method that will be reclassified subsequently to profit or loss	(146,939)	-	81,735	-
Less: income tax relating to items that will be reclassified	34,315	-	39,107	-
Items that will be reclassified subsequently to profit or loss (note (6)(s))	(23,491)	-	4,592,320	0.5
Other comprehensive income, net of tax	(101,970)	-	4,555,499	0.5
Total comprehensive income	$ 8,905,177	1.1	12,100,880	1.4
Profit, attributable to:				
Profit, attributable to owners of parent	$ 8,684,610	1.1	7,024,461	0.8
Profit, attributable to non-controlling interests	322,537	-	520,920	0.1
	$ 9,007,147	1.1	7,545,381	0.9
Comprehensive income attributable to:				
Comprehensive income, attributable to owners of parent	$ 8,552,926	1.0	11,548,480	1.4
Comprehensive income, attributable to non-controlling interests	352,251	-	552,400	-
	$ 8,905,177	1.0	12,100,880	1.4
Earnings per share (note (6)(v)):				
Basic net income per share	$ 2.01		1.63	
Diluted net income per share	$ 1.97		1.61	

See accompanying notes to the consolidated financial reports.

(English Translation of Financial Report Originally Issued in Chinese)
COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014
(expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent													
			Retained earnings				Other equity interest							
	Ordinary shares	**Capital surplus**	**Legal reserve**	**Special reserve**	**Unappropriated retained earnings**	**Total retained earnings**	**Exchange differences on translation of foreign financial statements**	**Unrealized gains (losses)on available-for-sale financial assets**	**Unearned employee benefit and others**	**Total other equity interest**	**Treasury shares**	**Total equity attributable to owners of parent**	**Non controlling interests**	**Total equity**
Balance on January 1, 2014	$ 44,134,467	16,193,087	15,621,182	8,818,725	19,820,927	44,260,834	(1,846,674)	(5,860,844)	-	(7,707,518)	(2,007,725)	94,873,145	5,089,127	99,962,272
The effect of retroactive adjustment and retrospective application	-	-	-	-	229,144	229,144	-	-	-	-	-	229,144	-	229,144
Balance on January 1, 2014 (retrospectively adjusted)	44,134,467	16,193,087	15,621,182	8,818,725	20,050,071	44,489,978	(1,846,674)	(5,860,844)	-	(7,707,518)	(2,007,725)	95,102,289	5,089,127	100,191,416
Profit for the year ended December 31, 2014 (retrospectively adjusted)	-	-	-	-	7,024,461	7,024,461	-	-	-	-	-	7,024,461	520,920	7,545,381
Other comprehensive income	-	-	-	-	(37,628)	(37,628)	3,018,218	1,543,429	-	4,561,647	-	4,524,019	31,480	4,555,499
Total comprehensive income (retrospectively adjusted)	-	-	-	-	6,986,833	6,986,833	3,018,218	1,543,429	-	4,561,647	-	11,548,480	552,400	12,100,880
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	246,721	-	(246,721)	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(1,111,207)	1,111,207	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(2,177,668)	(2,177,668)	-	-	-	-	-	(2,177,668)	-	(2,177,668)
Cash dividends from capital surplus	-	(2,177,668)	-	-	-	-	-	-	-	-	-	(2,177,668)	-	(2,177,668)
Difference between consideration and carrying amount arising from acquisition or disposal of subsidiaries	-	3,492	-	-	(1,575,776)	(1,575,776)	6,763	87	-	6,850	-	(1,565,434)	(630,432)	(2,195,866)
Changes in ownership interests in subsidiaries	-	(3,720)	-	-	(1,495)	(1,495)	-	-	-	-	-	(5,215)	-	(5,215)
Changes in equity of associates and joint ventures accounted for using equity method	-	24,056	-	-	-	-	-	-	-	-	-	24,056	-	24,056
Issuance of shares for employee share options exercised	97,899	97,818	-	-	-	-	-	-	-	-	-	195,717	-	195,717
Share-based payment transaction	-	109,389	-	-	-	-	-	-	-	-	282,986	392,375	-	392,375
Adjustment to capital surplus for the Company's cash dividends received by subsidiaries	-	49,991	-	-	-	-	-	-	-	-	-	49,991	-	49,991
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(178,081)	(178,081)
Balance on December 31, 2014 (retrospectively adjusted)	44,232,366	14,296,445	15,867,903	7,707,518	24,146,451	47,721,872	1,178,307	(4,317,328)	-	(3,139,021)	(1,724,739)	101,386,923	4,833,014	106,219,937
Profit for the year ended December 31, 2015	-	-	-	-	8,684,610	8,684,610	-	-	-	-	-	8,684,610	322,537	9,007,147
Other comprehensive income	-	-	-	-	(71,032)	(71,032)	1,624,754	(1,693,104)	7,698	(60,652)	-	(131,684)	29,714	(101,970)
Total comprehensive income	-	-	-	-	8,613,578	8,613,578	1,624,754	(1,693,104)	7,698	(60,652)	-	8,552,926	352,251	8,905,177
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	703,408	-	(703,408)	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(4,568,497)	4,568,497	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(4,428,781)	(4,428,781)	-	-	-	-	-	(4,428,781)	-	(4,428,781)
Cash dividends from capital surplus	-	(2,214,390)	-	-	-	-	-	-	-	-	-	(2,214,390)	-	(2,214,390)
Difference between consideration and carrying amount arising from acquisition or disposal of subsidiaries	-	258	-	-	-	-	-	-	-	-	-	258	-	258
Changes in ownership interests in subsidiaries	-	28,275	-	-	(14,572)	(14,572)	-	-	-	-	-	13,703	-	13,703
Changes in equity of associates and joint ventures accounted for using equity method	-	5,824	-	-	(15,956)	(15,956)	-	-	-	-	-	(10,132)	-	(10,132)
Share-based payment transaction	478,900	647,200	-	-	1,370	1,370	-	-	(727,208)	(727,208)	-	400,262	-	400,262
Adjustment to capital surplus for the Company's cash dividends received by subsidiaries	-	75,026	-	-	-	-	-	-	-	-	-	75,026	-	75,026
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	637,056	637,056
Balance on December 31, 2015	$ 44,711,266	12,838,638	16,571,311	3,139,021	32,167,179	51,877,511	2,803,061	(6,010,432)	(719,510)	(3,926,881)	(1,724,739)	103,775,795	5,822,321	109,598,116

See accompanying notes to the consolidated financial reports.

(English Translation of Financial Report Originally Issued in Chinese)
COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014
(expressed in thousands of New Taiwan Dollars)

	2015	2014 (Retrospectively adjusted)
Cash flows from (used in) operating activities:		
Profit before tax	$ 11,792,093	9,727,352
Adjustments:		
Depreciation and amortization	5,924,610	6,036,864
Increase (decrease) in allowances for uncollectible accounts	64,736	(10,582)
Finance costs	899,702	1,019,504
Interest income	(599,764)	(1,023,736)
Dividends income	(237,232)	(208,983)
Compensation costs arising from share-based payment transaction	431,627	168,012
Share of profit of associates and joint ventures accounted for using equity method	(367,162)	(977,953)
Gains on disposal of property, plant and equipment	(3,560)	(46,226)
Losses (gains) on disposal of investments	20,718	(18,348)
Impairment losses	121,574	4,777,920
Long-term prepaid rents	15,790	16,690
Adjustments to reconcile profit	6,271,039	9,733,162
Changes in operating assets and liabilities:		
Changes in operating assets:		
Changes in financial assets at fair value through profit or loss	158,681	(100,321)
Decrease (increase) in notes and accounts receivable	14,112,057	9,337,791
Decrease (increase) in other receivables	29,017	108,584
Decrease (increase) in inventories	20,977,572	(16,026,011)
Decrease (increase) in other current assets	235,139	(798,821)
Decrease(increase) in other non-current assets	(46,752)	(98,042)
Total changes in operating assets	35,465,714	(7,576,820)
Changes in operating liabilities:		
Changes in financial liabilities at fair value through profit or loss	(10,223)	27,928
Increase (decrease) in notes and accounts payable	(43,388,753)	20,156,529
Increase (decrease) in other payables	251,855	1,172,834
Increase (decrease) in provisions	313,461	390,816
Increase (decrease) in unearned revenue	(729,446)	405,746
Increase (decrease) in other current liabilities	653,199	453,269
Others	46,899	(30,487)
Total changes in operating liabilities	(42,863,008)	22,576,635
Total changes in operating assets and liabilities	(7,397,294)	14,999,815
Total adjustments	(1,126,255)	24,732,977
Cash flows from (used in) operations	10,665,838	34,460,329
Interest received	597,659	975,307
Dividend received	418,826	284,335
Interest paid	(938,675)	(946,545)
Income taxes paid	(1,209,392)	(975,202)
Net Cash flows from (used in) operating activities	9,534,256	33,798,224
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method, available-for-sale financial assets and financial assets at cost	(187,700)	(1,285,377)
Proceeds from disposal of investments accounted for using equity method and available-for-sale financial assets	1,718,652	183,002
Redemption from bond investment without an active market	350,000	-
Net cash flow from acquisition of subsidiaries	250,273	2,159,000
Proceeds from capital reduction and liquidation of investments	68,125	68,599
Acquisition of property, plant and equipment	(5,492,667)	(6,565,882)
Proceeds from disposal of property, plant and equipment	128,388	145,932
Acquisition of intangible assets	(616,124)	(396,954)
Increase in prepayments for business facilities	29,518	(15,332)
Others	(70,200)	17,809
Net cash flows from (used in) investing activities	(3,821,735)	(5,689,203)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(17,330,697)	(5,315,160)
Proceeds from long-term borrowings	12,930,000	10,271,167
Repayments of long-term borrowings	(8,555,354)	(663,154)
Cash dividends paid	(6,568,145)	(4,305,345)
Exercise of employee share options	-	195,717
Treasury shares convert to employee	-	282,125
Acquisition of non-controlling interests	(13,518)	(2,304,824)
Proceeds of disposal of ownership interests in subsidiaries (without losing control)	-	98,938
Changes in non-controlling interests	282,154	(230,546)
Others	22,998	58,941
Net cash flows from (used in) financing activities	(19,232,562)	(1,912,141)
Effects of exchange rate changes on cash and cash equivalents	1,563,453	1,545,398
Net increase (decrease) in cash and cash equivalents	(11,956,588)	27,742,278
Cash and cash equivalents at beginning of period	74,708,130	46,965,852
Cash and cash equivalents at end of period	$ **62,751,542**	**74,708,130**

See accompanying notes to the consolidated financial reports.

(English Translation of Financial Report Originally Issued in Chinese)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

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

(1) Company history

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

(2) Financial statements authorization date and authorization process

These consolidated financial statements were authorized for issuance by the Board of Directors and issued on March 30, 2016.

(3) New standards and interpretations adopted

(a) Impact of the 2013 version of the International Financial Reporting Standards ("IFRS") endorsed by the Financial Supervisory Commissions R.O.C. ("FSC")

The Group has adopted the 2013 version of the IFRS endorsed by the FSC (IFRS 9 "Financial Instruments" is excluded) in preparing the 2015 financial statements. The new standards and amendments issued by the International Accounting Standards Board ("IASB") were as follows:

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

(Continued)

New standards and amendments	Effective date per IASB
·IFRS 10 "*Consolidated Financial Statements*"	January 1, 2013 (Investment Entities amendments, effective on January 1, 2014)
·IFRS 11 "*Joint Arrangements*"	January 1, 2013
·IFRS 12 "*Disclosure of Interests in Other Entities*"	January 1, 2013
·IFRS 13 "*Fair Value Measurement*"	January 1, 2013
·Amended IAS 1 "*Presentation of Items of Other Comprehensive Income*"	July 1, 2012
·Amended IAS 12 "*Deferred Tax: Recovery of Underlying Assets*"	January 1, 2012
·Amended IAS 19 "*Employee Benefits*"	January 1, 2013
·Amended IAS 27 "*Separate Financial Statements*"	January 1, 2013
·Amended IAS 32 "*Offsetting Financial Assets and Financial Liabilities*"	January 1, 2014
·IFRIC 20 – "*Stripping Costs in the Production Phase of a Surface Mine*"	January 1, 2013

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

1. IAS 1 "Presentation of Financial Statements"

   The other comprehensive income section is required to present line items which are classified by their nature, and are grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to two groups of items of other comprehensive is also required. The Group changes the presentation of comprehensive income statements in accordance with the standard and retrospectively adjusted the 2014 financial statements.

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

   The standard is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group disclosures the information of the associates as the standard requires. Please refer to note (6)(i).

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. IFRS 13 "Fair Value Measurement"

   The standard defines fair value and provides a framework for measuring fair value and requires disclosures on fair value measurement. The Group discloses the fair value measurement as the standards require (please refer to note (6)(aa)), and applies the fair value measurement requirement prospectively by following the transitional requirement. However, there is no need to provide the comparative period information for newly disclosed items. The standard, after evaluation, is not considered to have any significant impacts on financial position and operating results of the Group.

4. IAS 19 "Employee Benefits"

   The major amendments are:

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

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

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

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

   The Group had recognized the past service cost and retrospectively adjusted retained earnings. For the affected items and impacts of changes in accounting policies, please refer to section 5.

