Flytech Technology Co., Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2013 and 2012
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Flytech Technology Co., Ltd. (the "Company") and subsidiaries as of December 31, 2013 and 2012, and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Flytech Technology Co., Ltd. and subsidiaries as of December 31, 2013 and 2012, and January 1, 2012, and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the non-consolidated financial statements of Flytech Technology Co., Ltd. as of December 31, 2013 and 2012, and January 1, 2012, and the related statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2013 and 2012, on which we have issued an unqualified opinion.

KPMG

Taipei, Taiwan (the Republic of China)
March 19, 2014

Notes to Readers

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

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

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013, December 31, 2012, and January 1, 2012

(in thousands of New Taiwan dollars)

Assets		2013.12.31	2012.12.31	2012.1.1
Current assets:				
Cash and cash equivalents (notes 6(1) and (18))	$	1,617,777	1,757,863	1,355,111
Financial assets at fair value through profit or loss－current (notes 6(2), (18) and (19))		180	157	12
Notes and accounts receivable, net (notes 6(4) and (18))		765,277	708,423	501,851
Other receivables (notes 6(4) and (18))		8,917	1,685	2,278
Inventories (note 6(5))		425,736	385,583	494,185
Prepayments and other current assets		25,491	25,303	30,814
Other financial assets－current (notes 6(1) and (18) and 8)		800,403	224,259	423,680
Total current assets		3,643,781	3,103,273	2,807,931
Non-current assets:				
Financial assets at fair value through profit or loss－non-current (notes 6(2), (8) and (18))		225	159	-
Available-for-sale financial assets－non-current (notes 6(3) and (18))		-	14,608	16,480
Property, plant and equipment (note 6(6))		1,199,433	1,194,954	1,160,548
Intangible assets		9,654	1,033	2,081
Deferred income tax assets (note 6(12))		25,497	23,350	20,742
Other financial assets－non-current (note 6(18))		60,900	32,034	6,428
Prepayments for equipment		2,050	-	14,378
Total non-current assets		1,297,759	1,266,138	1,220,657
Total assets	$	**4,941,540**	**4,369,411**	**4,028,588**

(Continued)

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

December 31, 2013, December 31, 2012, and January 1, 2012

(in thousands of New Taiwan dollars)

Liabilities and Equity		2013.12.31	2012.12.31	2012.1.1
Current liabilities:				
Short-term borrowings (notes 6(7) and (18) and 8)	$	-	3,132	5,460
Financial liabilities at fair value through profit or loss—current (notes 6(2), (8), (18) and (19))		2,155	-	4,610
Notes and accounts payable (notes 6(18) and (19))		377,504	469,241	307,574
Other payables (notes 6(13), (18) and (19))		209,336	199,732	329,426
Current income tax liabilities		125,671	76,415	52,808
Provisions—current (note 6(9))		10,506	10,230	22,515
Other current liabilities		25,128	17,568	28,089
Current portion of bonds payable (notes 6(8), (18) and (19))		-	-	739,577
Total current liabilities		750,300	776,318	1,490,059
Non-current liabilities:				
Bonds payable (notes 6(8), (18) and (19))		310,767	755,232	-
Deferred income tax liabilities (note 6(12))		30,080	19,377	18,387
Accrued pension liabilities (note 6(11))		28,454	29,829	29,984
Total non-current liabilities		369,301	804,438	48,371
Total liabilities		1,119,601	1,580,756	1,538,430
Equity (notes 6(11), (12), (13) and (14)) :				
Common stock		1,199,651	1,004,249	910,117
Capital surplus		674,190	245,559	228,078
Retained earnings:				
Legal reserve		470,015	409,103	355,339
Special reserve		10,675	3,872	12,465
Unappropriated earnings		1,431,823	1,107,330	959,099
		1,912,513	1,520,305	1,326,903
Other equity		700	(7,837)	29
Equity attributable to shareholders of the Company		3,787,054	2,762,276	2,465,127
Non-controlling interests		34,885	26,379	25,031
Total equity		3,821,939	2,788,655	2,490,158
Total liabilities and equity	$	4,941,540	4,369,411	4,028,588

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

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

		2013	2012
Net revenue (note 6(16))	$	4,065,218	3,578,078
Cost of sales (notes 6(5), (6), (9), (11) and (13) and 12)		2,734,249	2,457,379
Gross profit		1,330,969	1,120,699
Operating expenses: (notes 6(4), (6), (10), (11), (13) and (14), 7 and 12)			
Selling expenses		175,872	184,789
Administrative expenses		105,807	112,039
Research and development expenses		140,505	128,807
Total operating expenses		422,184	425,635
Operating income		908,785	695,064
Non-operating income and loss:			
Other income (note 6(17))		41,188	33,648
Other gains and losses (notes 6(3), (8) and (17))		64,378	(19,512)
Finance costs (notes 6(8) and (17))		(9,819)	(15,908)
Total non-operating income and loss		95,747	(1,772)
Income before income tax		1,004,532	693,292
Income tax expense (note 6(12))		136,340	88,269
Net income		868,192	605,023
Other comprehensive income:			
Exchange differences on translation of foreign operations		8,537	(7,866)
Actuarial gain from defined benefit plans (note 6(11))		1,259	-
Less: Income tax related to components of other comprehensive income (note 6(12))		214	-
Other comprehensive income for the year, net of income tax		9,582	(7,866)
Total comprehensive income for the year	$	877,774	597,157
Net income attributable to:			
Shareholders of the Company	$	859,686	603,675
Non-controlling interests		8,506	1,348
	$	868,192	605,023
Total comprehensive income attributable to:			
Shareholders of the Company	$	869,268	595,809
Non-controlling interests		8,506	1,348
	$	877,774	597,157
Earnings per share (in New Taiwan dollars, note 6(15)) :			
Basic earnings per share	$	7.38	5.45
Diluted earnings per share	$	6.81	4.84

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

(in thousands of New Taiwan dollars)

	Attributable to shareholders of the Company									
			Retained earnings				Other equity			
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Foreign currency translation differences	Total	Non-controlling interests	Total equity
Balance at January 1, 2012	$ 910,117	228,078	355,339	12,465	959,099	1,326,903	29	2,465,127	25,031	2,490,158
Appropriation approved by the stockholders:										
Legal reserve	-	-	53,764	-	(53,764)	-	-	-	-	-
Cash dividends	-	-	-	-	(319,101)	(319,101)	-	(319,101)	-	(319,101)
Stock dividends	91,172	-	-	-	(91,172)	(91,172)	-	-	-	-
Reversal of special reserve	-	-	-	(8,593)	8,593	-	-	-	-	-
Compensation cost of employee stock options	-	3,509	-	-	-	-	-	3,509	-	3,509
Issuance of common stock for exercise of employee stock options	2,960	13,972	-	-	-	-	-	16,932	-	16,932
Net income in 2012	-	-	-	-	603,675	603,675	-	603,675	1,348	605,023
Other comprehensive income in 2012	-	-	-	-	-	-	(7,866)	(7,866)	-	(7,866)
Total comprehensive income in 2012	-	-	-	-	603,675	603,675	(7,866)	595,809	1,348	597,157
Balance at December 31, 2012	1,004,249	245,559	409,103	3,872	1,107,330	1,520,305	(7,837)	2,762,276	26,379	2,788,655
Appropriation approved by the stockholders:										
Legal reserve	-	-	60,912	-	(60,912)	-	-	-	-	-
Cash dividends	-	-	-	-	(364,407)	(364,407)	-	(364,407)	-	(364,407)
Stock dividends	104,116	-	-	-	(104,116)	(104,116)	-	-	-	-
Special reserve	-	-	-	6,803	(6,803)	-	-	-	-	-
Convertible bonds converted into common stock	78,576	375,516	-	-	-	-	-	454,092	-	454,092
Issuance of conmen stock for exercise of employee stock options	12,710	53,115	-	-	-	-	-	65,825	-	65,825
Net income in 2013	-	-	-	-	859,686	859,686	-	859,686	8,506	868,192
Other comprehensive income in 2013	-	-	-	-	1,045	1,045	8,537	9,582	-	9,582
Total comprehensive income in 2013	-	-	-	-	860,731	860,731	8,537	869,268	8,506	877,774
Balance at December 31, 2013	$ 1,199,651	674,190	470,015	10,675	1,431,823	1,912,513	700	3,787,054	34,885	3,821,939

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(in thousands of New Taiwan dollars)

