# HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AND REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

## JUNE 30, 2014 AND 2013

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. The English translation does not include additional disclosures that are required for Chinese-language reports under Guidelines for Securities Issuers's Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To The Board of Directors and Stockholders
Hon Hai Precision Industry Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Hon Hai Precision Industry Co., Ltd. and subsidiaries as of June 30, 2014 and 2013, and the related consolidated statements of comprehensive income for the three-month and six-month periods then ended, and statements of changes in equity and of cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews. We did not review the financial statements of certain consolidated subsidiaries accounted for under equity method, which statements reflect total assets amounting to $165,882,091,000 and $155,770,762,000, representing 8.42% and 7.98% of the related consolidated total assets as of June 30, 2014 and 2013, respectively, and total revenues amounting to $40,209,025,000, $40,975,344,000, $73,607,692,000 and $77,867,553,000, constituting 4.57%, 4.58%, 4.18% and 4.57% of the total revenues for the three-month and six-month periods then ended, respectively. Those statements were reviewed by other independent accountants, whose reports thereon have been furnished to us and our conclusion expressed herein, is based solely on the review reports of the other independent accountants.

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data, and making inquiries of Company personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As explained in Notes 4(3) and 6(10), we did not review the financial statements of certain insignificant consolidated subsidiaries and investments accounted for under equity method, which statements reflect total assets (including investments accounted for under equity method) of $471,977,440,000 and $433,075,648,000, constituting 23.97% and 22.19% of the consolidated total assets, and total liabilities of $182,836,656,000 and $207,457,003,000, constituting 16.13% and

16.97% of the consolidated total liabilities as of June 30, 2014 and 2013, respectively, and total comprehensive income (including share of profit (loss) and other comprehensive income of associates and joint ventures accounted for under equity method) of $4,701,211,000, $5,220,099,000, $5,970,383,000 and $3,016,255,000, constituting 23.45%, 20.83%, 13.56% and 5.12% of the consolidated total comprehensive income for the three-month and six-month periods then ended, respectively. These amounts and the information disclosed in Note 13 were based solely on the unreviewed financial statements of these companies as of June 30, 2014 and 2013.

Based on our reviews and the review reports of other independent accountants, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries, investments accounted for under equity method and the information disclosed in Note 13 been audited or reviewed by independent accountants and the omission of certain additional disclosures relating to the investee companies, as required by Article 15-1 of the Rules Governing the Preparation of Financial Statements by Securities Issuers, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers", and IAS 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission (FSC).

Pricewaterhouse Coopers, Taiwan
Republic of China
August 13, 2014

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
YEARS ENDED JUNE 2014/6/30
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(The consolidated balance sheets as of June 30, 2014 and 2013 are reviewed, not audited)

| | Assets | Notes | June 30, 2014 AMOUNT | % | December 31, 2013 AMOUNT | % | June 30, 2013 AMOUNT | % |
|---|---|---|---|---|---|---|---|---|
| | **Current assets** | | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 567,985,516 | 29 | $ 694,027,045 | 30 | $ 602,490,947 | 31 |
| 1110 | Financial assets at fair value through profit or loss - current | 6(2) | 56,437,980 | 3 | 1,198,112 | - | 430,089 | - |
| 1125 | Available-for-sale financial assets - current | 6(3) | 1,078,063 | - | 1,087,171 | - | 835,126 | - |
| 1170 | Accounts receivable, net | 6(4) | 442,868,863 | 23 | 727,761,542 | 31 | 432,318,438 | 22 |
| 1180 | Accounts receivable - related parties | 7 | 11,633,691 | 1 | 19,948,258 | 1 | 20,383,827 | 1 |
| 1200 | Other receivables | 6(5) and 7 | 47,064,114 | 2 | 40,215,354 | 2 | 48,380,966 | 3 |
| 130X | Inventory | 6(6) | 331,259,509 | 17 | 312,785,092 | 14 | 325,423,059 | 17 |
| 1410 | Prepayments | | 8,278,466 | - | 6,393,753 | - | 8,341,639 | - |
| 1460 | Non-current assets held for sale - net | 6(7) | 9,644,250 | - | - | - | - | - |
| 1470 | Other current assets | 6(8) and 8 | 7,659,403 | - | 5,165,161 | - | 2,338,763 | - |
| 11XX | **Total current assets** | | 1,483,909,855 | 75 | 1,808,581,488 | 78 | 1,440,942,854 | 74 |
| | **Non-current assets** | | | | | | | |
| 1510 | Financial assets at fair value through profit or loss - non-current | 6(2) | - | - | - | - | 179,300 | - |
| 1523 | Available-for-sale financial assets - non-current | 6(3) | 40,053,568 | 2 | 11,854,684 | 1 | 13,324,381 | 1 |
| 1543 | Financial assets carried at cost - non-current | 6(9) | 6,242,946 | - | 10,843,376 | - | 9,411,632 | 1 |
| 1550 | Investments accounted for under equity method | 6(10) | 47,746,717 | 3 | 46,282,999 | 2 | 43,542,238 | 2 |
| 1600 | Property, plant and equipment | 6(11) | 344,836,040 | 18 | 379,561,941 | 16 | 399,687,780 | 20 |
| 1760 | Investment property - net | 6(12) | 2,368,339 | - | 2,304,839 | - | 2,425,292 | - |
| 1780 | Intangible assets | 6(13) | 3,512,351 | - | 12,815,278 | 1 | 3,871,822 | - |
| 1840 | Deferred income tax assets | | 15,822,832 | 1 | 15,837,041 | 1 | 13,036,059 | 1 |
| 1900 | Other non-current assets | 6(14) and 8 | 24,493,601 | 1 | 24,379,557 | 1 | 24,944,061 | 1 |
| 15XX | **Total non-current assets** | | 485,076,394 | 25 | 503,879,715 | 22 | 510,422,565 | 26 |
| 1XXX | **Total assets** | | $ 1,968,986,249 | 100 | $ 2,312,461,203 | 100 | $ 1,951,365,419 | 100 |