5. The significant impacts to the Group's financial statement by using the 2013 version of the IFRS were summarized as follows:

Affected items of Consolidated Balance Sheets	Amount	Change in accounting policies effects	Retrospectively adjusted amount
January 1, 2014			
Non-current net defined benefit liabilities	$ 658,410	(229,144)	429,266
Retained earnings	$ 44,260,834	229,144	44,489,978

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Affected items of Consolidated Balance Sheets		Amount	Change in accounting policies effects	Retrospectively adjusted amount
December 31, 2014				
Non-current net defined benefit liabilities	$	674,794	(212,785)	462,009
Retained earnings	$	47,509,087	212,785	47,721,872

Affected items of Consolidated Statements of Comprehensive Income		Amount	Change in accounting policies effects	Retrospectively adjusted amount
The year ended December 31, 2014				
Operating expense	$	(4,832,771)	(9,620)	(4,842,391)
Net profit	$	7,555,001	(9,620)	7,545,381
Net comprehensive income	$	12,117,239	(16,359)	12,100,880

Affected items of Consolidated Statements of Cash Flows		Amount	Change in accounting policies effects	Retrospectively adjusted amount
The year ended December 31, 2014				
Profit before tax	$	9,736,972	(9,620)	9,727,352
Changes in operating liabilities:				
Other	$	(40,107)	9,620	(30,487)

(b) New standards and interpretations not yet endorsed by the FSC

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

New standards and amendments	Effective date per IASB
･IFRS 9 "*Financial Instruments*"	January 1, 2018
･Amended IFRS 10 and IAS 28 "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*"	Not yet approved by the IASB
･Amended IFRS 10, IFRS 12 and IAS28 "*Investment Entities: Applying the Consolidation Exception*"	January 1, 2016
･Amended IFRS 11 "*Accounting for Acquisitions of interests in Joint Operations*"	January 1, 2016
･IFRS 14 "*Regulatory Deferral Accounts*"	January 1, 2016
･IFRS 15 "*Revenue from Contracts with Customers*"	January 1, 2018
･IFRS 16 "*Lease'*"	January 1, 2019

(Continued)

New standards and amendments	Effective date per IASB
･Amended IAS 1"*Disclosure-Initiative*"	January 1, 2016
･Amended IAS 7"*Disclosure-Initiative*"	January 1, 2017
･Amended IAS 12*"Deferred Tax: Recovery of Underlying Assets"*	January 1, 2017
･Amended IAS 16 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortization*"	January 1, 2016
･Amended IAS 16 and IAS 41 "*Bearer Plants*"	January 1, 2016
･Amended IAS 19 "*Defined Benefit Plans: Employee Contributions*"	July 1, 2014
･Amended IAS 27 "*Equity Method in Separate Financial Statements*"	January 1, 2016
･Amended IAS 36 "*Recoverable Amount Disclosures for Non-Financial Assets*"	January 1, 2014
･Amended IAS 39 "*Novation of Derivatives and Continuation of Hedge Accounting*"	January 1, 2014
･Annual improvements: 2010-2012 and 2011-2013 cycles	July 1, 2014
･Annual improvements to IFRS: 2012-2014 cycles	January 1, 2016
･Amended IFRIC 21 "*Levies*"	January 1, 2014

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

(4) Significant accounting policies

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

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

(a) Statement of compliance

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

(Continued)

(b) Basis of preparation

1. Basis of measurement

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

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

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

(iii) The defined benefit assets (liabilities) is recognized as plan assets, less the present value of the defined benefit obligation and the effect of the asset ceiling mentioned in note (4)(s).

2. Functional and presentation currencies

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

(c) Basis of consolidation

1. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

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. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. List of subsidiaries in the consolidated financial statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2015	Percentage of ownership December 31, 2014	Description
The Company	Panpal Technology Corp. (“Panpal”)	Investment	100%	100%	Panpal held 31,648 thousand shares of the Company as of December 31, 2015, which represented 0.7% of the Company’s outstanding shares.
〃	Gempal Technology Corp. (“Gempal”)	〃	100%	100%	Gempal held 18,369 thousand shares of the Company as of December 31, 2015, which represented 0.4% of the Company’s outstanding shares.
〃	Hong Ji Capital Co., Ltd. (“Hong Ji”)	〃	100%	100%	
〃	Hong Jin Investment Co., Ltd. (“Hong Jin”)	〃	100%	100%	
〃	Zhaopal Investment Co., Ltd. (“Zhaopal”)	〃	100%	100%	
〃	Yongpal Investment Co., Ltd. (“Yongpal”)	〃	100%	100%	
〃	Kaipal Investment Co., Ltd. (“Kaipal”)	〃	100%	100%	
The Company, Panpal, et al.	Accesstek, Inc. (“ATK”)	Design, manufacturing and sales of optical disk drives and components	38 %	38 %	The Group had the ability to control ATK. ATK was dissolved on June 30, 2009.
〃	Arcadyan Technology Corp. (“Arcadyan”)	R&D, manufacturing and sales of wireless network, integrated household electronics, and mobile office products	36%	36%	The Group had the ability to control Arcadyan.
The Company	Rayonnant Technology Co., Ltd. (“Rayonnant Technology”)	Manufacturing and sales of PCs, computer periphery devices, and electronic components	100%	100%	
〃	HengHao Technology Co., Ltd. (“HengHao”)	〃	97%	97%	
〃	Synchro Seiki, Co., Ltd. (“Synchro”)	〃	-	63%	Mactech merged with Synchro on July 2, 2015. Mactech was the surviving entity, and Synchro ceased to exist.

(Continued)

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Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2015	Percentage of ownership December 31, 2014	Description
The Company	Ripal Optoelectronics Co., Ltd. ("Ripal")	Manufacturing of electric appliance and audiovisual electric products	100%	100%	
〃	Mactech Co., Ltd ("Mactech")	Manufacturing of equipment and lighting, retailing of equipment and international trading	53%	-	The Company obtained 51% equity ownership of Mactech in January 2015. Mactech merged with Synchro on July 2, 2015.
〃	General Life Biotechnology Co., Ltd. ("GLB")	Manufacturing and sales of medical equipment	50%	-	The Company obtained 50% equity ownership of GLB in October 2015.
〃	Auscom Engineering Inc. ("Auscom")	R&D of notebook PC related products and components	100%	100%	
〃	Just International Ltd. ("Just")	Manufacturing, sales and maintenance of monitors and LCD TVs, and investment	100%	100%	
〃	Compal International Holding Co., Ltd. ("CIH")	Sales and manufacturing of notebook PCs and investments	100%	100%	
〃	Compal Electronics Holding Co., Ltd. ("CEH")	Investment	100%	100%	
〃	Bizcom Electronics, Inc. ("Bizcom")	Warranty services and marketing of monitors and notebook PCs	100%	100%	
〃	Flight Global Holding Inc. ("FGH")	Investment	100%	100%	
〃	High Shine Industrial Corp. ("HSI")	〃	100%	100%	
〃	Compal Europe (Poland) Sp. z o. o. ("CEP")	Maintenance and warranty services of notebook PCs	100%	100%	
〃	Big Chance International Co., Ltd. ("BCI")	Investment	100%	100%	
〃	Compal Rayonnant Holdings Limited ("CRH")	〃	100%	100%	
〃	Core Profit Holdings Limited ("CORE")	〃	100%	100%	
〃	Compalead Electronics B.V. ("CPE")	〃	100%	100%	
Panpal and Gempal	Compalead Eletronica do Brasil Industria e Comercio Ltda. ("CEB")	Manufacturing of notebook PCs	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2015	Percentage of ownership December 31, 2014	Description
Just	Compal Display Holding (HK) Limited ("CDH (HK)")	Investment	100%	100%	
〃	Compal Electronics International Ltd. ("CII")	〃	100%	100%	
〃	Compal International Ltd. ("CPI")	Sales of monitors, LCD TVs and related components	100%	100%	
CDH (HK)	Compal Electronics (China) Co., Ltd. ("CPC")	Manufacturing and sales of monitors	100%	100%	
〃	Compal Optoelectronics (Kunshan) Co., Ltd. ("CPO")	Manufacturing and sales of LCD TVs	100%	100%	
〃	Compal System Trading (Kunshan) Co., Ltd. ("CST")	International trade and distribution of computers and electronic components	100%	100%	
CII	Smart International Trading Ltd. ("Smart")	Sales of electronic products and related components	100%	100%	
〃	Amexcom Electronics Inc. ("AEI")	Sales and maintenance of LCD TVs	100%	100%	
〃	Mexcom Electronics LLC. ("MEL")	Investment	100%	100%	
〃	Mexcom Technologies, LLC. ("MTL")	〃	100%	100%	
MEL and MTL	CENA Electromex S.A. de C.V. ("CMX")	Manufacturing, sales, and maintenance of LCD TVs	100%	100%	
CIH	Compal International Holding (HK) Limited ("CIH (HK)")	Investment	100%	100%	
〃	Jenpal International Ltd. ("Jenpal")	〃	100%	100%	
〃	Prospect Fortune Group Ltd. ("PFG")	Sales of notebook PCs and related components	100%	100%	
〃	Fortune Way Technology Corp. (FWT)	Investment	100%	-	FWT was incorporated in December 2015.
CIH (HK)	Compal Electronics Technology (Kunshan) Co., Ltd. ("CET")	Manufacturing of notebook PCs	100%	100%	
〃	Compal Information (Kunshan) Co., Ltd. ("CIC")	〃	100%	100%	

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Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2015	Percentage of ownership December 31, 2014	Description
CIH (HK)	Compal Information Technology (Kunshan) Co., Ltd. ("CIT")	Manufacturing of notebook PCs	100%	100%	
〃	Kunshan Botai Electronics Co., Ltd. ("BT")	〃	100%	100%	
〃	Compal Information Research and Development (Nanjing) Co., Ltd. ("CIN")	Software and hardware R&D of computers, mobile phones and electronic components	100%	100%	
〃	Compal Digital Technology (Kunshan) Co., Ltd. ("CDT")	Manufacturing and sales of notebook PCs, mobile phones, and digital products	100%	100%	
BT	Compower Global Service Co., Ltd. ("CGS")	Maintenance and warranty service of notebook PCs	100%	100%	
CDH (HK) and CIH (HK)	Compal Investment (Jiansu) Co., Ltd. ("CIJ")	Investment	100%	100%	
CIJ	Compal Display Electronics (Kunshan) Co., Ltd. ("CDE")	Manufacturing and sales of LCD TVs	100%	100%	
The Company	Etrade Management Co., Ltd. ("Etrade")	Investment	100%	100%	
〃	Webtek Technology Co., Ltd. ("Webtek")	Sales of mobile phones	100%	100%	
〃	Forever Young Technology Inc. ("Forever")	Sales of mobile phones	100%	100%	
〃	UniCom Global, Inc. ("UCGI", originally Jin-Rui Communication, Inc.)	Manufacturing and sales of computers and electronic components	100%	100%	
〃	Huang-Feng Communication, Inc. ("Huang-Feng")	Investment	100%	100%	
Etrade	Compal Communication (Nanjing) Co., Ltd. ("CCI Nanjing")	Manufacturing and processing of mobile phones	100%	100%	
〃	Compal Digital Communication (Nanjing) Co., Ltd. ("CDCN")	〃	100%	100%	
〃	Compal Wireless Communication (Nanjing) Co., Ltd. ("CWCN")	〃	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

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Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2015	December 31, 2014	Description
Forever	Hanhelt Communication (Nanjing) Co., Ltd. ("Hanlelt")	R&D and manufacturing of electronic communication equipment	100%	100%	
〃	Giant Rank Trading Ltd ("GIA")	Sales of mobile phones	100%	100%	
ATK	OptoRite Inc.	Sales of optical disc drives	100%	100%	
〃	MSI-ATK Optics Holding Corporation ("MSI-ATK")	Investment	100%	100%	
〃	Maitek (BVI) Corporation ("Maitek")	〃	100%	100%	
Arcadyan	Arcadyan Technology N.A. Corp. ("Arcadyan USA")	Sales of wireless network products	100%	100%	
〃	Arcadyan Technology Germany GmbH ("Arcadyan Germany")	Technology support of wireless network products	100%	100%	
〃	Arcadyan Technology Corporation Korea ("Arcadyan Korea")	Sales of wireless network products	100%	-	
〃	Arcadyan Holding (BVI) Corp. ("Arcadyan Holding")	Investment	100%	100%	
〃	Arcadyan do Brasil Ltda. ("Arcadyan Brasil")	Sales of wireless netword products	99%	-	Arcadyan Brasil was incorporated in September 2015.
〃	Zhi-pal Technology Inc. ("Zhi-pal")	Investment	100%	100%	
〃	Tatung Technology Inc. ("TTI")	R&D and sales of household digital electronic products	59%	57%	
〃	AcBel Telecom Inc. ("AcBel Telecom")	Manufacturing and sales of communication and electronic components	51%	51%	
The Company and Zhi-pal	Compal Broadband Network Inc. ("CBN")	R&D and sales of communication and electronic components	100%	100%	
CBN	Speedlink Tradings Limited ("Speedlink")	Import and export business	100%	100%	
Arcadyan Holding	Sinoprime Global Inc. ("Sinoprime")	Sales of wireless network products	100%	100%	
〃	Arcadyan Technology (Shanghai) Corp. ("SVA Arcadyan")	R&D and sales of wireless network products	100%	100%	
〃	Arch Holding (BVI) Corp. ("Arch")	Investment	100%	100%	