	2013	2012
Cash flows from operating activities:		
Income before income taxes	$ 1,004,532	693,292
Adjustments for:		
Depreciation	83,403	72,616
Amortization	1,953	1,317
Impairment loss on doubtful receivables	765	4,138
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	1,904	(4,914)
Interest expense	9,819	15,908
Interest income	(34,838)	(19,145)
Dividend income	-	(1,927)
Share-based compensation cost	-	3,509
Loss on disposal of property, plant and equipment	85	444
Loss on disposal of investments	2,433	-
Total non-cash profit and loss	65,524	71,946
Changes in operating assets and liabilities:		
Notes and accounts receivable, net	(57,619)	(210,710)
Other receivables	(176)	932
Inventories	(40,153)	108,602
Prepayments and other current assets	(188)	5,511
Notes and accounts payable	(91,737)	161,667
Other payables	9,604	(129,694)
Provisions	276	(12,285)
Other current liabilities	7,560	(10,521)
Accrued pension liabilities	(116)	(155)
Total changes in operating assets and liabilities	(172,549)	(86,653)
Cash provided by operations	897,507	678,585
Interest paid	(30)	(253)
Income tax paid	(78,743)	(66,279)
Net cash provided by operating activities	818,734	612,053

(Continued)

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2013 and 2012

(in thousands of New Taiwan dollars)

	2013	2012
Cash flows from investing activities:		
Proceeds from disposal of available-for-sale financial assets	12,175	-
Proceeds from capital return of available-for-sale investment	-	1,872
Additions to property, plant and equipment (including prepayments for equipment)	(89,268)	(93,746)
Proceeds from disposal of property, plant and equipment	81	-
Additions to intangible assets	(10,574)	(269)
Increase in other financial assets	(605,010)	(25,606)
Decrease in other financial assets	-	199,421
Interest received	27,782	18,806
Dividend received	-	1,927
Net cash provided by (used in) investing activities	(664,814)	102,405
Cash flows from financing activities:		
Decrease in short-term borrowings	(3,132)	(2,328)
Cash dividends	(364,407)	(319,101)
Proceeds from exercise of employee stock options	65,825	16,932
Net cash used in financing activities	(301,714)	(304,497)
Effects of foreign exchange rate changes	7,708	(7,209)
Net increase (decrease) in cash and cash equivalents	(140,086)	402,752
Cash and cash equivalents at beginning of year	1,757,863	1,355,111
Cash and cash equivalents at end of year	$ 1,617,777	1,757,863

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012
(amounts expressed in thousands of New Taiwan dollars
except for earnings per share information and unless otherwise noted)

1. Organization and business

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

2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 19, 2014.

3. New standards and interpretations not yet adopted

(1) New standards and interpretations endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet effective

In November 2009, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"), which was to take effect on January 1, 2013. (The IASB extended the effective date to January 1, 2015, in December 2011, and announced the repeal of the mandatory effective date on January 1, 2015, to allow more time to transit to the new standards for financial statement preparers. The new effective date has not been announced yet.) This standard has been endorsed by the FSC; however, at the end of the reporting period (the "reporting date"), the effective date had not been announced, and early adoption is not permitted. Companies shall follow the guidance in the 2009 version of International Accounting Standard 39 *Financial Instruments :Recognition and Measurement* ("IAS 39"). The adoption of this new standard is expected to have an impact on the classification and measurement of financial instruments in the consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) New standards and amendments not yet endorsed by the FSC

Below is a summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC that may have an impact on the accompanying consolidated financial statements.

Issue date	New standards and amendments	Description and Influence	Effective date per IASB
May 12, 2011 June 28, 2012	· IFRS 10 *Consolidated Financial Statements* · IFRS 11 *Joint Arrangements* · IFRS 12 *Disclosure of Interests in Other Entities* · Amendment to IAS 27 *Separate Financial Statements* · Amendment to IAS 28 *Investments in Associates and Joint Ventures*	On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments. The new standards provide a single model in determining whether an entity has control over an investee (including special purpose entities). However for the consolidation process, the original guidance and method apply. In addition, joint arrangements are separated into joint operations (concepts from jointly controlled assets and jointly controlled operations) and joint ventures (concepts from jointly controlled entities), and the new standards remove the proportionate consolidation method. On June 28, 2012, amendments were issued clarifying the guidance over the transition period. The adoption of the new standards and amendments is expected to change the assessment of the Group's control over certain investees and increase the disclosure in terms of the judgments and assumptions made and the information about the interests in subsidiaries and associates.	January 1, 2013
May 12, 2011	· IFRS 13 *Fair Value Measurement*	IFRS 13 replaces fair value measurement guidance in other standards and integrates as one single guidance. The adoption of the new standard would require the Group to analyze the impact on the measurement of certain assets and liabilities. Likewise, it would increase the disclosure of fair value.	January 1, 2013

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Issue date	New standards and amendments	Description and Influence	Effective date per IASB
June 16, 2011	• Amendments to IAS 1 *Presentation of Financial Statements*	Items presented in other comprehensive income shall be presented based on whether they are potentially reclassifiable to profit or loss subsequently. The adoption of the amendment will change the presentation of other comprehensive income in the statement of comprehensive income.	July 1, 2012
June 16, 2011	• Amendments to IAS 19 *Employee Benefits*	The amendments eliminate the corridor method and eliminate the option to recognize the changes in the net defined benefit liability (asset) in profit or loss; in addition, they require the immediate recognition of past service cost. The adoption of the amendment is expected to have no significant change on presentation and measurement of the accrued pension liabilities and actuarial gains (losses) from the defined benefit plans.	January 1, 2013
December 12, 2013	• Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* • Amendments to IFRS 2 *Share-based Payment* • Amendments to IFRS 3 *Business Combinations* • Amendments to IFRS 8 *Operating Segments* • IFRS 13 *Fair Value Measurement* • Amendments to IAS 24 *Related Party Disclosures*	Issuance of "Annual Improvements to IFRSs 2010–2012 Cycle and 2011–2013 Cycle" is intended mainly to: •Clarify the definition of vesting conditions (including performance and service conditions). •Clarify the measurement and classification of contingent consideration in a business combination. •Require entities to disclose the judgments made by management in applying the aggregation criteria. •Expand the definition of a related party to include a management entity that provides key management personnel service to the reporting entity or Group. Adoption of the above amendments would affect the accounting treatments and the related disclosures in the consolidated financial statements.	July 1, 2014; early adoption is permitted

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Summary of significant accounting policies

The significant accounting policies presented in the financial statements are summarized as follows.

The significant accounting policies have been applied consistently to all periods presented in these financial statements, except when otherwise indicated, and have been applied consistently to the opening balance sheet as of January 1, 2012, which is prepared for the purpose of transition to the IFRSs endorsed by the FSC.

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

(1) Statement of compliance

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

The Group's accompanying consolidated financial statements are the first annual financial statements that apply the Regulations and Taiwan-IFRSs. The consolidated financial statements also apply IFRS 1 *First-time Adoption of International Financial Reporting Standards*. An explanation of how the transition to Taiwan-IFRSs has affected the reported financial position, financial performance, and cash flows of the Group is provided in Note 15.

(2) Basis of preparation

(a) Basis of measurement

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

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

(b) Functional and presentation currency

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

(Continued)

(3) Basis of consolidation

(a) Principles of preparation of consolidated financial statements

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

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

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

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

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

(b) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements:

Name of Investor	Name of investee	Main Business and Products	Percentage of Ownership		
			2013.12.31	2012.12.31	2012.1.1
The Company	Flytech USA International Co., Ltd. ("Flytech USA BVI, British Virgin Islands)	Investment and holding activity	100.00	100.00	100.00
The Company	Flytech JP International Co., Ltd.("Flytech JP BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00	100.00
The Company	Flytech HK Intermational Co., Ltd. ("Flytech HK BVI" , British Virgin Islands)	Investment and holding activity	100.00	100.00	100.00
The Company	Flytech CN International Co., Ltd. ("Flytech CN BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00	100.00
The Company	Flycom Investment Co., Ltd. ("Flycom Investment", Taiwan)	Investment and holding activity	100.00	100.00	100.00
Flytech USA BVI	Flytech Technology (U.S.A.), Inc. ("Flytech USA", U.S.A.)	Sale of computers and peripheral equipments	100.00	100.00	100.00
Flyech HK BVI	Flytech Technology Hong Kong Ltd. ("Flyetch HK", Hong Kong)	Sale of computers and peripheral equipments	100.00	100.00	100.00

(Continued)

Name of Investor	Name of investee	Main Business and Products	Percentage of Ownership		
			2013.12.31	2012.12.31	2012.1.1
Flytech CN BVI	Flytech Technology (Shanghai) Co., Ltd. ("Flytech CN", China)	Sale of computers and peripheral equipments	100.00	100.00	100.00
Flycom Investmnet	OTEK System Co., Ltd. ("OTEK System", Taiwan)	Sale of computers and peripheral equipments	68.88	68.88	68.88

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

(4) Foreign currency

(a) Foreign currency transactions

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

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

(b) Foreign operations

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

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

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

(a) It is expected to be realized, or sold or consumed in the normal operating cycle;
(b) It is held primarily for the purpose of trading;
(c) It is expected to be realized within twelve months after the reporting period; or
(d) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

(Continued)

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

(a) It is expected to be settled in the normal operating cycle;
(b) It is held primarily for the purpose of trading;
(c) It is due to be settled within twelve months after the reporting period; or
(d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

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

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

(7) Financial instruments

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

(a) Financial assets

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

i. Financial assets at fair value through profit or loss

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

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

iii) A hybrid instrument contains one or more embedded derivatives.