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HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
YEARS ENDED JUNE 2014/6/30
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(The consolidated balance sheets as of June 30, 2014 and 2013 are reviewed, not audited)

| | Liabilities and Equity | Notes | June 30, 2014 AMOUNT | % | December 31, 2013 AMOUNT | % | June 30, 2013 AMOUNT | % |
|---|---|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | | | |
| 2100 | Short-term loans | 6(15) | $ 210,288,937 | 11 | $ 366,233,601 | 16 | $ 357,221,512 | 19 |
| 2110 | Short-term notes and bills payable | 6(16) | 2,996,634 | - | 19,982,517 | 1 | 5,593,757 | - |
| 2120 | Financial liabilities at fair value through profit or loss - current | 6(2) | 182,521 | - | 39,946 | - | 84,139 | - |
| 2170 | Accounts payable | | 459,596,971 | 23 | 682,942,409 | 30 | 451,409,441 | 23 |
| 2180 | Accounts payable - related parties | 7 | 26,816,792 | 2 | 29,761,739 | 1 | 26,710,286 | 2 |
| 2200 | Other payables | 6(17) | 198,512,754 | 10 | 191,175,178 | 8 | 138,197,537 | 7 |
| 2230 | Current income tax liabilities | | 19,205,361 | 1 | 24,158,478 | 1 | 18,099,660 | 1 |
| 2250 | Provisions for liabilities - current | 6(24) | 2,596,441 | - | 2,406,336 | - | 2,030,576 | - |
| 2260 | Liabilities directly related to non-current assets held for sale | 6(7) | 205,825 | - | - | - | - | - |
| 2300 | Other current liabilities | 6(18) | 50,739,544 | 3 | 42,260,567 | 2 | 103,396,777 | 5 |
| 21XX | **Total current liabilities** | | 971,141,780 | 50 | 1,358,960,771 | 59 | 1,102,743,685 | 57 |
| | **Non-current liabilities** | | | | | | | |
| 2530 | Corporate bonds payable | 6(19) | 116,723,207 | 6 | 97,054,788 | 4 | 90,903,899 | 5 |
| 2540 | Long-term loans | 6(20) | 32,781,940 | 2 | 35,108,728 | 2 | 14,385,724 | 1 |
| 2570 | Deferred income tax liabilities | | 4,850,188 | - | 6,218,103 | - | 4,210,831 | - |
| 2600 | Other non-current liabilities | 6(23) | 7,778,789 | - | 9,194,211 | - | 10,061,572 | - |
| 25XX | **Total non-current liabilities** | | 162,134,124 | 8 | 147,575,830 | 6 | 119,562,026 | 6 |
| 2XXX | **Total liabilities** | | 1,133,275,904 | 58 | 1,506,536,601 | 65 | 1,222,305,711 | 63 |
| | **Equity** | | | | | | | |
| | **Equity attributable to owners of parent** | | | | | | | |
| | **Share capital** | 6(25) | | | | | | |
| 3110 | Share capital - common stock | | 131,287,068 | 7 | 131,287,068 | 6 | 118,358,665 | 6 |
| 3150 | Stock dividends to be distributed | | 23,436,643 | 1 | - | - | 18,658,757 | 1 |
| | **Capital reserve** | 6(26) | | | | | | |
| 3200 | Capital surplus | | 64,756,259 | 3 | 64,792,873 | 3 | 59,505,263 | 3 |
| | **Retained earnings** | 6(27) | | | | | | |
| 3310 | Legal reserve | | 80,126,455 | 4 | 69,456,739 | 3 | 69,456,739 | 4 |
| 3350 | Undistributed earnings | | 456,501,717 | 23 | 467,423,426 | 20 | 392,799,144 | 20 |
| | **Other equity interest** | 6(28) | | | | | | |
| 3400 | Other equity interest | | 35,451,167 | 2 | 31,728,861 | 1 | 31,994,231 | 1 |
| 3500 | Treasury stocks | 6(25) | ( 18,901) | - | ( 18,901) | - | ( 18,901) | - |
| 31XX | **Equity attributable to owners of the parent** | | 791,540,408 | 40 | 764,670,066 | 33 | 690,753,898 | 35 |
| 36XX | **Non-controlling interest** | 6(29) | 44,169,937 | 2 | 41,254,536 | 2 | 38,305,810 | 2 |
| 3XXX | **Total equity** | | 835,710,345 | 42 | 805,924,602 | 35 | 729,059,708 | 37 |
| | **Commitments and Contingent Liabilities** | 9 | | | | | | |
| | **Subsequent Events** | 11 | | | | | | |
| | **Total liabilities and equity** | | $ 1,968,986,249 | 100 | $ 2,312,461,203 | 100 | $ 1,951,365,419 | 100 |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated August 13, 2014.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 2014/6/30
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

| | | | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2014 | | 2013 | | 2014 | | 2013 | |
| | Items | Notes | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| 4000 | **Operating revenue** | 6(30) and 7 | $ 879,094,312 | 100 | $ 895,617,497 | 100 | $ 1,762,573,637 | 100 | $ 1,704,629,448 | 100 |
| 5000 | **Operating costs** | 6(6)(33) and 7 | ( 817,104,273) | ( 93) | ( 843,684,571) | ( 94) | ( 1,647,207,693) | ( 93) | ( 1,606,783,435) | ( 94) |
| 5900 | **Net operating margin** | | 61,990,039 | 7 | 51,932,926 | 6 | 115,365,944 | 7 | 97,846,013 | 6 |
| | **Operating expenses** | 6(33)(34) and 7 | | | | | | | | |
| 6100 | Selling expenses | | ( 5,374,205) | ( 1) | ( 5,655,751) | ( 1) | ( 10,407,028) | ( 1) | ( 10,640,350) | ( 1) |
| 6200 | General and administrative expenses | | ( 17,328,496) | ( 2) | ( 16,950,476) | ( 2) | ( 34,991,152) | ( 2) | ( 34,424,614) | ( 2) |
| 6300 | Research and development expenses | | ( 11,355,568) | ( 1) | ( 10,723,867) | ( 1) | ( 21,130,275) | ( 1) | ( 20,271,226) | ( 1) |
| 6000 | **Total operating expenses** | | ( 34,058,269) | ( 4) | ( 33,330,094) | ( 4) | ( 66,528,455) | ( 4) | ( 65,336,190) | ( 4) |
| 6900 | **Operating profit** | | 27,931,770 | 3 | 18,602,832 | 2 | 48,837,489 | 3 | 32,509,823 | 2 |
| | **Non-operating income and expenses** | | | | | | | | | |
| 7010 | Other income | 6(31) | 9,035,285 | 1 | 4,185,192 | - | 15,513,246 | 1 | 7,125,786 | - |
| 7020 | Other gains and losses | 6(32) | ( 1,982,382) | - | 4,285,658 | 1 | ( 838,042) | - | 10,974,131 | 1 |
| 7050 | Finance costs | 6(4)(35) | ( 3,593,026) | - | ( 2,021,279) | - | ( 6,784,490) | - | ( 3,916,336) | - |
| 7060 | Share of profit of associates and joint ventures accounted for under equity method | 6(10) | 1,025,537 | - | 491,414 | - | 1,229,850 | - | 1,447,586 | - |
| 7000 | **Total non-operating income and expenses** | | 4,485,414 | 1 | 6,940,985 | 1 | 9,120,564 | 1 | 15,631,167 | 1 |
| 7900 | **Profit before income tax** | | 32,417,184 | 4 | 25,543,817 | 3 | 57,958,053 | 4 | 48,140,990 | 3 |
| 7950 | Income tax expense | 6(36) | ( 11,791,683) | ( 2) | ( 8,613,432) | ( 1) | ( 17,502,762) | ( 1) | ( 14,860,281) | ( 1) |
| 8200 | **Profit for the year** | | $ 20,625,501 | 2 | $ 16,930,385 | 2 | $ 40,455,291 | 3 | $ 33,280,709 | 2 |
| | **Other comprehensive income** | | | | | | | | | |
| 8310 | Financial statements translation differences of foreign operations | 6(28)(29) | ($ 10,771,160) | ( 1) | $ 8,526,477 | 1 | ($ 7,982,807) | ( 1) | $ 25,120,147 | 1 |
| 8325 | Unrealized gain (loss) on valuation of available-for-sale financial assets | 6(28)(29) | 10,537,627 | 1 | ( 885,076) | - | 11,274,405 | 1 | ( 398,364) | - |
| 8370 | Share of other comprehensive income of associates and joint ventures accounted for under equity method | 6(28) | ( 343,920) | - | 483,360 | - | 271,193 | - | 869,649 | - |
| 8300 | **Other comprehensive income for the year** | | ($ 577,453) | - | $ 8,124,761 | 1 | $ 3,562,791 | - | $ 25,591,432 | 1 |
| 8500 | **Total comprehensive income for the year** | | $ 20,048,048 | 2 | $ 25,055,146 | 3 | $ 44,018,082 | 3 | $ 58,872,141 | 3 |
| | **Profit (loss) attributable to:** | | | | | | | | | |
| 8610 | Owners of the parent | | $ 20,186,135 | 2 | $ 16,977,649 | 2 | $ 39,728,898 | 3 | $ 33,330,162 | 2 |
| 8620 | Non-controlling interest | | 439,366 | - | ( 47,264) | - | 726,393 | - | ( 49,453) | - |
| | | | $ 20,625,501 | 2 | $ 16,930,385 | 2 | $ 40,455,291 | 3 | $ 33,280,709 | 2 |
| | **Comprehensive income attributable to:** | | | | | | | | | |
| 8710 | Owners of the parent | | $ 19,478,006 | 2 | $ 23,808,004 | 3 | $ 43,451,204 | 3 | $ 57,518,836 | 3 |
| 8720 | Non-controlling interest | | 570,042 | - | 1,247,142 | - | 566,878 | - | 1,353,305 | - |
| | | | $ 20,048,048 | 2 | $ 25,055,146 | 3 | $ 44,018,082 | 3 | $ 58,872,141 | 3 |
| | **Earnings per share (in dollars)** | 6(37) | | | | | | | | |
| 9750 | **Basic earnings per share** | | $ | 1.37 | $ | 1.15 | $ | 2.70 | $ | 2.27 |
| 9850 | **Diluted earnings per share** | | $ | 1.36 | $ | 1.13 | $ | 2.68 | $ | 2.22 |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated August 13, 2014.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 2014/6/30 AND 2013/6/30
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