(Continued)

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Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2015	Percentage of ownership December 31, 2014	Description
Arch	Compal Networking (Kunshan) Co., Ltd. ("CNC")	Manufacturing of wireless network products	100%	100%	
AcBel Telecom	Leading Images Ltd. ("Leading Images")	Investment	100%	100%	
〃	Great Arch Group Ltd. ("Great Arch")	Sales of wireless network products	100%	100%	
Leading Images	Astoria Networks GmbH ("Astoria GmbH")	Sales of wireless network products	100%	100%	
TTI	Quest International Group Co., Ltd. ("Quest")	Investment	100%	100%	
Quest	Exquisite Electronic Co., Ltd. ("Exquisite")	〃	100%	100%	
Exquisite	Tatung Home Appliances (Wujiang) Co., Ltd. ("THAC")	Manufacturing of household digital electronic products	100%	100%	
HSI	Intelligent Universal Enterprise Ltd. ("IUE")	Investment	100%	100%	
〃	Goal Reach Enterprise Ltd. ("Goal")	〃	100%	100%	
IUE	Compal (Vietnam) Co., Ltd. ("CVC")	R&D, manufacturing, sales, and maintenance of notebook PCs, computer monitors, LCD TVs and electronic components	100%	100%	
Goal	Compal Development & Management (Vietnam) Co., Ltd. ("CDM")	Construction of and investment in infrastructure in Ba-Thien industrial district of Vietnam	100%	100%	
Rayonnant Technology and CRH	Allied Power Holding Corp. ("APH")	Investment	100%	100%	
APH	Primetek Enterprise Limited ("PEL")	〃	100%	100%	
〃	Rayonnant Technology (HK) Co., Ltd. ("Rayonnant Technology (HK)")	〃	100%	100%	
Rayonnant Technology (HK)	Rayonnant Technology (Taicang) Co., Ltd. ("Rayonnant Technology (Taicang)")	Manufacturing and sales of aluminium alloy and magnesium alloy products	100%	100%	

(Continued)

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Notes to Consolidated Financial Statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership December 31, 2015	Percentage of ownership December 31, 2014	Description
HengHao	HengHao Holding A Co., Ltd. (“HHA”)	Investment	100%	100%	
HHA	HengHao Holding B Co., Ltd. (“HHB”)	〃	100%	100%	
HHB	HengHao Trading Co., Ltd.	Marketing and international trade	100%	100%	
〃	HengHao Optoelectronics Technology (Kunshan) Co., Ltd.	Production of touch panels and related components	100%	100%	
HHB	Lucom Display Technology (KunShan) Limited (“Lucom”)	Manufacturing of notebook PCs and related modules	100%	100%	
BCI	Center Mind International Co., Ltd. (“CMI”)	Investment	100%	100%	
BCI	Prisco International Co., Ltd. (“PRI”)	Investment	100%	100%	
CMI	Compal Investment (Sichuan) Co., Ltd. (“CIS”)	Outward investment and consulting services	100%	100%	
PRI	Compal Electronics (Chongqing) Co., Ltd. (“CEQ”)	R&D, manufacturing and sales of notebook PCs, related components, related maintenance and warranty services	100%	100%	
CIS	Compal Electronics (Chengdu) Co., Ltd. (“CEC”)	R&D and manufacturing of notebook PCs, tablet PCs, digital products, network switches, wireless AP, and automobile electronic products	100%	100%	
〃	Compal Management (Chengdu) Co., Ltd. (“CMC”)	Corporate management consulting, training and education, business information consulting, financial and tax consulting, investment consulting, and investment management services	100%	100%	
CORE	Billion Sea Holdings Limited (“BSH”)	Investment	100%	100%	
CPE	Compal Electronics Europe Sp. z o. o. (“CEE”)	Manufacturing, sales and maintenance of LCD TVs	100%	100%	

(Continued)

(d) Foreign currencies

1. Foreign currency transactions

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

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

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

- available-for-sale financial assets;

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

- qualifying cash flow hedges to the extent the hedge is effective

2. Foreign operations

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

(Continued)

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

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

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

An entity shall classify an asset as current when:

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

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

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

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

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

An entity shall classify a liability as current when:

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

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

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

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

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

(Continued)

(f) Cash and cash equivalents

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

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

(g) Financial instruments

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

1. Financial assets

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

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

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

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

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

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

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

(Continued)

(ii) Available-for sale financial assets

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

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

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

(iii) Loans and receivables

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

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

(iv) Impairment of financial assets

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

(Continued)

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

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

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

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

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

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

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

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

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

(v) Derecognition of financial assets

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

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

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

2. Financial liabilities and equity instruments

(i) Classification of debt or equity

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

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

(Continued)

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

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

(iii) Other financial liabilities

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

(iv) Derecognition of financial liabilities

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

(v) Offsetting of financial assets and liabilities

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

3. Derivative financial instruments, including hedge accounting

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

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

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

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

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

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in other equity – effective portion of cash flow hedge gain (loss). Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, and is included in statement of comprehensive income.

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

(h) Inventories

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

(Continued)

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

(i) Non-current assets held for sale

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

(j) Investment in associates

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

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

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity-accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When changes in an associate’s equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group’s ownership percentage of the associate, the Group recognizes the changes in ownership interests of its associate in capital surplus in proportion to its ownership.

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

(Continued)

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

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

(k) Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint ventures) have rights to the net assets of the arrangement. A joint venture shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 "Investments in Associates and Joint Ventures", unless, the entity is exempted from applying the equity method as specified in that Standard.

When assessing the classification of a joint arrangement, the Group shall consider the structure and legal form of the arrangement, the terms in the contractual arrangement and other facts and circumstances. The Group had previously reviewed the contractual structure of the joint arrangement, and has now decided to reclassify the investments in "Jointly Controlled Entities" to "Joint Ventures". Although the investments have been reclassified, they are still recorded under the equity method. Thus, there is no effect in the recognized assets, liabilities and other comprehensive income.

(l) Property, plant and equipment

1. Recognition and measurement

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

(Continued)

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

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

2. Subsequent cost

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

3. Depreciation

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

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

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

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

(i) Buildings: 8~50 years

(ii) Building improvement: 0.5~20 years

(iii) Machinery and equipment: 1~14 years

(iv) Research equipment: 2~6 years

(Continued)

(v) Modeling equipment: 0.5~6 years

(vi) Other equipment: 0.5~15 years

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

(m) Leases

1. The Group as lessor

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

2. The Group as lessee

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

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

(n) Intangible assets

1. Goodwill

(i) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in intangible assets. For the measurement of initial recognition of goodwill, please refer to note (4)(v).

(ii) Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses.

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

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2. Research & Development

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

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

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

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

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

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

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

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

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

3. Other intangible assets

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

4. Subsequent expenditure

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

5. Amortization

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

(Continued)

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

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

(ii) Computer software: 1~10 years

(iii) Copyright: 10 years

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

(o) Impairment – non-derivative financial assets

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

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

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

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

(Continued)

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

(p) Provisions

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

(q) Treasury stock

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

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

(Continued)

(r) Revenue

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

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

(s) Employee benefits

1. Defined contribution plans

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

2. Defined benefit plans

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

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

(Continued)

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

Re-measurement of net defined benefit liability (asset) (including actuarial gains, losses and the return on plan asset and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged to 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 comprises any resulting change in the fair value of plan assets and change in the present value of defined benefit obligation.

3. Short term employee benefits

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

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

(t) Share-based payment

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

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

(u) Income Taxes

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

(Continued)

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

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

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

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

3. Initial recognition of goodwill.

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

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

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

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

   i) levied by the same taxing authority; or

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

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

(Continued)

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

(v) Business combination

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

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

If the business combination is achieved in stages, the Group shall measure any non-controlling equity interest in the acquisition, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other non-controlling interest is measured (1) at fair value at the acquisition date or (2) by using other valuation techniques acceptable under the IFRS as endorsed by the FSC.

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

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

(Continued)

(w) Earnings per share

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

(x) Operating segments

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

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

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

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

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

(Continued)

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	$ 12,264	10,336
Checking accounts and demand deposits	25,953,163	26,534,214
Time deposits	36,067,610	47,539,969
Bonds purchased under resale agreements	718,505	623,611
	$ 62,751,542	74,708,130

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

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

	December 31, 2015	December 31, 2014
Financial assets at fair value through profit or loss:		
Financial assets held-for-trading:		
Derivative instruments not used for hedging	$ 25,412	184,093
Financial liabilities at fair value through profit or loss:		
Financial liabilities held-for-trading:		
Derivative instruments not used for hedging	$ 29,215	39,310

The Group uses derivative instruments to hedge foreign currency risk the Group is exposed to arising from its operating activities. The Group held the following derivative instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2015 and 2014 (foreign currencies were expressed in thousands):

	December 31, 2015		
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 32,390	EUR to USD	January 8~May 13, 2016
Forward exchange sold	GBP 1,000	GBP to USD	January 28, 2016
Forward exchange purchased	USD 20,000	USD to BRL	January 15~March 15, 2016

(Continued)

	December 31, 2015		
	Contract amount (in thousands)	**Currency**	**Maturity date**
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 26,750	EUR to USD	January 27~April 28, 2016
Swap contracts:			
Currency swap	USD 44,000	USD to TWD	January 14~March 14, 2016

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

As of December 31, 2015 and 2014, the Group did not provide any aforementioned financial assets as collaterals for its loans.

(c) Derivative financial instruments used for hedging

1. The details were as follows:

	December 31, 2015	December 31, 2014
Cash flow hedge:		
Derivative assets used for hedging:		
Forward exchange contracts	$ 21,360	-

(Continued)

2. Cash flow hedge

The Group's strategy is to enter into forward exchange contracts to hedge its foreign currency exposure risk in relation to the forecast sales. As of December 31, 2014, the Group did not enter into any hedge contract. The unmatured forward exchange contracts held by the Group are as follows (foreign currencies were expressed in thousands):

	December 31, 2015			
	Contract amount (in thousands)		Currency	Maturity period
Derivative financial assets used for hedging				
Foreign exchange contracts:				
Forward exchange sold	EUR	21,000	EUR to USD	January 28~June 28, 2016

3. The profits (losses) of changes in fair value of derivative financial instruments used for hedging reclassified from other equity to profit or loss is recognized as revenue in the statement of comprehensive income. Please refer to note (6)(z).

(d) Available-for-sale financial assets

	December 31, 2015	December 31, 2014
Stocks listed in domestic markets (including stocks acquired via private placement)	$ 6,217,870	9,553,412
Stocks listed in foreign markets	738,063	618,873
Stocks unlisted in domestic markets	2,049,324	2,249,404
Stocks unlisted in foreign markets	87,582	24,858
	$ 9,092,839	**12,446,547**
Current	$ 29,738	44,538
Non-current	9,063,101	12,402,009
	$ 9,092,839	**12,446,547**

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

The Group filed an arbitration based on the agreement on March 29, 2013, requesting Tatung to perform its obligations. The Group received the verdict on May 12, 2014. According to the verdict, Tatung should pay $2,118,607 to the Group for purchasing all the CPT shares held by the Group. Additionally, Tatung should pay the interest which is calculated by the annual rate of 5% in the period from April 3, 2013 to the actual payment date. Therefore, the Group recognized an impairment loss of $4,730,000 in the first quarter of 2014 accordingly. On June 13, 2014, the Group filed a civil complaint with the Taiwan Taipei District Court to revoke the arbitration award. The Taiwan Taipei District Court dismissed the appeal on May 15, 2015. The Group filed an appeal to the Taiwan High Court on June 12, 2015. The Taiwan High Court dismissed the appeal on March 29, 2016. The Group will discuss with the lawyer after receiving the verdict to decide whether to file an appeal or not.

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

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

3. Except for the stocks acquired via private placement mentioned above, which are measured at the arbitration award, if there is an increase (decrease) in the market price of the equity securities by 5% on the reporting date, the increase (decrease) in other comprehensive income (pre-tax) for the years ended December 31, 2015 and 2014, will be $341,142 and $508,827, respectively. These analyses are performed on the same basis for both periods and assume that all other variables remain the same.

4. Parts of the value of the Group's available-for-sale financial assets had indications of impairment losses; therefore, the Group recognized the impairment losses of $32,000 and $13,844 for the years ended December 31, 2015 and 2014, respectively.

5. For the years ended December 31, 2015 and 2014, the Group disposed parts of its available-for-sale financial assets for $1,693,653 and $183,002, respectively. The gains (losses) on disposal amounting to ($14,456) and $8,393, respectively, was recognized as other gains and losses.