At initial recogition, financial assets carried at fair value through profit or loss are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value (including dividend and interest income) are recognized in profit or loss.

ii. Loans and receivables

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

iii. Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these assets are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on monetary financial assets, are recognized in other comprehensive income and presented in "unrealized gain/loss from available-for-sale financial assets" in equity. When the financial asset is derecognized, the gain or loss previously accumulated in equity is reclassified to profit or loss.

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

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

iv. Impairment of financial assets

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

(Continued)

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

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

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

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

When an impairment loss is recognized for an available-for-sale asset, the cumulative gains or loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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

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

(Continued)

v. Derecognition of financial assets

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

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

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

(b) Financial liabilities and equity instruments

i. Classification of debt or equity

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

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

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

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

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

ii. Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held-for-trading or is designated as a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges. The Group designates financial liabilities, other than the ones classified as held-for-trading, as measured at fair value through profit or loss at initial recognition under one of the following situations:

i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;
ii) Performance of the financial liabilities is evaluated on a fair value basis;
iii) A hybrid instrument contains one or more embedded derivatives.

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

iii. Other financial liabilities

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

iv. Derecognition of financial liabilities

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

(Continued)

v. Offsetting of financial assets and liabilities

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

(c) Derivative financial instruments

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

(8) Inventories

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

(9) Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

(b) Subsequent costs

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

(Continued)

(c) Depreciation

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

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

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

(10) Leases

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

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

(11) Intangible assets

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

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

(12) Impairment of non-financial assets

(a) Goodwill

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

(Continued)

carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in profit or loss. A subsequent reversal of the impairment loss on goodwill is prohibited.

(b) Other tangible and intangible assets

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

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

(13) Provisions

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

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(14) Revenue recognition

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

(a) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c)

(Continued)

the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

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

(b) Services

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

(c) Interest income and dividend income

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

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

(15) Employee benefits

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

All actuarial gains and losses at January 1, 2012, the transition date to Taiwan-IFRSs, were recognized in retained earnings. Subsequent to the transition date, the Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

(Continued)

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

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(c) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(16) Share-based payment

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

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

(17) Income Taxes

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

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

(Continued)

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

(a) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(b) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the differences will not reverse in the foreseeable future; and

(c) Temporary differences arising from initial recognition of goodwill.

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

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

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

(18) Earnings per share ("EPS")

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

(19) Operating segments

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

(Continued)

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

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

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

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

(1) Valuation of inventory

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

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

6. Significant account disclosures

(1) Cash and cash equivalents

		December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	$	3,786	905	1,414
Demand deposits		847,505	1,013,938	513,691
Time deposits with original maturities less than 3 months on maturity		766,486	743,020	840,006
	$	1,617,777	1,757,863	1,355,111

As of December 31, 2013 and 2012, and January 1, 2012, the time deposits with original maturities of more than three months amounted to $797,268, $221,135, and $420,572, respectively, which were classified as other financial assets — current.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets at fair value through profit or loss — current:			
Financial assets held-for-trading — Forward foreign exchange contracts	$ 180	157	12
Financial assets at fair value through profit or loss — non-current:			
Redemption options of convertible bonds (note 6(8))	$ 225	159	-
Financial liabilities at fair value through profit or loss — current:			
Financial liabilities held-for-trading — Forward foreign exchange contracts	$ 2,155	-	391
Redemption options of convertible bonds (note 6(8))	-	-	4,219
	$ 2,155	-	4,610

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

At each reporting date, the forward foreign exchange contracts that did not conform to the criteria consisted of the following:

December 31, 2013

	Contract amount (USD in thousands)	Currency	Maturity period
Forward foreign exchange sold	9,000	USD	2014/1/10~2014/3/10

December 31, 2012

	Contract amount (USD in thousands)	Currency	Maturity period
Forward foreign exchange sold	5,000	USD	2013/1/11~2013/2/22

January 1, 2012

	Contract amount (USD in thousands)	Currency	Maturity period
Forward foreign exchange sold	6,000	USD	2012/1/13~2012/3/9

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Available-for-sale financial assets

		December 31, 2013	December 31, 2012	January 1, 2012
Privately held stocks	$	-	14,608	16,480

On May 8, 2013, Mythology Tech Express Inc. liquidated and returned capital of $12,175 to the Group, and a disposal loss of $2,433 was recognized in other gains and losses. In 2012, Mythology Tech Express Inc. returned capital of $1,872 to the Group.

(4) Notes and accounts receivable, and other receivables

		December 31, 2013	December 31, 2012	January 1, 2012
Notes receivable	$	12,261	11,335	15,926
Accounts receivable		762,974	706,281	490,980
Less: allowance for doubtful recievables		(9,958)	(9,193)	(5,055)
		765,277	708,423	501,851
Others receivables		8,917	1,685	2,278
	$	774,194	710,108	504,129

Movements of the allowance for doubtful receivables were as follows:

		Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2013	$	2,102	7,091	9,193
Provision for impairment loss		56	709	765
Balance at December 31, 2013	$	2,158	7,800	9,958

		Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2012	$	-	5,055	5,055
Provision for impairment loss		2,102	2,036	4,138
Balance at December 31, 2012	$	2,102	7,091	9,193

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

	December 31, 2013	December 31, 2012	January 1, 2012
Past due 0-30 days	$ 213,727	153,733	77,740
Past due 31-120 days	42,673	12,628	18,647
Past due 121-365 days	-	103	617
Past due over 365 days	2,157	330	-
	$ 258,557	166,794	97,004

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

(5) Inventories

	December 31, 2013	December 31, 2012	January 1, 2012
Raw materials	$ 232,475	214,722	277,949
Work in process	138,882	137,330	178,049
Finished goods	39,565	28,914	36,618
Merchandise	14,814	4,617	1,569
	$ 425,736	385,583	494,185

For the years ended December 31, 2013 and 2012, the write-downs of inventories to net realizable value amounted to $1,163 and $10,277, respectively, and were included in cost of sales.

As of December 31, 2013 and 2012, and January 1, 2012, the inventories were not pledged as collateral.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Property, plant and equipment

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

		Land	Buildings	Machinery	Transportation equipment	Furniture and fixtures	Other equipment	Total
Cost:								
Balance at January 1, 2013	$	319,238	633,267	276,601	12,743	40,886	197,945	1,480,680
Additions		-	-	14,209	1,006	(4,149)	24,979	36,045
Reclassification from prepayment		-	-	335	3,255	9,676	37,907	51,173
Disposals		-	-	(2,263)	(768)	(338)	-	(3,369)
Effect of exchange rate changes		-	1,416	54	45	173	93	1,781
Balance at December 31, 2013	$	319,238	634,683	288,936	16,281	46,248	260,924	1,566,310
Balance at January 1, 2012	$	319,238	626,555	230,376	10,513	30,287	161,330	1,378,299
Additions		-	7,686	11,477	-	2,296	21,452	42,911
Reclassification from prepayment		-	-	37,437	2,256	9,621	15,899	65,213
Disposals		-	-	(2,657)	-	(1,122)	(611)	(4,390)
Effect of exchange rate changes		-	(974)	(32)	(26)	(196)	(125)	(1,353)
Balance at December 31, 2012	$	319,238	633,267	276,601	12,743	40,886	197,945	1,480,680
Depreciation:								
Balance at January 1, 2013	$	-	61,130	80,140	9,206	17,678	117,572	285,726
Depreciation		-	14,501	25,415	1,516	4,870	37,101	83,403
Disposals		-	-	(2,137)	(762)	(304)	-	(3,203)
Effect of exchange rate changes		-	637	50	19	156	89	951
Balance at December 31, 2013	$	-	76,268	103,468	9,979	22,400	154,762	366,877
Balance at January 1, 2012	$	-	47,117	59,568	8,028	14,900	88,138	217,751
Depreciation		-	14,373	22,949	1,183	4,079	30,032	72,616
Disposals		-	-	(2,350)	-	(1,122)	(474)	(3,946)
Effect of exchange rate changes		-	(360)	(27)	(5)	(179)	(124)	(695)
Balance at December 31, 2012	$	-	61,130	80,140	9,206	17,678	117,572	285,726
Carrying amount:								
Balance at December 31, 2013	$	319,238	558,415	185,468	6,302	23,848	106,162	1,199,433
Balance at December 31, 2012	$	319,238	572,137	196,461	3,537	23,208	80,373	1,194,954
Balance at January 1, 2012	$	319,238	579,438	170,808	2,485	15,387	73,192	1,160,548

As of December 31, 2013 and 2012, and January 1, 2012, property, plant and equipment were not pledged as collateral.

(7) Short-term borrowings

The details of short-term borrowings were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Secured bank loans	$	-	3,132	5,460
Unused credit facilities	$	679,025	671,068	675,915
Interest rate		-	2.3171%	2.19%

Refer to note 8 for a description of the time deposit pledged as collateral to secure the bank loans. Refer to note 9 for the issuance of promissory notes for credit lines of short-term borrowings.