| | | Equity attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital | | | Retained Earnings | | Other equity interest | | | | | |
| | Notes | Share capital - common stock | Stock dividends to be distributed | Capital reserve | Legal reserve | Undistributed | Financial statements translation differences of foreign operations | Unrealized gain or loss on valuation of available-for-sale financial assets | Treasury stocks | Total | Non-controlling interest | Amount |
| 2013 | | | | | | | | | | | | |
| Balance at January 1, 2013 | | $ 118,358,665 | $ - | $ 58,932,078 | $ 59,980,502 | $ 399,791,359 | $ 1,370,511 | $ 6,435,046 | ($ 18,901 ) | $ 644,849,260 | $ 36,064,490 | $ 680,913,750 |
| Appropriations of 2012 earnings (Note 1): | | | | | | | | | | | | |
| Legal reserve | 6(27) | - | - | - | 9,476,237 | ( 9,476,237 ) | - | - | - | - | - | - |
| Cash dividends | 6(27) | - | - | - | - | ( 17,753,800 ) | - | - | - | ( 17,753,800 ) | - | ( 17,753,800 ) |
| Stock dividends | 6(27) | - | 11,835,866 | - | - | ( 11,835,866 ) | - | - | - | - | - | - |
| Employees’ stock bonus | 6(25) | - | 6,822,891 | - | - | - | - | - | - | 6,822,891 | - | 6,822,891 |
| Consolidated net income for 2013 | | - | - | - | - | 33,330,162 | - | - | - | 33,330,162 | ( 49,453 ) | 33,280,709 |
| Other comprehensive income (loss) for the six months ended June 30, 2013, net of income tax | 6(28)(29) | - | - | - | - | - | 24,575,985 | ( 387,311 ) | - | 24,188,674 | 1,402,758 | 25,591,432 |
| Changes in equity of associates and joint ventures accounted for under the equity method | | - | - | 564,018 | - | - | - | - | - | 564,018 | - | 564,018 |
| Adjustments arising from changes in percentage of ownership in subsidiaries | 6(29) | - | - | 9,167 | - | ( 1,256,474 ) | - | - | - | ( 1,247,307 ) | - | ( 1,247,307 ) |
| Increase in non-controlling interests | 6(29) | - | - | - | - | - | - | - | - | - | 888,015 | 888,015 |
| Balance at June 30, 2013 | | $ 118,358,665 | $ 18,658,757 | $ 59,505,263 | $ 69,456,739 | $ 392,799,144 | $ 25,946,496 | $ 6,047,735 | ($ 18,901 ) | $ 690,753,898 | $ 38,305,810 | $ 729,059,708 |