(Continued)

6. As of December 31, 2015 and 2014, the Group did not provide any available-for-sale financial assets as collaterals for its loans.
7. On the reporting date, the significant foreign currency equity investment were as follows (foreign currencies were expressed in thousands) :

	December 31, 2015			December 31, 2014		
	Foreign currency	**Exchange rate**	**TWD**	**Foreign currency**	**Exchange rate**	**TWD**
THB	$ 806,098	0.9156	738,063	640,854	0.9657	618,873

(e) Financial assets at cost

	December 31, 2015	December 31, 2014
Common stock unlisted in domestic markets	$ 10,528	7,588
Common stock unlisted in foreign markets	12,641	12,754
Preferred stock unlisted in foreign markets	80,698	62,860
	$ 103,867	83,202

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

2. As of December 31, 2015 and 2014, the Group did not provide any financial assets at cost as collaterals for its loans.

(f) Bond investment without active market

	December 31, 2015	December 31, 2014
Common bonds – Taiwan Star	$ 1,400,000	1,750,000
Current	$ 350,000	350,000
Non-current	1,050,000	1,400,000
	$ 1,400,000	1,750,000

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

(Continued)

As of December 31, 2015 and 2014, the Group did not provide the aforementioned financial assets as collaterals for its loans.

(g) Notes and accounts receivable and other receivables

	December 31, 2015	December 31, 2014
Notes receivable	$ 267,262	119,199
Accounts receivable	164,214,049	178,723,056
Accounts receivable pledged as collateral	830,074	149,193
Other receivables	886,232	788,351
	166,197,617	179,779,799
Less: allowance for uncollectible accounts	(453,082)	(71,417)
allowance for sales returns and discounts	(58,387)	(24,811)
	$ 165,686,148	**179,683,571**
Notes and account receivable	**$ 164,799,743**	**178,552,207**
Notes and account receivable – related parties	**$ 62,245**	**343,030**
Other receivables – current	**$ 824,160**	**788,334**

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

	December 31, 2015	December 31, 2014
Overdue 1 to 180 days	$ 2,485,165	3,554,484
Overdue 181 to 365 days	17,665	24,491
Overdue 365 days and over	2	1,527
	$ 2,502,832	**3,580,502**

The change of allowance for accounts receivable and other receivables for the years ended December 31, 2015 and 2014, were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2015	$ -	71,417	71,417
Acquisition through business combination	247,994	68,935	316,929
Impairment loss recognized	29,384	35,118	64,502
Effect of changes in exchange rates	-	234	234
Balance on December 31, 2015	**$ 277,378**	**175,704**	**453,082**

(Continued)

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	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2014	$ -	82,134	82,134
Impairment loss reversed	-	(11,659)	(11,659)
Effect of changes in exchange rates	-	942	942
Balance on December 31, 2014	**$ -**	**71,417**	**71,417**

The Group entered into accounts receivable factoring agreements with banks. As of December 31, 2015 and 2014, except for the amount used under the actual sales amount in accordance with certain agreements, the factoring amount granted by the banks was USD2,827,000 thousand and EUR9,000 thousand, and USD2,137,000 thousand and $2,545,480, respectively. Based on the agreements, the Group is not responsible for guaranteeing the ability of the account receivable obligor to make payment when it is affected by credit risk. Thus, this is non-recourse accounts receivable factoring. After the transfer of the accounts receivable, the Group can request partial advanced amount, while the interest calculated at an agreed rate is paid to the bank in the period during the time of receiving advance and the accounts receivable is collected. The remaining amounts with no advance are received when the accounts receivable are settled by the customers. As of December 31, 2015 and 2014, the factored accounts receivable with no advance amounting to $247,495 and $105,331, respectively, are accounted for as other receivables.

As of December 31, 2015 and 2014, the details of the factored accounts receivable were as follows:

	December 31, 2015				
	Accounts receivable factored (gross)	**Advanced amount**	**Collateral**	**Amount derecognized**	**Interest rate**
Non-related parties	**$ 16,329,908**	**16,082,413**	**-**	**16,082,413**	0.8%~2.2%

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

(Continued)

The Company, customers, and banks signed the three-party contracts in which the banks purchase accounts receivable from the Company. The total amount of the accounts receivable should not exceed the facility limit provided by the banks to the Company’s customers. Based on the contracts, the banks have no right to request the Company to repurchase the accounts receivable. Thus, this is a non-recourse accounts receivable transfer. As of December 31, 2015 and 2014, accounts receivable amounting to $18,475,099 and $38,421,729, respectively, had been factored and derecognized since the conditions of derecognition were met. As of December 31, 2015 and 2014, the agreed interest rate is 1.2104%~1.46678% and 0.69850%~1.16167%, respectively, in the contracts mentioned above.

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

(h) Inventories

	December 31, 2015	December 31, 2014
Finished goods	$ 10,684,114	11,331,281
Work in progress	2,594,006	3,109,948
Raw materials	32,969,150	52,234,556
Raw materials in transit	272,751	595,090
	$ 46,520,021	**67,270,875**

(i) During the years ended December 31, 2015 and 2014, inventory cost recognized as cost of sales amounted $813,927,341 and $813,336,090, respectively.

(ii) The write-down of inventories to net realizable value amounted to $171,340 and $1,474,790, respectively, in the years ended December 31, 2015 and 2014.

(iii) As of December 31, 2015 and 2014, the Group did not provide any inventories as collaterals for its loans.

(i) Investments accounted for using equity method

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

	December 31, 2015	December 31, 2014
Associates	$ 11,852,547	11,732,844
Joint venture	64,403	86,431
	11,916,950	11,819,275
Less: unrealized profits or losses	(128,908)	(124,420)
	$ 11,788,042	**11,694,855**

1. Associates

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

	December 31, 2015	December 31, 2014
Allied Circuit Co., Ltd. (Allied Circuit)	$ 300,077	736,255
Avalue Technology Inc.(Avalue)	924,564	623,000
	$ 1,224,641	**1,359,255**

(ii) For the years ended December 31, 2015 and 2014, the Group's share of gain (loss) of associates was as follows:

	2015	2014
The Group's share of gain (loss) of associates	**$ 391,315**	**1,019,011**

(iii) The Group's equity-accounted investment in all individually immaterial associates and the Group's share of the operating results are summarized below:

	December 31, 2015	December 31, 2014
The carrying amount of the Group's interests in all individually immaterial associates	**$ 11,852,547**	**11,732,844**

(Continued)

The Group's share of the net income (loss) of associates.

		2015	2014
Profit (loss) from continuing operations	$	391,315	1,019,011
Other comprehensive income		(147,733)	80,992
Total comprehensive income	$	243,582	1,100,003

2. Joint venture

In April 2010, the Group and another company established a jointly controlled entity, Compal Connector Manufacture Ltd. ("CCM"), and obtained an ownership interest of 51%. CCM's actual paid-in capital amounted to USD10,000 thousands. Moreover, in May 2014, the Group and another company established a jointly controlled entity, Zheng Ying Electronics (Chongoing) Co., Ltd., ("Zheng Ying"), and obtained an ownership interest of 51%. Zheng Ying's actual paid-in capital amounted to USD2,500 thousands.

The Group's equity-accounted investment in all individually immaterial joint ventures and the Group's share of the operating results are summarized below:

		December 31, 2015	December 31, 2014
The carrying amount of the Group's interests in all individually immaterial joint ventures	$	64,403	86,431

The Group's net income (loss) in the percentage of joint ventures are summarized below.

		2015	2014
Losses from continuing operations (the total comprehensive losses)	$	(24,153)	(41,058)

3. As of December 31, 2015 and 2014, the Group did not provide any investments accounted for using equity method as collaterals for its loans.

(Continued)

(j) Business combination

1. Lucom

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

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

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

2. Mactech

The Group and Mactech signed an agreement of purchasing 51% of Mactech’s equity for cash amounted to $177,709 through cash injection. The effective date of the aforementioned cash injection was on January 5, 2015, in which the Group started to have control over Mactech.

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

Cash and cash equivalents	$	273,066
Financial assets at cost		2,940
Notes and accounts receivable, net		178,346
Inventories		184,310
Other receivables		1,021
Other current assets		21,187
Property, plant and equipment		164,833
Intangible assets		2,567
Deferred tax assets		21,478
Other non-current assets		17,624
Short-term borrowings		(119,500)
Notes and accounts payable		(87,190)
Long-term borrowings, current portion		(15,000)
Provisions-current		(8,668)
Other payables		(52,711)
Current Tax liability		(151)
Other current liabilities		(190,630)
Long-term borrowings		(45,000)
Other non-current liabilities		(73)
Total net identifiable assets	**$**	**348,449**

3. GLB

The Group purchased newly issued shares of General Life Biotechnology Co., Ltd. ("GLB") and acquired shares from its original stockholders amounting to $246,860 in total in October 2015, which was accounted for 50% of GLB's equity ownership. Starting October 2015, the Group has control over GLB.

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

Cash and cash equivalents	$	224,067
Notes and accounts receivable, net		25,843
Inventories		33,656
Other current assets		5,430
Property, plant and equipment		35,093
Other non-current assets		4,745
Notes and accounts payable		(21,822)
Other current liabilities		(34,068)
Total net identifiable assets	**$**	**272,944**

(Continued)

The difference between the consideration transferred of $246,860 and the fair value of GLB's 50% equity ownership was $110,388. The goodwill was generated from the diversity of the Group's business.

(k) Changes in subsidiaries' equity

1. Changes in ownership interests while retaining control (increase in ownership interests)

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

The following summarizes the effect of changes in the parent's ownership interest in the subsidiaries:

	2014
Acquisition of non-controlling interest (carrying amount)	$ 1,241,975
Consideration paid for the non-controlling interest	(2,820,921)
Difference	$ **(1,578,946)**
The effect of cancellation of treasury shares of subsidiaries	$ (10,020)
Other equity interest	6,850
Retained earnings	(1,575,776)
	$ **(1,578,946)**

The Group purchased newly issued shares of Arcadyan amounting to $315,158 in the first quarter of 2015, and increased its ownership of Arcadyan by 0.03%. The Company and its subsidiaries purchased shares of the subsidiaries from non-controlling interest amounting to $13,518 in 2015.

Mactech merged with Synchro through issuing new shares in 2015. Mactech was the surviving company and Synchro was the dissolved company. The Group increased its ownership in Mactech by 1.75%.

(Continued)

The following summarizes the effect of changes in the parent's ownership interest in the subsidiaries:

	2015
Acquisition of non-controlling interest (carrying amount)	$ 381,918
Consideration paid for the non-controlling interest	(368,993)
Difference	$ **12,925**
Capital surplus – difference between consideration and carrying amount of subsidiaries acquired or disposed	$ 258
Capital surplus – changes in ownership interests in subsidiaries	26,603
Retained earnings	(13,936)
	$ 12,925

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

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

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

	2014
Disposal of the non-controlling interest (carrying amount)	$ (95,446)
Consideration transferred from the non-controlling interest (carrying amount)	98,938
Capital surplus – difference between consideration and carrying amount of subsidiaries acquired or disposed	**$ 3,492**

3. Changes in subsidiaries' equity did not result in the Company's loss of control

   (i) Subsidiaries' employee stock options exercised

   CBN issued 308 thousand new shares because of its employees' stock options being exercised in 2015, which resulted in a decrease of 0.82% of the Group's ownership interest in of CBN.

   Arcadyan issued 404 thousand new shares because of employees' stock options being exercised in 2014, which resulted in the decrease of 0.12% of the Group's ownership interest in Arcadyan.

(Continued)

(ii) Cancellation of subsidiaries' restricted shares

Arcadyan cancelled 39 and 12 thousand restricted shares in the years ended December 31, 2015 and 2014, respectively, which resulted in the increase of 0.0074% and 0.0026% of the Group's ownership interest of Arcadyan.

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

		2015	2014
Capital equity-changes in ownership interest in subsidiaries	$	1,672	(3,720)
Retained earnings		(636)	(1,495)
	$	1,036	(5,215)

(l) Material non-controlling interests of subsidiaries

The material non-controlling interests of subsidiaries were as follows:

Subsidiaries	Main operation place	Percentage of non-controlling interests December 31, 2015	Percentage of non-controlling interests December 31, 2014
Arcadyan Technology Corporation	Taiwan	64%	64%

The following information of the aforementioned subsidiaries has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers. Included in these information are the fair value adjustment made during the acquisition and relevant difference in accounting principles between the Group as at the acquisition date. Intra-group transactions were not eliminated in this information.