(8) Bonds payable

	December 31, 2013	December 31, 2012	January 1, 2012
Par value of convertible bonds	$ 800,000	800,000	800,000
Unamortized discount on bonds payable	(10,033)	(40,768)	(56,423)
Cumulative amount converted into common stock	(479,200)	(4,000)	(4,000)
	310,767	755,232	739,577
Less: current portion of bonds payable	-	-	(739,577)
Ending balance	$ 310,767	755,232	-
Embedded derivative – redemption options (Financial assets (liabilities) at fair value through profit or loss) (note 6(2))	$ 225	159	(4,219)
Equity component – conversion right (included in capital surplus – conversion right) (note 6(13))	$ 27,094	67,229	67,229

	2013	2012
Embedded derivative instruments – evaluation gain on redemption options at fair value (included in other gains or losses)	$ 228	4,378
Interest expense (effective interest rate of 2.09%)	$ 9,789	15,655

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

(a) Maturity date

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

(b) Conversion period

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

(c) Conversion price

The conversion price was initially $90.9 (dollars) per share and is subject to adjustment by the formula provided in the issue terms if the Company's common shares are increased. As of December 31, 2013 and 2012, and January 1, 2012, the adjusted conversion price was $54.2 (dollars), $61.2 (dollars), and $70.9 (dollars) per share, respectively.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Redemption at the option of the Company

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

(e) Redemption at the option of the bondholders

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

(9) Provision for warranties

		2013	2012
Balance at January 1, 2013	$	10,230	22,515
Provisions made		5,699	4,736
Amount utilized		(5,423)	(17,021)
Balance at December 31, 2013	$	10,506	10,230

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

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

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

		December 31, 2013	December 31, 2012	January 1, 2012
Not later than 1 year	$	1,340	2,514	2,660
Later than 1 year but not later than 5 years		-	2,025	2,693
	$	1,340	4,539	5,353

The Group leases offices and parking lots under operating leases. The leases typically run for a period of 1 to 3 years, with an option to renew. In 2013 and 2012, the rental expenses of operating leases amounted to $4,680 and $5,464, respectively, which were recognized in profit or loss.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Employee benefits

(a) Defined benefit plans

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

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of unfunded benefit obligations	$ -	-	-
Present value of funded benefit obligations	46,089	46,097	44,802
Present value of benefit obligations	46,089	46,097	44,802
Fair value of plan assets	(17,635)	(16,268)	(14,818)
Recognized liabilities for defined benefit obligations (classified under accrued pension liabilities)	$ 28,454	29,829	29,984

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

i. Composition of plan assets

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

As of December 31, 2013, the Group's Bank labor pension fund account balance at Bank of Taiwan amounted to $17,635. Refer to the website of the Labor Pension Fund Supervisory Committee for information on the labor pension fund assets including the asset portfolio and yield of the fund.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. Movements in present value of defined benefit obligations

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

		2013	2012
Present value of defined benefit obligations at January 1	$	46,097	44,802
Service costs		535	511
Interest costs		737	784
Actuarial gains		(1,280)	-
Defined benefit obligations at December 31	$	**46,089**	**46,097**

iii. Movements of fair value of plan assets

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

		2013	2012
Fair value of plan assets at January 1	$	16,268	14,818
Expected return on plan assets		197	186
Contributions by plan participants		1,191	1,264
Actuarial losses		(21)	-
Fair value of plan assets at December 31	$	**17,635**	**16,268**

iv. Expenses recognized in profit or loss

In 2013 and 2012, the expenses recognized in profit or loss were as follows:

		2013	2012
Current service costs	$	535	511
Interest costs		737	784
Expected return on plan assets		(197)	(186)
	$	**1,075**	**1,109**
Operating expenses	$	**1,075**	**1,109**
Actual return on plan assets	$	**176**	**150**

(Continued)

v. Actuarial gains and losses recognized in other comprehensive income

In 2013 and 2012, the actuarial gains and losses recognized in other comprehensive income were as follows:

	2013	2012
Cumulative amount at January 1	$ -	-
Recognized during the period	1,259	-
Cumulative amount at December 31	$ 1,259	-

vi. Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	December 31, 2013	December 31, 2012
Discount rate	1.60%	1.75%
Expected return on plan assets	1.20%	1.20%
Future salary increases	2.00%	2.00%

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

vii. Experience adjustments on historical information

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligations	$ 46,089	46,097	44,802
Fair value of plan assets	(17,635)	(16,268)	(14,818)
Liabilities of defined benefit obligations	$ 28,454	29,829	29,984
Experience adjustments arising from the present value of defined benefit obligations	$ 239	-	-
Experience adjustments arising from the fair value of plan assets	$ (21)	-	-

The Group is expecting to contribute $1,200 to the defined benefit plans in the year following December 31, 2013.

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

(Continued)

As of December 31, 2013, the Group's accrued pension liabilities were $28,454. If the discount rate had increased or decreased by 0.25%, the Group's accrued pension liabilities would have decreased by $939 or increased by $896. If the salary adjustment rate had increased or decreased by 1%, the Group's accrued pension liabilities would have increased by $3,978 or decreased by $3,383, respectively.

(b) Defined contribution plans

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

For the years ended December 31, 2013 and 2012, the Group recognized pension expenses of $11,706 and $10,971, respectively, in relation to the defined contribution plans.

(12) Income taxes

(a) In 2013 and 2012, the components of income tax expense were as follows:

	2013	2012
Current income tax expense		
Current period	$ 127,550	82,886
Adjustments for prior periods	448	7,001
	127,998	89,887
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	8,342	(1,618)
Income tax expense	$ 136,340	88,269

In 2013 and 2012, the Group's income tax expenses recognized in other comprehensive income were as follows.

	2013	2012
Actuarial gain from defined benefit plan	$ 214	-

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Reconciliation of income tax expense and income before income tax for 2013 and 2012 was as follows:

	2013	2012
Income before income tax	$ 1,004,532	693,292
Income tax using the Company's statutory tax rate	$ 170,770	117,860
Effect of tax rates in foreign jurisdictions	6,439	2,278
Tax-exempt income	(100,966)	(70,097)
Investment income recognized from the domestic subsidiaries	(3,048)	(510)
10% surtax on undistributed earnings	7,894	8,257
Alternative minimum tax	55,070	21,227
Prior year adjustments	448	7,001
Others	(267)	2,253
	$ 136,340	88,269

(b) Deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2013 and 2012 were as follows:

Deferred income tax assets:

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

	Defined benefit plans	Allowance for inventory obsolescence	Others	Total
Balance at January 1, 2012	$ 5,478	3,816	11,448	20,742
Recognized in profit or loss	(27)	1,753	882	2,608
Balance at December 31, 2012	$ 5,451	5,569	12,330	23,350

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Deferred income tax liabilities:

		Unremitted earnings from subsidiaries	Unrealized foreign exchange gain	Others	Total
Balance at January 1, 2013	$	18,303	-	1,074	19,377
Recognized in profit or loss		2,915	7,775	13	10,703
Balance at December 31, 2013	$	21,218	7,775	1,087	30,080
Balance at January 1, 2013	$	15,862	2,308	217	18,387
Recognized in profit or loss		2,441	(2,308)	857	990
Balance at December 31, 2013	$	18,303	-	1,074	19,377

(c) The Company's income tax returns for the years through 2009 have been examined and approved by the R.O.C. income tax authorities.

(d) Information about the integrated income tax system:

		December 31, 2013	December 31, 2012	January 1, 2012
Unappropriated earnings earned before January 1, 1997	$	177	177	177
Unappropriated earnings earned commencing from January 1, 1998		1,431,646	1,107,153	958,922
	$	1,431,823	1,107,330	959,099
Balance of imputation credit account	$	96,644	91,033	82,448

	2013 (Estimated)	2012 (Actual)
Tax creditable ratio for earnings distribution to R.O.C. residents	13.18%	12.51%

(13) Capital and other equity

(a) Common stock

As of December 31, 2013 and 2012, and January 1, 2012, the Company's authorized shares of common stock consisted of 120,000 thousand shares, with par value of $10 (dollars) per share, of which 119,965, 100,425, and 91,012 thousand shares, respectively, were issued and outstanding. All issued shares were paid up upon issuance.

(Continued)

The movements in outstanding common shares of stock in 2013 and 2012 were as follows (In thousands of shares):

	2013	2012
Balance at January 1	100,425	91,012
Stock dividends	10,412	9,117
Exercise of employees stock options	1,271	296
Convertible bonds converted into common stock	7,857	-
Balance at December 31	119,965	100,425

On June 13, 2013 and June 15, 2012, the Company's stockholders resolved to transfer unappropriated earnings of NT$104,116 and NT$91,172, respectively, to common stock by issuing 10,412 thousand and 9,117 thousand shares of common stock dividend. The record date for stock issuance was August 26, 2013 and August 25, 2012, respectively. The respective stock issuances had been authorized by and registered with the governmental authorities.

In 2013 and 2012, the Company issued 1,271 and 296 thousand shares, respectively, for the exercise of employee stock options.