1. Arcadyan's collective financial information

		December 31, 2015	December 31, 2014
Current assets	$	10,631,016	10,047,655
Non-current assets		2,587,377	2,234,644
Current liabilities		(5,002,489)	(5,177,974)
Non- current liabilities		(108,911)	(82,838)
Net assets	$	8,106,993	7,021,487
Non-controlling interests	$	5,360,367	4,673,330

(Continued)

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		2015	2014
Sales revenue	$	19,975,001	17,428,035
Net income	$	579,190	783,988
Other comprehensive income		46,481	49,016
Comprehensive income	$	625,671	833,004
Profit, attributable to non-controlling interests	$	372,187	534,310
Comprehensive income, attributable to non-controlling interests	$	401,504	565,491
Net cash flows from operating activities	$	(153,384)	1,341,311
Net cash flows from investing activities		(530,332)	(701,888)
Net cash flows from financing activities		(243,774)	(164,751)
Effect of exchange rate changes on cash and cash equivalents		29,892	41,219
Net increase (loss) in cash and cash equivalents	$	(897,598)	515,891

(m) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2015 and 2014, were as follows:

	Land	Buildings and building improvement	Machinery and equipment	Other equipment	Under construction and prepayment for purchase of equipment	Total
Cost or deemed cost:						
Balance on January 1, 2015	$ 1,893,559	14,806,308	20,580,749	9,364,654	3,287,760	49,933,030
Acquisition through business combination	82,769	77,191	85,019	92,629	6,699	344,307
Additions	1,512	89,573	2,137,629	1,935,873	1,008,103	5,172,690
Disposals and derecognitions	(2,245)	(69,023)	(507,985)	(1,281,509)	-	(1,860,762)
Reclassifications	-	701,455	801,443	307,023	(1,809,921)	-
Effect of changes in exchange rates	9,853	376,532	597,413	(298,945)	(66,495)	618,358
Balance on December 31, 2015	**$ 1,985,448**	**15,982,036**	**23,694,268**	**10,119,725**	**2,426,146**	**54,207,623**
Balance on January 1, 2014	$ 1,701,570	12,202,869	16,162,392	7,940,783	3,577,480	41,585,094
Acquisition through business combination	188,996	315,454	732,127	72,220	9,619	1,318,416
Additions	-	195,926	2,611,352	2,043,464	2,258,326	7,109,068
Disposals and derecognitions	-	(10,884)	(346,839)	(1,282,037)	-	(1,639,760)
Reclassifications	-	1,399,221	608,937	815,845	(2,824,003)	-
Effect of changes in exchange rates	2,993	703,722	812,780	(225,621)	266,338	1,560,212
Balance on December 31, 2014	**$ 1,893,559**	**14,806,308**	**20,580,749**	**9,364,654**	**3,287,760**	**49,933,030**
Depreciation and impairment loss:						
Balance on January 1, 2015	$ -	8,252,751	12,002,279	5,205,268	-	25,460,298
Acquisition through business combination	-	29,103	50,667	64,611	-	144,381
Depreciation for the period	-	850,560	2,392,301	2,110,339	-	5,353,200
Disposals and derecognitions	-	-	89,574	-	-	89,574
Reclassifications	-	(57,573)	(455,365)	(1,222,995)	-	(1,735,933)
Effect of changes in exchange rates	-	423,600	681,966	(518,094)	-	587,472
Balance on December 31, 2015	**$**	**9,498,441**	**14,761,422**	**5,639,129**	**-**	**29,898,992**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Land	Buildings and building improvement	Machinery and equipment	Other equipment	Under construction and prepayment for purchase of equipment	Total
Balance on January 1, 2014	$ -	6,864,624	8,890,461	4,620,781	-	20,375,866
Acquisition through business combination	-	127,118	537,419	41,378	-	705,915
Depreciation for the period	-	871,283	2,358,346	2,108,425	-	5,338,054
Impairment loss	-	-	33,913	163	-	34,076
Disposals and derecognitions	-	(8,457)	(302,247)	(1,229,349)	-	(1,540,053)
Effect of changes in exchange rates	-	398,183	484,387	(336,130)	-	546,440
Balance on December 31, 2014	$	8,252,751	12,002,279	5,205,268	-	25,460,298
Carrying amounts:						
Balance on December 31, 2015	$ 1,985,448	6,483,595	8,932,846	4,480,596	2,426,146	24,308,631
Balance on January 1, 2014	$ 1,701,570	5,338,245	7,271,931	3,320,002	3,577,480	21,209,228
Balance on December 31, 2014	$ 1,893,559	6,553,557	8,578,470	4,159,386	3,287,760	24,472,732

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

As of December 31, 2015 and 2014, the payments amounted to $893,835 and $697,538, respectively, and the capitalized borrowing cost amounted to $15,591 and $14,719, respectively.

As of December 31, 2015 and 2014, part of the Group’s property, plant and equipment are provided as collateral for long-term borrowings. Please refer to note (8).

(n) Short-term borrowings

The details of short-term borrowings were as follows:

	December 31, 2015	December 31, 2014
Credit loans	$ 28,651,102	46,543,180
Secured bank loans	830,074	149,193
	$ 29,481,176	46,692,373
Unused credit line for short-term borrowings	$ 130,930,000	96,698,000
Annual range of interest rates	0.56%~17.56%	0.70%~11.72%

For information on the Group’s interest risk, foreign currency risk and liquidity risk, please refer to note (6)(aa).

(Continued)

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

(o) Long-term borrowings

The details of long-term borrowings were as follows:

	December 31, 2015			
	Currencies	**Annual interest rate**	**Expiration year**	**Amount**
Unsecured bank loans	TWD	1.23%~1.5%	2016~2018	$ 27,590,000
Unsecured bank loans	USD	2.02%~2.06%	2016	142,242
Secured bank loans	TWD	1.88%~2.19%	2017~2022	840,938
				$ 28,573,180
Current				$ 14,216,617
Non-current				14,356,563
Total				**$ 28,573,180**
Unused credit line for long-term borrowings				**$ 1,407,600**

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

For information on the Group’s interest risk and liquidity risk, please refer to note (6)(aa).

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

(p) Provisions

	Warranties	Sales returns and allowances	Guarantee of defective rate	Total
Balance on January 1, 2015	$ 368,934	1,697,647	-	2,066,581
Provisions made during the period	212,984	1,004,716	-	1,217,700
Acquisition through business combination	8,668	-	-	8,668
Provisions used during the period	(190,310)	(385,855)	-	(576,165)
Provisions reversed during the period	(46,243)	(281,827)	-	(328,070)
Effect of changes in exchange rates	-	(4)	-	(4)
Balance on December 31, 2015	$ 354,033	2,034,677	-	2,388,710
Balance on January 1, 2014	$ 247,658	1,391,452	36,655	1,675,765
Provisions made during the period	278,659	1,003,571	15,365	1,297,595
Provisions used during the period	(131,855)	(452,038)	-	(583,893)
Provisions reversed during the period	(25,528)	(245,150)	(52,050)	(322,728)
Effect of changes in exchange rates	-	(188)	30	(158)
Balance on December 31, 2014	$ 368,934	1,697,647	-	2,066,581

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

(q) Operating lease

1. The Group as lessee

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

	December 31, 2015	December 31, 2014
Less than one year	$ 464,568	527,566
Between one and five years	679,965	920,959
More than five years	165,073	176,969
	$ 1,309,606	1,625,494

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

For the years ended December 31, 2015 and 2014, expenses recognized in profit or loss under operating leases amounted to $615,563 and $628,390, respectively.

(Continued)

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

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

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

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

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

For the years ended December 31, 2015 and 2014, expenses recognized in profit or loss under operating lease amounted to $15,790 and $16,690, respectively.

2. The Group as lessor

The Group leased out a few office buildings, plants and equipments to third parties under operating lease with lease terms of 3 to 5 years. For the years ended December 31, 2015 and 2014, rentals recognized in profit or loss amounted to $13,443 and $15,978, respectively. The future minimum lease receivables under non-cancellable leases are as follows:

	December 31, 2015	December 31, 2014
Less than one year	$ 9,749	3,058
Between one and five years	11,688	-
	$ 21,437	3,058

(Continued)

(r) Employee benefits

1. Defined benefit plans

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

	December 31, 2015	December 31, 2014 (retrospectively adjusted)
Present value of defined benefit obligations	$ (1,346,706)	(1,247,642)
Fair value of plan assets	804,145	788,334
Net defined benefit obligations	**$ (542,561)**	**(459,308)**

	December 31, 2015	December 31, 2014 (retrospectively adjusted)
Net defined benefit assets	$ 2,899	2,701
Net defined benefit obligations	(545,460)	(462,009)
	$ (542,561)	**(459,308)**

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

(i) Composition of plan assets

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

The balance of the Group's labor pension reserve accounts in the Bank of Taiwan amounted to $795,268 as of December 31, 2015. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, the Minister of Labor.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

		2015	2014
Balance on January 1	$	(1,247,642)	(1,239,104)
Benefit paid by the plan		35,781	70,768
Current service costs and interest		(35,434)	(36,751)
Remeasurements of net benefit liabilities		(99,411)	(42,555)
Balance on December 31	**$**	**(1,346,706)**	**(1,247,642)**

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

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

		2015	2014 (retrospectively adjusted)
Fair value of plan assets on January 1	$	788,334	812,531
Expected return on plan assets		15,559	17,292
Remeasurements of net benefit plan assets		5,815	467
Contributions made		30,218	28,812
Benefit paid by the plan assets		(35,781)	(70,768)
Fair value of plan assets on December 31	**$**	**804,145**	**788,334**

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2015 and 2014, were as follows:

		December 31, 2015	December 31, 2014 (retrospectively adjusted)
Service cost	$	10,824	10,942
Net interest on the net defined benefit liability (asset)		9,759	8,525
	$	**20,583**	**19,467**

(Continued)

		December 31, 2015	December 31, 2014 (retrospectively adjusted)
Cost of sales	$	1,289	531
Selling expenses		1,354	848
Administrative expenses		5,109	9,547
Research and development expenses		12,831	8,541
	$	**20,583**	**19,467**

(v) The remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income

The Group's remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income, before tax, for the years ended December 31, 2015 and 2014, were as follows:

		December 31, 2015	December 31, 2014 (retrospectively adjusted)
Cumulative amount on January 1	$	211,598	169,510
Recognized during the period		93,596	42,088
Cumulative amount on December 31	**$**	**305,194**	**211,598**

(vi) Actuarial assumptions

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

	December 31, 2015	December 31, 2014 (retrospectively adjusted)
Discount rate on December 31	1.60%~1.88%	2.00%~2.25%
Future salary increases	2.50%~3.00%	1.50%~3.00%

The expected allocation payment made by the Group to the defined benefit plans for the one year period after the reporting date was $31,145.

The weighted-average duration of the defined benefit obligation is 11.0~17.47 years.

(Continued)

(vii) Sensitivity analysis

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

If the main actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Effects to the defined benefit obligation	
	Increased 0.25%	Decreased 0.25%
Discount rate	(37,469)	39,032
Future salary increasing rate	38,491	(37,148)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation on the net defined benefit liabilities in the balance sheets.

2. Defined contribution plans

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

The domestic Group entities recognized the pension costs under the defined contribution plans amounting to $327,936 and $313,021 for the years ended December 31, 2015 and 2014, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expenses, basic endowment insurance expenses, and social welfare expenses amounting to $1,051,142 and $807,247 for the years ended December 31, 2015 and 2014, respectively.

(s) Income taxes

1. Income tax expenses

(i) The amount of income tax for the years ended December 31, 2015 and 2014, was as follows:

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2015	2014
Current tax expense		
Recognized during the period	$ 2,884,591	2,184,535
10% surtax on unappropriated earnings	688,681	156,692
Tax credit of investment	(410,510)	(163,158)
	3,162,762	2,178,069
Deferred tax expense		
Recognition and reversal of temporary differences	(377,816)	3,902
Income tax expense	**$ 2,784,946**	**2,181,971**

(ii) The amount of income tax recognized in other comprehensive income for the years ended December 31, 2015 and 2014, was as follows:

	2015	2014
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the net defined benefit liability	**$ (15,911)**	**(6,010)**
Items that will be reclassified subsequently to profit or loss:		
Foreign currency translation differences of foreign operations	$ 7,933	3,969
Unrealized gain (loss) of available-for-sale financial assets	26,382	35,138
	$ 34,315	**39,107**

(iii) The income tax that was reconciled between the actual income tax expense and profit before tax for the years ended December 31, 2015 and 2014, was as follows:

	2015	2014 (retrospectively adjusted)
Profit before tax	**$ 11,792,093**	**9,727,352**
Income tax calculated based on tax rate	$ 2,447,591	1,923,090
Estimated tax effect of tax exemption on investment loss, net	80,660	1,152,631
Realized investment loss	(2,491)	(1,156,758)
Investment tax credit	(410,510)	(160,338)
Changes in temporary differences	(337,292)	(447,841)
Adjustment of estimated difference and other	318,307	714,495
10% surtax on unappropriated earnings	688,681	156,692
	$ 2,784,946	**2,181,971**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2015 and 2014, were as follows:

		Provision-sales return and allowance	Unearned revenue	Unrealized exchange losses, net	Others	Total
Deferred tax assets:						
Balance on January 1, 2015	$	370,686	321,063	451,981	509,411	1,653,141
Amount increased through business combination		-	737	2	20,741	21,480
Recognized in profit or loss		182,209	(101,401)	(387,090)	(8,097)	(314,379)
Recognized in other comprehensive income		-	-	-	17,223	17,223
Balance on December 31, 2015	**$**	**552,895**	**220,399**	**64,893**	**539,278**	**1,377,465**
Balance on January 1, 2014	$	330,595	245,779	158,280	439,549	1,174,203
Amount increased through business combination		-	-	-	58,113	58,113
Recognized in profit or loss		40,091	75,284	293,701	42,181	451,257
Recognized in other comprehensive income		-	-	-	(30,432)	(30,432)
Balance on December 31, 2014	**$**	**370,686**	**321,063**	**451,981**	**509,411**	**1,653,141**

		Unrealized exchange gains, net	Others	Total
Deferred tax liabilities:				
Balance on January 1, 2015	$	(752,149)	(384,262)	(1,136,411)
Amount increased through business combination		(1,654)	-	(1,654)
Recognized in profit or loss		689,398	2,797	692,195
Recognized in other comprehensive income		-	(35,627)	(35,627)
Balance on December 31, 2015	**$**	**(64,405)**	**(417,092)**	**(481,497)**
Balance on January 1, 2014	$	(296,170)	(382,417)	(678,587)
Recognized in profit or loss		(455,979)	820	(455,159)
Recognized in other comprehensive income		-	(2,665)	(2,665)
Balance on December 31, 2014	**$**	**(752,149)**	**(384,262)**	**(1,136,411)**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Unrecognized deferred tax assets

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

	December 31, 2015	December 31, 2014
Tax effect of deductible temporary differences	$ 674,927	594,833
Tax effect of loss carry-forward	$ 814,694	659,420

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

As of December 31, 2015, the tax effects on loss carry-forward that have not been recognized as deferred tax assets were as follows:

Year of loss	Expiry year	Deductible amount
2006 (Assessed)	2016	$ 173,046
2007 (Assessed)	2017	147,729
2008 (Assessed)	2018	600,348
2009 (Assessed)	2019	877,160
2010 (Assessed)	2020	563,310
2011 (Assessed)	2021	403,612
2012 (Assessed)	2022	760,117
2013 (Assessed)	2023	241,051
2014 (Assessed/Filed)	2024	44,128
2015 (Estimated)	2025	981,815
		$ 4,792,316

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

As of December 31, 2015 and 2014, the aggregate deductible temporary differences relating to investments in subsidiaries not recognized as deferred tax assets amounted to $2,838,492 and $785,369, respectively.