In 2013, the Company issued 7,857 thousand shares at a face value of $78,576 for the conversion of convertible bonds. The related registration processes had been completed.

(b) Capital surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Share premium:			
Paid-in capital in excess of par value	$ 153,461	92,220	78,248
Premium on common stock issued from conversion of convertible bonds	484,899	65,705	65,705
Conversion right of convertible bonds (note 6(8))	27,094	67,229	67,229
Employee stock options	8,721	20,390	16,881
Gain on disposal of assets	15	15	15
	$ 674,190	245,559	228,078

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

(c) Retained earnings

i Legal reserve

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

ii Special reserve

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

iii Appropriation of earnings

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

- 3% to 15% as employee bonuses;
- 3% or less as directors' and supervisors' remuneration; and
- the remaining balance, together with unappropriated earnings from previous years, as dividends to stockholders.

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

For the years ended December 31, 2013 and 2012, the Company accrued employee bonuses of $70,000 and $67,600, directors' and supervisors' remuneration of $2,400 and $2,400, respectively. These amounts are calculated based on the Company's net income for 2013 and 2012, and earnings distribution policies stipulated in the Company's articles of incorporation and are expensed under cost of sales and operating expenses in 2013 and 2012.

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

The distribution of earnings for 2012 and 2011 had been approved in meeting of shareholders held on June 13, 2013 and June 15, 2012, respectively. The relevant dividend distributions to shareholders, employee bonuses, and directors' and supervisors' remunerations were as follows:

	2012		2011	
	Dividends per share	**Total Amount**	**Dividends per share**	**Total Amount**
Dividends distributed to shareholders				
Cash	$ 3.50	364,407	3.50	319,101
Stock	1.00	104,116	1.00	91,172
Total		468,523		410,273
Employee bonuses-Cash		$ 67,600		63,600
Directors' and supervisors' remunerations		2,400		2,400
Total		$ 70,000		66,000

There is no difference between the aforementioned distribution amounts and the amounts charged against earnings for 2012 and 2011. Related information on the distribution of employee bonus and directors' and supervisors' remunerations is available on the Market Observation Post System website of the Taiwan Stock Exchange. The distribution of earnings, employee bonuses and directors' and supervisors' remunerations for 2013 is yet to be approved by the board of directors and the meeting of shareholders.

(d) Other equity items

	Foreign currency translation differences
Balance at January 1, 2013	$ (7,837)
Foreign currency translation differences (net of tax)	8,537
Balance at December 31, 2013	$ 700
Balance at January 1, 2012	$ 29
Foreign currency translation differences (net of tax)	(7,866)
Balance at December 31, 2012	$ (7,837)

(14) Share-based payment

As of December 31, 2013, the Company had a share-based payment arrangements as follows:

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

(a) The instruments of the fair value at grout date

The Company used the Black-Scholes pricing model in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

Fair value at grant date	31.60
Stock price at grant date	100.00
Exercise price at grant date	100.00
Expected volatility (%)	49.957%
Expected life (years)	7.00
Risk-free interest rate (%)	2.635%

Expected volatility was determined primarily by reference to historically observed prices of the underlying equity, and making adjustment of expected changes from available information. The life of stock option was based on the contractual life. Risk-free interest rate is derived from the interest rate of government bonds. Service and non-market performance conditions are not taken into account in determining the fair value.

(b) Details of the employee stock options are as follows:

	2013		**2012**	
	Weighted average exercise price (in dollars)	**Number of options (in thousands)**	**Weighted average exercise price (in dollars)**	**Number of options (in thousands)**
Outstanding, beginning of year	$ 52.30	2,221	60.60	2,604
Exercised	51.79	(1,271)	57.20	(296)
Forfeited	-	(7)	-	(87)
Outstanding, end of year	46.30	943	52.30	2,221
Exercisable, end of year	46.30	943	52.30	2,221

In 2013 and 2012, the weighted-average share price of the Company amounted to $85.22 and $66.57, respectively.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2013	December 31, 2012	January 1, 2012
Range of exercise price (dollars)	46.30	52.30	60.60
Weighted-average remaining contractual years	1 year	2 years	3 years

(c) Compensation costs

In 2013 and 2012, the compensation costs recognized for the employee stock option plans amounted to $0 and $3,509, respectively, which were recognized in operating expense.

(15) Earnings per share ("EPS")

(a) Basic EPS

		2013	2012
Profit attributable to shareholders of the Company	$	859,686	603,675
Weighted-average number of ordinary shares outstanding		116,502	110,685
Basic EPS (dollars)	$	7.38	5.45

(b) Diluted EPS

		2013	2012
Profit attributable to shareholders of the Company (basic)	$	859,686	603,675
Interest expense from convertible bonds, net of tax		9,789	15,655
Profit attributable to shareholders of the Company (diluted)		869,475	619,330
Weighted-average number of ordinary shares outstanding (basic)		116,502	110,685
Effect of convertible bonds		9,232	14,308
Effect of employee stock options		930	554
Effect of employee bonuses		1,044	2,499
Weighted-average number of ordinary shares outstanding (diluted)		127,708	128,046
Diluted EPS (dollars)	$	6.81	4.84

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Revenue

		2013	2012
Revenue from sale of goods	$	4,024,552	3,530,463
Revenue from services rendered		29,530	27,381
Others		11,136	20,234
	$	4,065,218	3,578,078

(17) Non-operating income and loss

(a) Other income

		2013	2012
Interest income from bank deposits	$	34,838	19,145
Indemnity income		-	5,681
Dividend income		-	1,927
Others		6,350	6,895
	$	41,188	33,648

(b) Other gains and losses

		2013	2012
Foreign currency exchange gain (loss), net	$	68,800	(23,982)
Gain (loss) on financial assets and liabilities at fair value through profit or loss		(1,904)	4,914
Loss on disposal of investments (note 6(3))		(2,433)	-
Loss on disposal of property, plant and equipment, net		(85)	(444)
	$	64,378	(19,512)

(c) Finance costs

		2013	2012
Interest expense from bank loans	$	30	253
Interest expense from convertible bonds (note 6(8))		9,789	15,655
	$	9,819	15,908

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Financial instruments

(a) Categories of financial instruments

i. Financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets at fair value through profit or loss – current	$ 180	157	12
Financial assets at fair value through profit or loss – non-current	225	159	-
Available-for-sale financial assets	-	14,608	16,480
Loans and receivables:			
Cash and cash equivalents	1,617,777	1,757,863	1,355,111
Notes and accounts receivable	765,277	708,423	501,851
Other receivables	8,917	1,685	2,278
Other financial assets – current	800,403	224,259	423,680
Other financial assets – non-current	60,900	32,034	6,428
Subtotal	3,253,274	2,724,264	2,289,348
Total	$ 3,253,679	2,739,188	2,305,840

ii. Financial liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities at fair value through profit or loss – current	$ 2,155	-	4,610
Financial liabilities measured at amortized cost:			
Short-term borrowings	-	3,132	5,460
Notes and accounts payable	377,504	469,241	307,574
Other payables	54,170	63,601	196,830
Bonds payable	310,767	755,232	739,577
Subtotal	742,441	1,291,206	1,249,441
Total	$ 744,596	1,291,206	1,254,051

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Financial instruments that are not measured at fair value

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

		December 31, 2013		December 31, 2012		January 1, 2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:							
Bonds payable	$	310,767	315,122	755,232	768,856	739,577	754,210

(c) Financial instruments that are measured at fair value

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

i. Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

ii. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

iii. Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

		Level 1	Level 2	Level 3	Total
December 31, 2013					
Assets:					
Financial assets at fair value through profit or loss					
Foreign currency forward contracts	$	-	180	-	180
Redemption options of convertible bonds		-	225	-	225
Liabilities:	$	-	405	-	405
Financial liabilities at fair value through profit or loss					
Foreign currency forward contracts	$	-	2,155	-	2,155
December 31, 2012					
Assets:					
Financial assets at fair value through profit or loss					
Foreign currency forward contracts	$	-	157	-	157
Redemption options of convertible bonds		-	159	-	159
Available-for-sale financial assets Privately held equity securities		-	-	14,608	14,608
	$	-	316	14,608	14,924

(Continued)

		Level 1	Level 2	Level 3	Total
January 1, 2012					
Assets:					
Financial assets at fair value through profit or loss					
Foreign currency forward contracts	$	-	12	-	12
Available-for-sale financial assets Privately held equity securities		-	-	16,480	16,480
	$	-	12	16,480	16,492
Liabilities:					
Financial liabilities at fair value through profit or loss					
Foreign currency forward contracts	$	-	391	-	391
Redemption options of convertible bonds		-	4,219	-	4,219
	$	-	4,610	-	4,610

There were no transfers between fair value levels for the years ended December 31, 2013 and 2012.

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

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

i. The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and that are readily available to the Group.

ii. The fair value of bonds payable is determined using on the Binomial Tree Convertible Bond Model, which considered the expected volatility and risk-free interest rate.

iii. The fair value of privately held equity securities is estimated by using the market approach, and is determined by reference to recent market conditions and discounted cash flow analysis.