As of December 31, 2015 and 2014, the aggregate taxable temporary differences relating to investments in subsidiaries not recognized as deferred tax liabilities amounted to $46,572,327 and $39,839,113, respectively.

5. Except 2012, the ROC tax authorities have assessed the Company’s income tax returns through 2013.

(Continued)

The ROC tax authorities have assessed the income tax returns of Zhaopal, Yongpal, Kaipal, UCGI and Huang Feng through 2014, of Acbel Telecom, Zhipal, Panpal, Gempal, Hong Ji, Hong Jin, TTI, HengHao, Synchro, Ripal, GLB, Rayonnant Technology and Mactech through 2013, of Arcadyan and CBN through 2012, of ATK through June 2009, of CCI through 2012 except for 2010.

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

	December 31, 2015	December 31, 2014 (retrospectively adjusted)
Unappropriated earnings retained after January 1, 1998	$ 32,167,179	24,146,451
Balance of the imputation credit account	$ 3,087,507	2,661,884

	2015	2014
Creditable ratio for earnings distribution to R.O.C residents	11.50% (expected)	12.50% (actual)

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

(t) Capital and other equities

As of December 31, 2015 and 2014, the Company's authorized common stock consisting of 6,000,000 thousand shares with a par value of 10 New Taiwan dollar per share amounted to $60,000,000 of which 4,471,127 thousand shares and 4,423,237 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

1. Ordinary shares

In 2015, the Company issued its employee restricted shares amounting to $493,600, wherein the amount of $14,700 had been cancelled due to failure in meeting the vested requirements. As of December 31, 2015, the registration procedure had been completed.

As of December 31, 2014, the registration procedure related to the employee stock options, which were exercised to acquire the Company's ordinary shares amounting to $97,899, had been completed.

2. Capital surplus

The balances of capital surplus were as follows:

	December 31, 2015	December 31, 2014
Additional paid-in capital	$ 9,529,585	11,743,975
Treasury stock transactions	2,351,157	2,276,131
Difference between consideration and carrying amount arising from acquisition or disposal of subsidiaries	3,750	3,492
Recognition of changes in ownership interests in subsidiaries	48,184	19,909
Employee restricted shares	647,200	-
Changes in equity of associates and joint ventures accounted for using equity method	258,762	252,938
	$ 12,838,638	14,296,445

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

The Company’s shareholders’ meeting held on June 26, 2015 and June 20, 2014, approved to distribute the cash dividend of $2,214,390 and $2,177,668, respectively, representing 0.5 New Taiwan dollars per share by using the additional paid-in capital.

3. Retained earnings

Based on the Company’s articles of incorporation amended on June 26, 2015, 10% of annual net income after offsetting prior years’ deficits, if any, is to be set aside as legal reserve and a special reserve is set aside or reversed in accordance with the laws or regulations, and an amount less than 2% of the balance, after deducting the legal reserve and the special reserve, is appropriated as compensation to the directors and supervisors, and more than 2% as bonus to employees. The balance of earnings available for distribution is composed of the remainder of the said profit and the unappropriated retained earnings in prior years. The earnings appropriation proposal to distribute dividend and bonus shall be proposed by the Board of Directors and approved by the General Shareholders Meeting. The rest of the unappropriated retained earnings shall be reserved.

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According to the Company Act which was amended in May 2015, employee bonuses and directors' and supervisors' compensation are no longer subject to earnings distribution, and the Company will make all the necessary changes to its articles of association before the deadline specified by the authorities.

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

(i) Legal reverse

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

(ii) Special reverse

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

(iii) Earnings distribution

The employee bonuses and directors' and supervisors' compensation were accrued and recognized as operating costs or operating expenses based on a specific percentage, which was approved by the management, of net income after deducting the legal reserve for the year ended December 31, 2014. The Company accrued and recognized employee bonuses of $895,790, and directors' and supervisors' compensation of $49,379 for the year ended December 31, 2014. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

(Continued)

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Distribution for the earnings of 2014 and 2013 was approved by the shareholders during their annual meeting held on June 26, 2015, and June 20, 2014, respectively. The relevant information was as follows:

	2014		2013	
	Amount per share	**Total amount**	**Amount per share**	**Total amount**
Cash dividends distributed to common shareholders	$ 1.0	4,428,781	0.5	2,177,668

	2014	2013
Employee bonuses – cash	$ 895,790	314,199
Directors' and supervisors' compensation	49,379	21,761
	$ 945,169	**335,960**

The above earnings distribution for the fiscal years 2014 and 2013 had no difference from the estimated distribution in the financial reporting for 2014 and 2013.

The earnings distribution for the year ended December 31, 2015 had not yet been approved by the board of directors nor decided by the shareholders. The related information can be accessed through the Market observation Post System website after the shareholders' meeting.

4. Treasury stock

The subsidiaries of the Company did not sell the ordinary shares of the Company in the years ended December 31, 2015 and 2014. As of December 31, 2015, Panpal and Gempal, subsidiaries of the Company, held 50,017 thousand shares of ordinary shares of the Company, recorded as the Company's treasury stock, with a book value of 17.6 New Taiwan dollars per share. The total cost was $881,247 as of December 31, 2015. The fair value of the ordinary shares of the Company was 18.5 and 22.2 New Taiwan dollars per share as of December 31, 2015 and 2014, respectively.

Pursuant to Article 28-2 of the Securities and Exchange Act, in order to transfer its own shares to employees, the Company purchased 58,516 thousand shares of treasury stock amounting to $1,126,478 in the year ended December 31, 2013. At a meeting held on August 13, 2014, the Company's Board of Directors decided to transfer 14,700 thousand shares of treasury stock, which were purchased in 2013, to employees, at 19.25 New Taiwan dollars per share, please refer to (6)(u) 2.

(Continued)

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

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

		Exchange differences on transaction of foreign operation financial statements	Unrealized gain (losses) on available-for-sale financial assets	Unearned compensations for employee restricted shares and others	Total
Balance on January 1, 2015	$	1,178,307	(4,317,328)	-	(3,139,021)
The Company		2,011,139	(1,714,209)	(727,208)	(430,278)
Subsidiaries		(276,241)	57,900	7,698	(210,643)
Associates		(110,144)	(36,795)	-	(146,939)
Balance on December 31, 2015	$	**2,803,061**	**(6,010,432)**	**(719,510)**	**(3,926,881)**
Balance on January 1, 2014	$	(1,846,674)	(5,860,844)	-	(7,707,518)
The Company		2,903,749	1,388,365	-	4,292,114
Subsidiaries		(49,564)	244,212	-	194,648
Associates		170,796	(89,061)	-	81,735
Balance on December 31, 2014	$	**1,178,307**	**(4,317,328)**	**-**	**(3,139,021)**

(u) Share-based payment

1. The Company – employee stock options

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

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

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

The issuance terms of the share options are as follows:

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

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

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

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

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

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

(Continued)

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

2. The Company – treasury stock transferred to employees

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

3. The Company – employee restricted shares

At the meeting held on June 20, 2014, the Company's Shareholders' Meeting adopted a resolution to issue 100,000 thousand new shares of employee restricted stock with no consideration to those full time employees who meet certain requirements. The first issuance of 50,000 thousand shares had been approved by the FSC on October 30, 2014. Moreover, the Company's Board of Directors resolved to issue 49,980 thousand shares on January 22, 2015, and 49,360 thousand shares had actually been issued, in which the effective date of the share issuance was on February 25, 2015.

40%, 30% and 30% of the aforementioned restricted shares are vested, respectively, when the employees continue to provide service for at least 2 year, 3 years and 4 years from the registration and effective date and in the mean time, meet the performance requirement. After the issuance, the restricted shares are kept by a trust, which is appointed by the Company, before they are vested. These restricted shares shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. The voting rights of these shares are executed by the custodian, and the custodian shall act based on law and regulations. If the shares remain unvested after the vesting period, the Company will purchase all the unvested shares without consideration and cancel the shares thereafter. Restricted shares could receive cash and stock dividends. The aforementioned new shares are not considered as restricted shares.

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

	2015
Outstanding shares on January 1	$ -
Vested during the period	-
Granted during the period	49,360
Canceled during the period	(1,470)
Outstanding shares on December 31	**$ 47,890**

(Continued)

The fair value of the restricted employee shares are evaluated by using the market price of $23.5 on the grant date. As of December 31, 2015, the unearned employee benefit was $727,208. The compensation cost related to the restricted shares amounted to $400,262 for the year ended December 31, 2015.

4. Arcadyan – employee stock options

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

	2015		2014	
	Shares	**Weighted-average exercise price (NT dollars)**	**Shares**	**Weighted-average exercise price (NT dollars)**
Outstanding shares on January 1	-	$ -	521,300	$ 23.50
Granted shares during the period	-	-	-	-
Shares exercised during the period	-	-	(403,800)	22.71
Shares expired during the period	-	-	(117,500)	22.40
Outstanding shares on December 31	-	-	-	-

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

The issuance terms of the share options are as follows.

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

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

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

(Continued)

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

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

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

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

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

5. Arcadyan – employee restricted shares

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

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

(Continued)

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

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

	2015
Outstanding shares on January 1	1,958
Vested during the period	(1,300)
Aborted during the period	(39)
Outstanding shares on December 31	**619**

As of December 31, 2015 and 2014, the unearned employee benefit was $4,578 and $25,511, respectively.

The compensation cost related to the restricted shares amounted to $23,806 and $50,534 for the years ended December 31, 2015 and 2014, respectively.

6. TTI – employee stock options

At a meeting held on November 26, 2014, TTI's Board of Directors resolved to issue 1,000,000 units of its employee stock options, with an exercisable right of one share of TTI's ordinary shares for each unit. The issuance date was October 29, 2015.

(Continued)

The information on total options issued was as follows:

	2015	
	Shares	**Weighted-average exercise price (NT dollars)**
Outstanding shares on January 1	-	$ -
Issued during the period	1,000	13.5
Aborted during the period	-	-
Exercised during the period	-	13.5
Expired during the period	-	13.5
Outstanding shares on December 31	1,000	13.5
Exercisable shares on December 31	-	-

As of December 31, 2015, the weighted-average remaining contractual life of the outstanding options was 6.83 years.

The issuance terms of the stock options are as follows:

1. Exercise price: NT$13.5 per share.

2. Exercisable duration: The employees who received stock options that exceed two years and meet the performance requirements can exercise a specific percentage in each period as below. The exercisable duration of the options is seven years. No transfer is allowed except for inheritance.

Exercisable percentage	Period and performance requirements to exercise options
40%	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 2 years after the issuance of the right. (2) Upon vesting, the average earnings per share of TTI for the past 2 years must exceed NT$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to 3 years; under this extension, the average of the earnings per share of any 2 years within the 3 year period must exceed NT$3.
30%	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 3 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of TTI for the following year must exceed NT$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT$3 during the extension period.

(Continued)

Exercisable percentage	Period and performance requirements to exercise options
30%	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 4 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of TTI for the following year must exceed NT$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT$3 during the extension period. The total measurement periods mentioned above may not exceed 6 years.

The earnings per share mentioned above are based on the financial statements that had been audited and certified by a certified public accountant.

3. Exercise method: TTI would issue new shares as the options are exercised.

4. Exercise procedure: In accordance with TTI's issuance and exercise rules. After receiving the payment for share options, the entitlement certification of share options exercised is registered as ordinary shares.

The expenses related to the share-based payment amounted to $215 for the year ended December 31, 2015.

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

The weighted average fair value (TWD / unit)	4.94
Current price (TWD)	14.5
Exercise price (TWD)	13.5
Expected volatility	47.06%
Expected life of the option	7 years
Expected dividend yield rate	0%
Risk-free interest rate	0.5027~0.9669%

7. CBN – employee stock options

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

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) The first employee stock option plan

	2015		2014	
	Shares	Weighted-average exercise price (NT dollars)	Shares	Weighted-average exercise price (NT dollars)
Outstanding shares on January 1	887,600	$ 10.00	974,000	$ 10.00
Aborted during the period	(59,600)	10.00	(86,400)	10.00
Exercised during the period	(307,600)	10.00	-	-
Outstanding shares on December 31	520,400	10.00	887,600	$ 10.00
Exercisable shares on December 31	273,200	10.00	383,600	$ 10.00

As of December 31, 2015 and 2014, the weighted-average remaining contractual life of the outstanding options was 3.83 and 4.83 years, respectively.

(ii) The second employee stock option plan

	2015		2014	
	Shares	Weighted-average exercise price (NT dollars)	Shares	Weighted-average exercise price (NT dollars)
Outstanding shares on January 1	709,000	$ 10.00	-	$ -
Issued during the period	-	-	800,000	10.00
Aborted during the period	(129,000)	10.00	(91,000)	10.00
Outstanding shares on December 31	580,000	10.00	709,000	10.00
Exercisable shares on December 31	-	-	-	-

As of December 31, 2015 and 2014, the weighted-average remaining contractual life of the outstanding options was 5.67 and 6.67 years, respectively.

The issuance terms of the share options are as follows.

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

(Continued)

(iv) Exercisable duration:

A. The first employee stock options plan:

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

B. The second employee stock option plan:

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

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

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

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

The compensation cost for the years ended December 31, 2015 and 2014, were $7,344 and $7,228, respectively.

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

A. The first employee stock option plan:

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

B. The second employee stock option plan:

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

(v) Earnings per share

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

	2015	2014 (retrospectively adjusted)
Basic earnings per share:		
Profit attributable to ordinary shareholders of the Company	$ 8,684,610	7,024,461
Weighted-average number of outstanding ordinary shares	4,329,404	4,312,855
Diluted earnings per share:		
Profit attributable to ordinary shareholders of the Company (after adjustment of potential diluted ordinary shares)	$ 8,684,610	7,024,461
Weighted-average number of outstanding ordinary shares with effect of potential diluted ordinary shares		
Weighted-average number of outstanding ordinary shares	4,329,404	4,312,855
Effect of dilutive ordinary shares		
Employee bonuses	19,335	46,746
Employee compensations	51,350	-
Employee restricted shares	14,504	-
Employee stock options	-	931
Weighted-average number of ordinary shares (after adjustment of potential diluted ordinary shares)	4,414,593	4,360,532

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(w) Revenue

The revenue for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Sale of goods	$ 844,323,056	843,978,273
Rendering of services and others	2,982,642	1,722,479
	$ 847,305,698	**845,700,752**

(x) Employees' and directors' compensations

Based on the Company's articles of incorporation which is approved by the Board of Directors but not yet resolute by the meeting of shareholders, if there is any profit in a fiscal year, the Company's pre-tax profits in such fiscal year, prior to deduction of compensations to employees and directors, shall be distributed to employees as compensations in an amount of not less than two percent (2%) thereof and to directors as compensations in an amount of not more than two percent (2%) of such profits. In the event that the Company has accumulated losses, the Company shall reserve an amount to offset accumulated losses. The compensations to employees as mentioned above may be distributed in the form of stock or cash. Employees entitled to receive the said stock or cash may include the employees of the Company's subordinate companies pursuant to the Company Act.

The estimated amounts mentioned above are based on the net profit before tax of each respective ending period, multiplied by the percentage of the compensation to employees and directors, as specified in the Company's article. The estimations are recorded under operating expenses and cost. The Company accrued and recognized its employee compensation of $949,980, and directors' compensation of $50,234 for the year ended December 31, 2015. The number of the shares of the employee compensation is based on the closing price of the day before the Board of Directors' meeting in 2016. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(y) Non-operating income and expenses

1. Other income

The other income for the years ended December 31, 2015 and 2014, were as follows:

		2015	2014
Interest income			
Bond investment without an active market	$	30,992	42,308
Bank deposits		554,912	960,128
Others		13,860	21,300
Dividend revenue		237,232	208,983
Overdue payable reversed as other income		207,076	134,528
Other revenue		451,084	432,882
	$	**1,495,156**	**1,800,129**

2. Other gains and losses

The other gains and losses for the years ended December 31, 2015 and 2014, were as follows:

		2015	2014
Gain (loss) on disposal of investments	$	(20,718)	18,348
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net		383,753	529,423
Foreign currency exchange gains (losses), net		(690,434)	525,341
Gain on disposal of fixed assets		3,560	46,226
	$	**(323,839)**	**1,119,338**

(z) Reclassification of the components of other comprehensive income

The details of reclassification of the components of other comprehensive income for the years ended December 31, 2015 and 2014, were as follows:

		2015	2014
Cash flow hedge:			
Profit (loss) recognized (net of tax)	$	8,154	-
Less: reclassified to profit or loss		(13,206)	-
Profit (loss) recognized in other comprehensive income (net of tax)	$	**21,360**	**-**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2015	2014
Available-for-sale financial assets:		
Net change in fair value (net of tax)	$ (1,688,214)	(3,100,162)
Net change in fair value reclassified to profit or loss (net of tax)	31,905	4,732,652
Net change in fair value recognized in other comprehensive income (net of tax)	**$ (1,656,309)**	**1,632,490**

(aa) Financial instruments

1. Credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2. Liquidity risk

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

	Carrying Amount	Contractual cash flows	Within 1 year	1 ~ 2 years	Over 2 years
December 31, 2015					
Non-derivative financial liabilities					
Secured loans	$ 1,671,012	(1,671,012)	(1,054,449)	(266,875)	(349,688)
Unsecured loans	56,383,344	(56,383,344)	(42,643,344)	(9,950,000)	(3,790,000)
Accounts payable	128,626,544	(128,626,544)	(128,626,544)	-	-
Other payables	12,844,394	(12,844,394)	(12,844,394)	-	-
Derivative financial liabilities					
Forward exchange contracts:	7,842				
Outflow		(959,790)	(959,790)	-	-
Inflow		952,207	952,207	-	-
Currency swap contracts:	21,373				
Outflow		(1,445,840)	(1,445,840)	-	-
Inflow		1,432,881	1,432,881	-	-
	$ 199,554,509	**(199,545,836)**	**(185,189,273)**	**(10,216,875)**	**(4,139,688)**

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Carrying Amount	Contractual cash flows	Within 1 year	1 ~ 2 years	Over 2 years
December 31, 2014					
Non-derivative financial liabilities					
Secured loans	$ 1,247,926	(1,247,926)	(611,988)	(209,375)	(426,563)
Unsecured loans	69,582,981	(69,582,981)	(49,714,618)	(12,508,363)	(7,360,000)
Accounts payable	171,906,285	(171,906,285)	(171,906,285)	-	-
Other payables	12,962,736	(12,962,736)	(12,962,736)	-	-
Derivative financial liabilities					
Currency swap contracts:	39,310				
Outflow		(951,300)	(951,300)	-	-
Inflow		911,970	911,970	-	-
	$ 255,739,238	(255,739,258)	(235,234,957)	(12,717,738)	(7,786,563)

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

3. Currency risk

(i) Exposure to foreign currency risk

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

	December 31, 2015			December 31, 2014		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD to TWD	$5,790,839	32.825	190,084,290	7,035,802	31.65	222,683,133
USD to CNY	8,691	6.492	281,828	13,771	6.204	435,036
EUR to TWD	61,499	35.88	2,206,584	49,680	38.47	1,911,190
CNY to USD	2,278,787	0.154	11,519,382	2,573,699	0.1612	13,130,961
Financial liabilities						
Monetary items						
USD to TWD	4,290,565	32.825	140,837,796	6,492,266	31.65	205,480,219
USD to CNY	5,716	6.492	185,356	37,146	6.204	1,173,471
CNY to USD	2,571,473	0.154	12,998,925	2,324,827	0.1612	11,861,221

(Continued)

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans and borrowings, accounts payable, and other payables that are denominated in foreign currency. Assuming all other variable factors remain constant, a strengthening (weakening) 5% of appreciation (depreciation) of the each major foreign currency against Group entities' functional currency as of December 31, 2015 and 2014, would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

	December 31, 2015	December 31, 2014
USD (against the TWD)		
Strengthening 5%	$ 2,462,325	860,146
Weakening 5%	(2,462,325)	(860,146)
USD (against the CNY)		
Strengthening 5%	4,824	(36,922)
Weakening 5%	(4,824)	36,922
EUR (against the TWD)		
Strengthening 5%	110,329	95,560
Weakening 5%	(110,329)	(95,560)
CNY (against the USD)		
Strengthening 5%	(73,977)	63,487
Weakening 5%	73,977	(63,487)

(iii) Exchange gains and losses of monetary items

As the Group deals with diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2015 and 2014, the foreign exchange gains or losses, including both realized and unrealized, amounted to a loss of $690,434 and a gain of $525,341, respectively.

(Continued)

4. Interest rate analysis

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

	Carrying amount	
	December 31, 2015	**December 31, 2014**
Fixed rate instruments:		
Financial assets	$ 36,786,115	48,163,580
Financial liabilities	(35,181,176)	(49,216,723)
	$ 1,604,939	**(1,053,143)**
Variable rate instruments:		
Financial assets	$ 25,924,705	26,528,909
Financial liabilities	(22,873,180)	(21,614,184)
	$ 3,051,525	**4,914,725**

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

Assuming all other variable factors remaining constant, if the interest rate had increased or decreased by 0.25%, the impacts to the net profit before tax would be as follows for the years ended December 31, 2015 and 2014, which would be mainly resulted from the bank savings and borrowings with variable interest rates.

	2015	**2014**
Interest increased by 0.25%	$ 7,629	12,287
Interest decreased by 0.25%	(7,629)	(12,287)

(Continued)

5. Fair value information

(i) Valuation process

The Group's accounting policies and disclosure include fair value method on financial assets, financial liabilities, non-financial assets and non-financial liabilities. The Group's management is responsible in performing independent test on fair value by using independent source of information to obtain the fair value which is close to the market status. The management also confirms the independence, reliability and matching of the information source, and regularly test the valuation model, update the input and other information, and make necessary adjustment to ensure the output of valuation is reasonable.

(ii) Fair value hierarchy

The Group uses observable market data to evaluate assets and liabilities when it is possible. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

(iii) The kinds of financial instruments and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2015				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Derivative financial asset for non-hedging	$ 25,412	-	25,412	-	25,412
Derivative financial assets for hedging	21,360	-	21,360	-	21,360
Available-for-sale financial assets					
Stocks listed on domestic markets (including stocks acquired via private placement)	6,217,870	3,947,870	-	2,270,000	6,217,870
Stocks listed on foreign markets	738,063	738,063	-	-	738,063
Stocks unlisted on domestic markets	2,049,324	-	-	2,049,324	2,049,324
Stocks unlisted on foreign markets	87,582	-	-	87,582	87,582
	9,092,839				
Financial assets at cost	103,867	-	-	-	-
Loans and receivables					
Cash and cash equivalents	62,751,542	-	-	-	-
Bond investment without active market-including current and non-current	1,400,000	-	-	-	-
Notes and accounts receivable, net	164,799,743	-	-	-	-
Notes and accounts receivable due from related parties, net	62,245	-	-	-	-
Other receivables	824,160	-	-	-	-
Guarantee deposits	261,921	-	-	-	-
	230,099,611				
Total	**$ 239,343,089**				
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	$ 29,215	-	29,215	-	29,215
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	29,481,176	-	-	-	-
Notes and accounts payable	127,152,784	-	-	-	-
Notes and accounts payable to related parties	1,473,760	-	-	-	-
Other payable	12,844,394	-	-	-	-
Long-term borrowings current portion	14,216,617	-	-	-	-
Long-term borrowings	14,356,563	-	-	-	-
	199,525,294				
Total	**$ 199,554,509**				

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2014				
		Fair Value			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss					
Derivative financial asset for non-hedging	$ 184,093	-	184,093	-	184,093
Available-for-sale financial assets					
Stocks listed on domestic markets (including stocks acquired via private placement)	9,553,412	7,283,412	-	2,270,000	9,553,412
Stocks listed on foreign markets	618,873	618,873	-	-	618,873
Stocks unlisted on domestic markets	2,249,404	-	-	2,249,404	2,249,404
Stocks unlisted on foreign markets	24,858	-	-	24,858	24,858
	12,446,547				
Financial assets at cost	83,202	-	-	-	-
Loans and receivables					
Cash and cash equivalents	74,708,130	-	-	-	-
Bond investment without active market-including current and non-current	1,750,000	-	-	-	-
Notes and accounts receivable, net	178,552,207	-	-	-	-
Notes and accounts receivable due from related parties, net	343,030	-	-	-	-
Other receivables	788,334	-	-	-	-
Guarantee deposits	208,937	-	-	-	-
	256,350,638				
Total	**$ 269,064,480**				
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	$ 39,310	-	39,310	-	39,310
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	46,692,373	-	-	-	-
Notes and accounts payable	170,739,133	-	-	-	-
Notes and accounts payable to related parties	1,167,152	-	-	-	-
Other payable	12,962,736	-	-	-	-
Long-term borrowings current portion	3,634,233	-	-	-	-
Long-term borrowings	20,504,301	-	-	-	-
	255,699,928				
Total	**$ 255,739,238**				

(iv) Fair value valuation technique of financial instruments not measured at fair value

The Group estimate instruments that not measured at fair by method and presumption as follows:

(Continued)

A. Bond investment without active market and financial liabilities at amortized cost

Fair value measurement is based on the latest quoted price and agreed-upon price if these prices are available in an active market. When market value is unavailable, fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

(v) Fair value valuation technique of financial instruments measured at fair value

A. Non-derivative financial instruments

Financial instruments trade in active markets is based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a base to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

If a quoted price of a financial instrument can be obtained in time and often from exchanges, brokers, underwriters, industrial union, pricing institute, or authorities and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have a quoted price in an active market. If a financial instrument is not in accord with the definition mentioned above, then it is considered to be without a quoted price in an active market. In general, market with low trading volume or high bid-ask spreads is an indication of a non-active market.