(19) Financial risk management

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

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company's Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

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

(a) Credit risk

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

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

As of December 31, 2013 and 2012, and January 1, 2012, three clients accounted to totalize for 46%, 37%, and 32%, respectively, of the Company's notes and accounts receivable. In order to reduce credit risk, the Group has established a credit policy under which each customer is analyzed individually for creditworthiness for the purpose of setting the credit limit. Additionally, the Group continuously evaluates the credit quality of customers and utilizes insurance to minimize the credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling its financial liabilities by delivering cash or another financial assets. The Group manages liquidity risk by monitoring regularly the current and mid to long-term cash demand, maintaining adequate cash and banking facilities. As of December 31, 2013 and 2012, and January 1, 2012, the Group had unused credit facilities of $679,025, $671,068 and $675,915, respectively.

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

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years
December 31, 2013						
Non-derivative financial liabilities:						
Notes and accounts payable	$	377,504	377,504	-	-	-
Other payables		54,170	53,182	513	85	390
Convertible bonds payable		320,800	-	-	320,800	-
	$	752,474	430,686	513	320,885	390
Derivative financial instruments:						
Foreign currency forward contracts:						
Outflow	$	(268,245)	(268,245)	-	-	-
Inflow		265,762	265,762	-	-	-
	$	(2,483)	(2,483)	-	-	-
December 31, 2012						
Non-derivative financial liabilities:						
Secured bank loans	$	3,132	3,132	-	-	-
Notes and accounts payable		469,241	469,241	-	-	-
Other payables		63,601	56,121	7,480	-	-
Convertible bonds payable		796,000	-	-	-	796,000
	$	1,331,974	528,494	7,480	-	796,000
Derivative financial instruments:						
Foreign currency forward contracts:						
Outflow	$	(145,200)	(145,200)	-	-	-
Inflow		145,301	145,301	-	-	-
	$	101	101	-	-	-
January 1, 2012						
Non-derivative financial liabilities:						
Secured bank loans	$	5,460	5,460	-	-	-
Notes and accounts payable		307,574	307,574	-	-	-
Other payables		196,830	190,980	5,850	-	-
Convertible bonds payable		796,000	-	796,000	-	-
	$	1,305,864	504,014	801,850	-	-
Derivative financial instruments:						
Foreign currency forward contracts:						
Outflow	$	(181,650)	(181,650)	-	-	-
Inflow		181,147	181,147	-	-	-
	$	(503)	(503)	-	-	-

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

(c) Market risk

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

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

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

i. Foreign currency risk

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

The Group utilizes foreign currency forward contracts to hedge 70 to 80 percent of its foreign currency exposure with respect to its sales and purchases.

i) Exposure to foreign currency risk

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

	December 31, 2013		
	Foreign currency	**Exchange rate**	**NTD**
Financial assets			
USD	$ 29,254	29.805	871,928
RMB	247,530	4.919	1,217,600
Financial liabilities			
USD	63	29.805	1,882

	December 31, 2012		
	Foreign currency	**Exchange rate**	**NTD**
Financial assets			
USD	$ 30,483	29.040	885,215
RMB	154,659	4.660	720,710
Financial liabilities			
USD	8,656	29.040	251,381

	January 1, 2012		
	Foreign currency	**Exchange rate**	**NTD**
Financial assets			
USD	$ 19,182	30.275	580,721
RMB	148,787	4.807	715,221
Financial liabilities			
USD	4,990	30.275	151,660

(Continued)

ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable, notes and accounts payable, other receivables, other payable, and other financial assets－current that are denominated in a currency other than the respective functional currencies of Group entities. As of December 31, 2013 and 2012, 1% depreciation (appreciation) of NTD against the USD and RMB would have increased (decreased) pre-tax income by $20,876 and $13,545 in 2013 and 2012, respectively. The analysis is performed on the same basis for 2013 and 2012.

ii. Interest rate risk

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

(20) Capital management

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	$ 1,119,601	1,580,756	1,538,430
Total equity	$ 3,821,939	2,788,655	2,490,158
Liability-to-equity ratio	29.29%	56.69%	61.78%

7. Related-party transactions

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(2) Significant related-party transactions: None.

(3) Compensation of key management personnel

		2013	2012
Short-term employee benefits	$	33,397	31,727
Share-based payments		584	520
	$	33,981	32,247

8. Pledged assets

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

Pledge assets	Pledged to secure		December 31, 2013	December 31, 2012	January 1, 2012
Time deposits	Credit lines of short-term borrowings	$	3,025	3,014	3,000
Time deposits	Guarantee deposit of custom duties		111	110	108
		$	3,136	3,124	3,108

9. Significant commitments and contingencies

(1) As of December 31, 2013 and 2012, and January 1, 2012, unused letters of credit amounted to $35,408, $37,871, and $28,076, respectively.

(2) As of December 31, 2013 and 2012, and January 1, 2012, the Group had issued promissory notes amounted to $500,000 for credit lines of short-term borrowings.

10. Significant loss from casualty: None.

11. Significant subsequent events: None.

(Continued)

12. Others

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

	2013			2012		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:						
Salaries	$ 130,279	218,629	348,908	128,711	216,432	345,143
Insurance	10,200	14,491	24,691	9,593	12,247	21,840
Pension	4,623	8,158	12,781	4,515	7,565	12,080
Other	4,802	3,790	8,592	5,004	3,687	8,691
Depreciation	66,861	16,542	83,403	56,040	16,576	72,616
Amortization	319	1,634	1,953	-	1,317	1,317

13. Additional disclosures

(1) Information on significant transactions:

(a) Financing provided to other parties: None.

(b) Guarantees and endorsements provided to other parties: None.

(c) Marketable securities held at the reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities): None.

(d) Marketable securities for which the accumulated purchase or sale amounts for the year exceed $300 million or 20% of the paid-in capital: None.

(e) Acquisition of real estate which exceeds $300 million or 20% of the paid-in capital: None.

(f) Disposal of real estate which exceeds $300 million or 20% of the paid-in capital: None.

(g) Total purchases from and sales to related parties which exceed $100 million or 20% of the paid-in capital:

Company Name	Related Party	Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (payable)		Note
			Purchase/ (Sales)	Amount (Note 3)	% of Total Purchase/(Sales)	Payment Terms	unit price	Payment Terms	Ending Balance	% of Total	
The Company	OTEK System	Subsidiary	(Sales)	(113,720)	(3)%	EM 60	(Note 1)	(Note 2)	30,247	4%	

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

Note 2: The trade terms of sales with related parties are between EM 60~90 days and the trade terms with third parties are between OA 30~75 days.

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

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(h) Receivables from related parties which exceed $100 million or 20% of the paid-in capital: None.

(i) Transactions in derivative instruments：Refer to note 6(2).

(j) Business relationships and significant intercompany transactions:

Number (Note 1)	Company Name	Counter Party	Relationship	Transaction details			Percentage of consolidated total revenues or total assets (Note 3)
				Account (Note 2)	Amount	Transaction Terms	
0	The Company	Flytech HK	Subsidiary	Sales	51,491	EM 60	1.27%
0	The Company	Flytech CN	Subsidiary	Sales	90,739	EM 90	2.23%
0	The Company	OTEK System	Subsidiary	Sales	113,720	EM 60	2.80%
1	OTEK System	The Company	Parent	Sales	60,584	EM 60	1.49%

Note 1: Parties to intercompany transactions are identified and numbered as follows:
1. "0" represents the Company.
2. Subsidiaries are numbered from "1"

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

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

(2) Information on investees:

Investor	Investee	Location	Main Businesses and Products	Investment amount		Balances as of December 31, 2013			Maximum percentage of ownership during 2013		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2013	December 31, 2012	Shares	Percentage of Ownership	Carrying value	Shares	Percentage of Ownership			
The Company	Flytech USA BVI	British Virgin Islands	Investment and holding activity	38,652	38,652	100	100	27,663	100	100	(2,759)	(2,759)	Note
The Company	Flytech Japan BVI	British Virgin Islands	Investment and holding activity	3,446	3,446	50	100	2,894	50	100	1	1	Note
The Company	Flytech HK BVI	British Virgin Islands	Investment and holding activity	10,392	10,392	50	100	107,816	50	100	14,094	14,094	Note
The Company	Flytech CN BVI	British Virgin Islands	Investment and holding activity	69,089	69,089	100	100	96,543	100	100	5,808	5,808	Note
The Company	Flycom Investment	Taiwan	Investment and holding activity	50,000	50,000	5,000	100	72,912	5,000	100	17,931	17,931	Note
Flytech USA BVI	Flytech USA	USA	Sale of computer peripheral equipments	36,358 (USD1,072)	36,358 (USD1,072)	700	100	26,646 (USD894)	700	100	(1,421) (USD(48))	(1,421) (USD(48))	Note
Flytech HK BVI	Flytech HK	Hong Kong	Sale of computer peripheral equipments	10,433 (USD298)	10,433 (US298)	1,000	100	107,795 (USD3,617)	1,000	100	14,094 (USD474)	14,094 (USD474)	Note
Flycom Investment	OTEK System	Taiwan	Sale of computer peripheral equipments	48,946	48,946	5,510	68.88	72,773	5,510	68.88	27,330	18,824	Note