The measurements on fair value of the financial instruments without an active market are determined using the valuation technique or the quoted market price of its competitors. Fair value measured using the valuation technique can be extrapolated from similar financial instruments, discounted cash flow method, or other valuation techniques which include the model used in calculating the observable market data at the consolidated balance sheet date.

The measurement of fair value of a non-active market financial instruments held by the Group which do not have quoted market prices are based on the comparable market approach, with the use of key assumptions of price-book ratio multiple or earnings multiple of comparable listed companies as its basic measurement. These assumptions have been adjusted for the effect of discount without the marketability of the equity securities.

B. Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

(vi) Transfer from one level to another

The stocks of Uniflex Technology Inc. (Uniflex) were recorded as available-for-sale financial assets. As of December 31, 2015 and 2014, the fair values of $19,465 and $21,739, respectively, were classified to level 3 hierarchy as of December 31, 2014 because they have no quoted prices in active markets. Uniflex started to be a listed company in December 2016, therefore, the Group transferred the equity investment of Uniflex from level 3 to level 1 because the quoted prices in an active market is available.

In 2014, there was no transfer from one level to another.

(vii) Changes in level 3

	Available-for-sale financial assets
Balance on January 1, 2015	$ 4,544,262
Total gains and losses recognized:	
In profit or loss	(17,449)
In other comprehensive income	(99,617)
Purchased	69,234
Proceeds of capital reduction of investments	(68,125)
Transfer from level 3 to level 1	(21,399)
Balance on December 31, 2015	**$ 4,406,906**
Balance on January 1, 2014	$ 8,537,350
Total gains and losses recognized:	
In profit or loss	(4,742,195)
In other comprehensive income	(90,094)
Increase due to share exchange	985,592
Purchased	879
Cost of disposal	(78,671)
Proceeds of capital reduction of investments	(68,599)
Balance on December 31, 2014	**$ 4,544,262**

The aforementioned total gains and losses related to the assets held during the years ended December 31, 2015 and 2014, were as follows:

(Continued)

		Year ended December 31, 2015	Year ended December 31, 2014
Total gains and losses recognized:			
In profit or loss before tax (as "impairment loss" and "other income")	$	(17,449)	(4,742,195)
In other comprehensive income, before tax (as "unrealized gains and losses on available-for-sale financial assets")	$	(99,617)	(90,094)

(viii) The quantified information for significant unobservable inputs (level 3) used in fair value measurement

The Group's financial instruments that use input level 3 to measure fair values include available-for-sale financial assets – equity investments.

Most of fair value measurements of the Group which are categorized as equity investments into level 3 have several significant unobservable inputs. Significant unobservable inputs of equity investments without quoted price are independent of each other.

The quantified information for significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationships between significant unobservable inputs and fair value
Available-for-sale financial assets- equity investments without quoted price	Price-Book ratio method	Price-Book ratio multiples. (1.21~1.59 on December 31, 2015)	The higher the multiple is, the higher the fair value will be.
		Lack-of-Marketability discount rate (45%~50% on December 31, 2015)	The higher the Lack-of-Marketability discount rate is, the lower the fair value will be.
	Earning multiplier method	Multiples of earning (12.1 on December 31, 2015)	The higher the multiples are, the higher the fair value will be.
Available-for-sale financial assets- investment in private equity fund	Net asset value method	Net asset value	Inapplicable

(Continued)

(ix) Sensitivity analysis for fair value of financial instruments using level 3 inputs

The Group's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on other comprehensive income or loss are as follows:

The table below reflects the impact on other comprehensive income resulted from changes in the valuation inputs used in determining the fair value of financial instrument within level 3:

			Other comprehensive income	
December 31, 2015	**Input**	**Move up or down**	**Favorable change**	**Unfavorable change**
Available-for-sale financial assets	Price-Book ratio multiples.	5%	$ 4,017	3,866
	Multiples of earnings	5%	$ 3,629	3,643
	Lack-of-Marketability discount rate	5%	$ 3,885	3,748

The favorable and unfavorable changes reflect the movement of the fair value, in which the fair value is calculated by using the different unobservable inputs in the valuation technique. The table above shows the effects of one unobservable input, without considering the inter-relationships with another unobservable input for financial instrument, if there are one or more unobservable inputs.

(ab) Financial risk management

1. Briefings

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

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

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

2. Structure of risk management

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

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

3. Credit risk

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

(i) Accounts receivable and other receivables

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

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

(ii) Investments

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

(Continued)

(iii) Guarantees

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to subsidiaries and companies that the Group has business with. As of December 31, 2015 and 2014, the Group did not provide any guarantees to other companies besides its subsidiaries.

4. Liquidity risk

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

The Group manages and maintains sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements. Please refer to notes (6)(n) and (6)(o) for unused credit lines of short-term and long-term borrowings as of December 31, 2015 and 2014.

5. Market risk

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

(i) Currency risk

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

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

(ii) Interest rate risk

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

(Continued)

(iii) Other price risk

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

(ac) Capital management

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

The Group monitors the capital structure by way of periodical review the debt ratio. As of December 31, 2015 and 2014, the debt ratio was as follows:

	December 31, 2015	December 31, 2014 (retrospectively adjusted)
Total liabilities	$ 218,327,459	272,530,781
Total assets	$ 327,925,575	378,750,718
Debt ratio	67%	72%

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

As of December 31, 2015, there were no changes in the Group's approach of capital management.

(7) Related-party transactions

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Transactions with key management personnel

Key management personnel compensations comprised:

	2015	2014
Short-term employee benefits	$ 578,185	706,366
Post-employment benefits	9,198	7,121
Share-based payments	241,104	95,609
	$ 828,487	809,096

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

(c) Significant related-party transactions

1. Sale of goods and services provided to related parties

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

	2015	2014
Associates	$ 521,674	$ 2,571,887

Sales prices for related parties were similar to those of the third-party customers. The collection period was 60~120 days for related parties.

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

2. Purchase of goods from related parties

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

	2015	2014
Associates	$ 4,038,294	5,078,117
Other related parties	471,732	459,089
Joint venture	23,814	34,981
	$ 4,533,840	5,572,187

(Continued)

Purchase prices from related parties were similar to those from third-party suppliers. The payment period was 60~165 days for related parties.

3. Receivables due from related parties

The receivables arising from the transactions mentioned above and others on behalf of related parties as of December 31, 2015 and 2014, were as follows:

Account	Category of related party	December 31, 2015	December 31, 2014
Notes and accounts receivable	Associates	$ 62,245	343,030
Other receivables	Joint venture	339	457
		$ 62,584	343,487

4. Payables to related parties

The payables to related parties as of December 31, 2015 and 2014, were as follows:

Account	Category of Related party	December 31, 2015	December 31, 2014
Notes and accounts payable	Associates	$ 1,214,640	918,314
Notes and accounts payable	Other related parties	247,766	244,091
Notes and accounts payable	Joint venture	11,354	4,747
		$ 1,473,760	1,167,152

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged Assets	Subject	December 31, 2015	December 31, 2014
Accounts receivable	Guarantee for short-term borrowings	$ 830,074	149,193
Other current assets – time deposits	Guarantee of post-release duty payment to the Customs	187,489	512
Other current assets	Bail for court mandatory execution	26,510	18,600
Property, plant and equipment	Long-term borrowings (including current portion)	1,112,573	1,640,745
		$ 2,156,646	1,809,050

(Continued)

(9) Commitments and contingencies

The details of commitments and contingencies were as follows:

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

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

(c) As of December 31, 2015 and 2014, the unused balance of the Group's letters of credit was $126,549 and $25,255, respectively.

(d) As of December 31, 2015 and 2014, the Group's signed commitments to purchase property, plant and equipment amounted to $1,210,478 and $1,503,305, respectively.

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

(10) Losses due to major disasters: none

(11) Subsequent events: none

(12) Other

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

By function / By item	2015			2014		
	Operating costs	**Operating expenses**	**Total**	**Operating costs**	**Operating expenses**	**Total**
Employee benefits						
Salary	16,889,186	11,162,252	28,051,438	15,201,930	11,090,519	26,292,449
Labor and health insurance	729,980	693,781	1,423,761	428,306	652,278	1,080,584
Pension	967,909	431,752	1,399,661	739,974	399,761	1,139,735
Others	1,965,565	551,249	2,516,814	2,529,428	543,085	3,072,513
Depreciation	4,809,422	543,778	5,353,200	4,813,509	524,545	5,338,054
Amortization	25,774	545,636	571,410	27,961	670,849	698,810

(Continued)

(13) Segment information:

(a) General information

The IT Product Segment engages mainly in the R&D, manufacturing and sales of IT and telecommunication products, and the Strategically Integrated Product Segment engages mainly in the R&D, manufacturing and sales of wireless networking products.

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

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

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

The operating segment information was as follows:

	2015			
	IT Product Segment	**Strategically Integrated Product Segment**	**Adjustment & Elimination**	**Total**
Revenue				
Revenue from external customers	$ 827,330,697	19,975,001	-	847,305,698
Revenue from segments	-	-	-	-
Interest revenue	588,495	11,269	-	599,764
Total revenue	**$ 827,919,192**	**19,986,270**	**-**	**847,905,462**
Interest expense	$ 882,470	17,232	-	899,702
Depreciation and amortization	5,688,264	236,346	-	5,924,610
Investment gain (loss)	370,201	(3,039)	-	367,162
Other significant non-cash items:				
Impairment of assets	(121,574)	-	-	(121,574)
Reportable segment profit	**$ 11,116,893**	**675,200**	**-**	**11,792,093**
Reportable segment assets				$ 327,925,575
Reportable segment liabilities				$ 218,327,459

(Continued)

	2014 (retrospectively adjusted)			
	IT Product Segment	**Strategically Integrated Product Segment**	**Adjustment & Elimination**	**Total**
Revenue				
Revenue from external customers	$ 828,277,429	17,423,323	-	845,700,752
Revenue from segments	-	4,712	(4,712)	-
Interest revenue	1,009,093	14,643	-	1,023,736
Total revenue	**$ 829,286,522**	**17,442,678**	**(4,712)**	**846,724,488**
Interest expense	$ 993,326	26,178	-	1,019,504
Depreciation and amortization	5,752,934	283,930	-	6,036,864
Investment gain (loss)	980,179	(2,226)	-	977,953
Other significant non-cash items:				
Impairment of assets	(4,777,920)	-	-	(4,777,920)
Reportable segment profit	**$ 8,874,009**	**853,343**	**-**	**9,727,352**
Reportable segment assets				$ 378,750,718
Reportable segment liabilities				$ 272,530,781

(c) Information about products and services

Information about revenue from external customers is as follows:

Products and services	**2015**	**2014**
5C electronic products	$ 843,231,397	842,462,845
Others	4,074,301	3,237,907
	$ 847,305,698	**845,700,752**

(d) Geographic information

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

(Continued)

1. Revenue from external customers:

Country	2015	2014
United States	$ 268,176,190	279,786,968
Mainland China	131,853,704	104,294,464
England	36,653,893	28,784,022
Netherlands	68,073,245	86,759,300
Japan	37,584,412	46,373,567
Others	304,964,254	299,702,431
	$ 847,305,698	**845,700,752**

2. Non-current assets:

Country	2015	2014
Mainland China	$ 15,823,532	15,884,293
Taiwan	9,235,234	8,983,162
Others	1,700,858	1,804,807
	$ 26,759,624	**26,672,262**

Non-current assets include property, plant and equipment, intangible assets and other assets, but do not include deferred tax assets.

(e) Sales to individual customers constituting over 10% of the total revenue in the consolidated statements of comprehensive income of for the years ended December 31, 2015 and 2014, are summarized as follows:

	2015	2014
Customer:		
C Company	$ 37,423,624	102,730,381
D Company	288,523,817	254,615,227
E Company	103,644,690	130,230,357
A Company	133,830,636	113,261,171
F Company	97,984,283	27,993,009
	$ 661,407,050	**628,830,145**