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

(Continued)

(3) Information on investment in Mainland China:

(a) Information on investment in Mainland China

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2013	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2013	Net Income (Loss) of Investee	% of Ownership of Direct and Indirect Investment	Maximum percentage of ownership during 2013		Investment Income (Loss) (Note 2)	Carrying Value as of December 31, 2013	Accumulated Inward Remittance of Earnings as of December 31, 2013
					Outflow	Inflow				Shares	Percentage of Ownership			
Flytech CN	Sale of computer peripheral equipments	69,089 (USD 2,000)	Note 1	69,089 (USD 2,000)	-	-	69,089 (USD 2,000)	5,808 (USD 195)	100	2,000	100	5,808 (USD 195)	94,665 (USD 3,176)	-

Note 1 : Indirect investment in Mainland China is through a holding company established in a third country
Note 2 : Investment income or loss was recognized based on financial statements audited by the CPA of the parent company.
Note 3 : The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(b) Limits on investment in Mainland China

Accumulated investment in Mainland China as of December 31, 2013	Authorized investment amount by Ministry of Economic Affairs Investment Commission	Upper limit on investment authorized by Ministry of Economic Affairs Investment Commission
69,089 (USD 2,000)	69,089 (USD 2,000)	2,272,732

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

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

14. Segment Information

(1) General information

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

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

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

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

	2013				
	POS	ODM	Others	Adjustments and eliminations	Total
Revenues from external customers	$ 3,058,968	361,065	645,185	-	4,065,218
Intra-group revenue	88,094	25,626	63,078	(176,798)	-
Total segment revenue	$ 3,147,062	386,691	708,263	(176,798)	4,065,218
Segment income before income tax	$ 842,175	69,707	92,650	-	1,004,532

	2012				
	POS	ODM	Others	Adjustments and eliminations	Total
Revenues from external customers	$ 2,771,115	318,986	487,977	-	3,578,078
Intra-group revenue	67,400	12,613	77,906	(157,919)	-
Total segment revenue	$ 2,838,515	331,599	565,883	(157,919)	3,578,078
Segment income before income tax	$ 540,309	67,065	85,918	-	693,292

(2) Product information

Revenues from external customers are detailed below:

Products	2013	2012
Point of sales system (POS)	$ 1,008,989	881,172
Panel PC (PPC)	2,284,001	1,967,481
Industrial personal computer (IPC)	107,786	153,216
Peripherals and others	664,442	576,209
	$ 4,065,218	3,578,078

(3) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

(Continued)

Revenues from external customers are detailed below:

Region	2013	2012
America	$ 1,430,046	1,163,537
France	544,797	485,008
British	376,588	395,077
Taiwan	218,207	237,018
Others	1,495,580	1,297,438
	$ 4,065,218	3,578,078

Non-current assets:

Region	December 31, 2013	December 31, 2012	January 1, 2012
Taiwan	$ 1,193,080	1,177,732	1,156,708
Mainland China	12,335	12,803	14,495
Hong Kong	5,676	5,378	5,677
America	46	74	127
	$ 1,211,137	1,195,987	1,177,007

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

(4) Major customer information

	2013	2012
Total consolidated revenue from POS segment- Customer A	$ 628,548	466,418
Total consolidated revenue from POS segment- Customer B	478,035	422,560
Total consolidated revenue from POS segment- Customer C	365,537	392,815

15. First-time adoption of Taiwan-IFRSs

The Group's consolidated financial statements as of December 31, 2012, were prepared in accordance with accounting principles generally accepted in the Republic of China (R.O.C. GAAP). As described in note 4(1), these consolidated financial statements are the first annual financial statements that apply the Regulations and Taiwan-IFRSs. The consolidated financial statements also apply IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The accounting policies described in note 4 have been adopted for the comparative consolidated financial statements for the year ended December 31, 2012, the consolidated balance sheet as of December 31, 2012, and the opening Taiwan-IFRSs consolidated balance sheet as of January 1, 2012 (the Group's transition date).

In preparing the financial statements for 2012, the Group regarded the amounts in the financial statements prepared in accordance with R.O.C. GAAP as the initial point of adjustments. An explanation of how the transition from R.O.C. GAAP to Taiwan-IFRSs has affected the Group's financial position, financial performance, and cash flows is set out in the following tables and the notes that accompany the tables.

(1) Reconciliation of consolidated balance sheet

	December 31, 2012		
	R.O.C. GAAP	Effect of Transition to Taiwan-IFRSs	Taiwan-IFRSs
Assets:			
Cash and cash equivalents (i)	$ 1,978,998	(221,135)	1,757,863
Financial assets at fair value through profit or loss－current	157	-	157
Notes and accounts receivable	708,423	-	708,423
Inventories	385,583	-	385,583
Prepayments, other receivables, and other current assets	26,988	-	26,988
Deferred income tax assets－current (j)	13,718	(13,718)	-
Other financial assets－current (i)	3,124	221,135	224,259
Total current assets	3,116,991	(13,718)	3,103,273
Financial assets at fair value through profit or loss－non-current	$ 159	-	159
Financial assets carried at cost－non-current (a)	14,608	(14,608)	-
Available-for-sale financial assets－non-current (a)	-	14,608	14,608
Property, plant and equipments (e, f)	1,205,711	(10,757)	1,194,954
Intangible assets (g)	-	1,033	1,033
Deferred pension costs (c)	603	(603)	-
Deferred income tax assets－non-current (j, k)	-	23,350	23,350
Other non-current assets (g)	1,033	(1,033)	-
Other financial assets－non-current	32,034	-	32,034
Total non-current assets	1,254,148	11,990	1,266,138
Total assets	$ 4,371,139	(1,728)	4,369,411

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2012		
	R.O.C. GAAP	Effect of Transition to Taiwan-IFRSs	Taiwan-IFRSs
Liabilities:			
Short-term borrowings	$ 3,132	-	3,132
Notes and accounts payable	469,241	-	469,241
Other payables (b)	192,252	7,480	199,732
Current income tax liabilities	76,415	-	76,415
Provisions — current	10,230	-	10,230
Other current liabilities	17,568	-	17,568
Total current liabilities	768,838	7,480	776,318
Bonds payable	755,232	-	755,232
Deferred income tax liabilities (j)	15,560	3,817	19,377
Accrued pension liabilities (c)	17,303	12,526	29,829
Total non-current liabilities	788,095	16,343	804,438
Total liabilities	1,556,933	23,823	1,580,756
Equity attributable to owners of the Company			
Common stock	1,004,249	-	1,004,249
Capital surplus (d)	225,169	20,390	245,559
Retained earnings (b, c, d, e, l)	1,569,083	(48,778)	1,520,305
Other equity (c)	(10,674)	2,837	(7,837)
Equity attributable to owners of the Company	2,787,827	(25,551)	2,762,276
Non-controlling interests	26,379	-	26,379
Total equity	2,814,206	(25,551)	2,788,655
Total liabilities and equity	$ 4,371,139	(1,728)	4,369,411

	January 1, 2012		
	R.O.C. GAAP	Effect of Transition to Taiwan-IFRSs	Taiwan-IFRSs
Assets:			
Cash and cash equivalents (i)	$ 1,775,683	(420,572)	1,355,111
Financial assets at fair value through profit or loss — current	12	-	12
Notes and accounts receivable	501,851	-	501,851
Inventories	494,185	-	494,185
Prepayments, other receivables, and other current assets	33,092	-	33,092
Deferred income tax assets — current (j)	10,126	(10,126)	-
Other financial assets — current (i)	3,108	420,572	423,680
Total current assets	2,818,057	(10,126)	2,807,931
Financial assets carried at cost — non-current (a)	16,480	(16,480)	-
Available-for-sale financial assets — non-current (a)	-	16,480	16,480
Property, plant and equipments (e, f)	1,184,430	(23,882)	1,160,548
Intangible assets (g)	-	2,081	2,081
Deferred pension costs (c)	724	(724)	-
Deferred income tax assets — non-current (j, k)	-	20,742	20,742
Other non-current assets (g)	2,081	(2,081)	-
Other financial assets — non-current	6,428	-	6,428
Prepayment for equipments (f)	-	14,378	14,378
Total non-current assets	1,210,143	10,514	1,220,657
Total assets	$ 4,028,200	388	4,028,588

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	January 1, 2012		
	R.O.C. GAAP	Effect of Transition to Taiwan-IFRSs	Taiwan-IFRSs
Liabilities:			
Short-term borrowings	$ 5,460	-	5,460
Financial liabilities at fair value through profit or loss－current	4,610	-	4,610
Notes and accounts payable	307,574	-	307,574
Other payables (b)	323,616	5,810	329,426
Current income tax liabilities	52,808	-	52,808
Provisions－current	22,515	-	22,515
Other current liabilities	28,089	-	28,089
Current portion of bonds payable	739,577	-	739,577
Total current liabilities	1,484,249	5,810	1,490,059
Deferred income tax liabilities (j)	13,189	5,198	18,387
Accrued pension liabilities (c)	18,053	11,931	29,984
Total non-current liabilities	31,242	17,129	48,371
Total liabilities	1,515,491	22,939	1,538,430
Equity attributable to owners of the Company			
Common stock	910,117	-	910,117
Capital surplus (d)	211,197	16,881	228,078
Retained earnings (b, c, d, e, l)	1,370,236	(43,333)	1,326,903
Other equity (c)	(3,872)	3,901	29
Equity attributable to owners of the Company	2,487,678	(22,551)	2,465,127
Non-controlling interests	25,031	-	25,031
Total equity	2,512,709	(22,551)	2,490,158
Total liabilities and equity	$ 4,028,200	388	4,028,588

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Reconciliation of consolidated statement of comprehensive income

	2012		
	R.O.C. GAAP	Effect of Transition to Taiwan-IFRSs	Taiwan-IFRSs
Revenue	$ 3,578,078	-	3,578,078
Cost of sales (h)	(2,452,643)	(4,736)	(2,457,379)
Gross profit	1,125,435	(4,736)	1,120,699
Selling expenses (b, c, d, e, h)	(183,683)	(1,106)	(184,789)
Administrative expenses	(112,039)	-	(112,039)
Research and development expenses	(128,807)	-	(128,807)
Total operating expenses	(424,529)	(1,106)	(425,635)
Operating income	700,906	(5,842)	695,064
Non-operating income and loss:			
Other income	33,648	-	33,648
Other gains and losses — net	(19,512)	-	(19,512)
Finance costs	(15,908)	-	(15,908)
Total non-operating income and loss	(1,772)	-	(1,772)
Income before income tax	699,134	(5,842)	693,292
Income tax expense (b, c, e, k)	(88,666)	397	(88,269)
Net income	610,468	(5,445)	605,023
Other comprehensive income:			
Exchange differences on translation of foreign operations	(7,866)	-	(7,866)
Total comprehensive income for the year	$ 602,602	(5,445)	597,157
Net income attributable to:			
Shareholders of the Company	$ 609,120	(5,445)	603,675
Non-controlling interests	1,348	-	1,348
	$ 610,468	(5,445)	605,023
Total comprehensive income attributable to:			
Shareholders of the Company	$ 601,254	(5,445)	595,809
Non-controlling interests	1,348	-	1,348
	$ 602,602	(5,445)	597,157
Earnings per share			
Basic earnings per share (dollars)	$ 5.50	(0.05)	5.45
Dulited earnings per share (dollars)	$ 4.88	(0.04)	4.84

(Continued)

(3) Significant reconciliation of consolidated statements of cash flows

The Group prepared the statement of cash flows using the indirect method under R.O.C. GAAP, in which the interest received and interest paid are not required to be disclosed separately and the interest received is classified as operating activities in the statement of cash flows. However, in accordance with IAS 7 *Statement of Cash Flows*, the interest paid of $253 and the income tax paid of $66,279 for the year ended December 31, 2012, are disclosed separately in operating activities, and the interest received of $18,806 is disclosed separately in investing activities of the statement of cash flows.

Except for the above differences, there are no significant differences between R.O.C. GAAP and Taiwan-IFRSs in the consolidated statements of cash flows.

(4) Notes to the reconciliation of significant GAAP differences

(a) In accordance with Taiwan-IFRSs, financial instruments carried at cost are measured at fair value and reclassified to available-for-sale financial assets—non-current.

Under Taiwan-IFRSs, adjustments are made as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Available-for-sale financial assets—non-current	$	14,608	16,480
Financial assets carried at cost—non-current		(14,608)	(16,480)
Retained earnings adjustments	$	-	-

(b) Under Taiwan-IFRSs, an entity shall recognize the expected cost of accumulated compensated absences when employees render service that increases their entitlement to future compensated absences.

Under Taiwna-IFRSs, adjustments are made as follows:

		2012
Consolidated statements of comprehensive income		
Selling expenses	$	1,670
Pre-tax adjustments	$	**1,670**

(Continued)

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Other payables	$	7,480	5,810
Deferred income tax adjustments		(1,272)	(988)
Retained earnings adjustments	$	6,208	4,822

(c) Under R.O.C. GAAP, actuarial gains and losses from defined benefit plans are amortized over the expected average remaining working lives of the participating employees. At the date of transition to Taiwan-IFRSs, the Group recognized the unamortized actuarial gains and losses directly in retained earnings. Under Taiwan-IFRSs, the Group recognized actuarial gains and losses as other comprehensive income starting from 2012.

Under Taiwan-IFRSs, adjustments are made as follows:

		2012
Consolidated statements of comprehensive income		
Selling expense	$	(590)
Pre-tax adjustments	$	(590)

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Accrued pension liabilities	$	12,526	11,931
Deferred pension cost		603	724
Unrecognized pension cost		2,837	3,901
Deferred income tax adjustments		(2,714)	(2,814)
Retained earnings adjustments	$	13,252	13,742

(d) Under R.O.C. GAAP, the share-based payment for the employee stock option plan is recognized as expense using the intrinsic value method. Under Taiwan-IFRSs, the unvested and unexercised stock option should be recognized at fair value.

Under Taiwan-IFRSs, adjustments are made as follows:

		2012
Consolidated statements of comprehensive income		
Selling expense	$	3,509
Pre-tax adjustments	$	3,509

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Capital surplus－employee stock options	$	20,390	16,881
Retained earnings adjustments	$	20,390	16,881

(e) The Group has re-assessed the accounting treatment for property, plant and equipment in accordance with Taiwan-IFRSs. When an item of property, plant and equipment comprises individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately from the acquisition date.

Under Taiwan-IFRSs, adjustments are made as follows:

		2012
Consolidated statements of comprehensive income		
Selling expense	$	1,253
Pre-tax adjustments	$	1,253

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Property, plant and equipment	$	10,757	9,504
Deferred income tax adjustments		(1,829)	(1,616)
Retained earnings adjustments	$	8,928	7,888

(f) Under R.O.C. GAAP, the prepayment for equipments are classified as property, plant and equipment. Under Taiwan-IFRSs, they are reclassified as other assets－non-current.

Under Taiwan-IFRSs, adjustments are made as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Prepayment for equipments	$	-	14,378
Property, plant and equipment		-	(14,378)
Retained earnings adjustment	$	-	-

(Continued)

(g) Under R.O.C. GAAP, the computer software is classified as deferred expenses and other non-current assets. Under Taiwan-IFRSs, the computer software is reclassified to intangible assets.

Under Taiwan-IFRSs, adjustments are made as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Intangible assets	$	1,033	2,081
Other non-current assets		(1,033)	(2,081)
Retained earnings adjustment	$	-	-

(h) Under Taiwan-IFRSs, the Group reclassified the warranty expenses from operating expenses to cost of sales.

Under Taiwan-IFRSs, adjustments are made as follows:

		2012
Consolidated statements of comprehensive income		
Cost of sales	$	4,736
Selling expenses		(4,736)
Pre-tax adjustments	$	-

(i) Under R.O.C. GAAP, time deposits with a maturity over three months are classified as cash and cash equivalents. Under Taiwan-IFRSs, they are reclassified to other financial assets—current.

Under Taiwan-IFRSs, adjustments are made as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Cash and cash equivalents	$	(221,135)	(420,572)
Other financial assets—current		221,135	420,572
Retained earnings adjustment	$	-	-

(Continued)

(j) Under Taiwan-IFRSs, deferred income tax assets or liabilities are classified as non-current assets or liabilities. Deferred income tax assets and liabilities could be offset only when an entity has a legally enforceable right to offset the related tax assets against tax liabilities and conforms to the other criteria for such offsetting.

Under Taiwan-IFRSs, adjustments are made as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Deferred income tax assets—current	$	(13,718)	(10,126)
Deferred income tax assets—non-current		17,535	15,324
Deferred income tax liabilities		(3,817)	(5,198)
Retained earnings adjustment	$	-	-

(k) The deferred income tax adjustments are summarized as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Property, plant and equipment (e)	$	1,829	1,616
Other payables—employee benefits (b)		1,272	988
Accrued pension liabilities (c)		2,714	2,814
Deferred income tax assets	$	5,815	5,418

The income tax expense decreased by $397 for the year ended December 31, 2012.

(l) Adjustments made to retained earnings are as follows:

		December 31, 2012	January 1, 2012
Property, plant and equipment (e)	$	10,757	9,504
Employee benefits:			
Employee stock options (d)		20,390	16,881
Other payables (b)		7,480	5,810
Accrued pension liabilities (c)		15,966	16,556
Deferred income tax assets (k)		(5,815)	(5,418)
Decrease in retained earnings	$	48,778	43,333