(Continued)

# HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE SIX-MONTH PERIODS ENDED JUNE 2014/6/30 AND 2013/6/30

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

| | | Equity attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital | | | Retained Earnings | | Other equity interest | | | | | |
| | Notes | Share capital - common stock | Stock dividends to be distributed | Capital reserve | Legal reserve | Undistributed | Financial statements translation differences of foreign operations | Unrealized gain or loss on valuation of available-for-sale financial assets | Treasury stocks | Total | Non-controlling interest | Amount |
| 2014 | | | | | | | | | | | | |
| Balance at January 1, 2014 | | $ 131,287,068 | $ - | $ 64,792,873 | $ 69,456,739 | $ 467,423,426 | $ 26,432,947 | $ 5,295,914 | ($ 18,901 ) | $ 764,670,066 | $ 41,254,536 | $ 805,924,602 |
| Appropriations of 2013 earnings (Note 2): | | | | | | | | | | | | |
| Legal reserve | 6(27) | - | - | - | 10,669,716 | ( 10,669,716 ) | - | - | - | - | - | - |
| Cash dividends | 6(27) | - | - | - | - | ( 23,631,672 ) | - | - | - | ( 23,631,672 ) | - | ( 23,631,672 ) |
| Stock dividends | 6(27) | - | 15,754,448 | - | - | ( 15,754,448 ) | - | - | - | - | - | - |
| Employees' stock bonus | 6(25) | - | 7,682,195 | - | - | - | - | - | - | 7,682,195 | - | 7,682,195 |
| Consolidated net income for 2014 | | - | - | - | - | 39,728,898 | - | - | - | 39,728,898 | 726,393 | 40,455,291 |
| Other comprehensive income (loss) for the six months ended June 30, 2014, net of income tax | 6(28)(29) | - | - | - | - | - | ( 7,878,238 ) | 11,600,544 | - | 3,722,306 | ( 159,515 ) | 3,562,791 |
| Changes in equity of associates and joint ventures accounted for under the equity method | | - | - | 15,551 | - | - | - | - | - | 15,551 | - | 15,551 |
| Adjustments arising from changes in percentage of ownership in subsidiaries | 6(29) | - | - | ( 52,165 ) | - | ( 594,771 ) | - | - | - | ( 646,936 ) | - | ( 646,936 ) |
| Increase in non-controlling interests | 6(29) | - | - | - | - | - | - | - | - | - | 2,348,523 | 2,348,523 |
| Balance at June 30, 2014 | | $ 131,287,068 | $ 23,436,643 | $ 64,756,259 | $ 80,126,455 | $ 456,501,717 | $ 18,554,709 | $ 16,896,458 | ($ 18,901 ) | $ 791,540,408 | $ 44,169,937 | $ 835,710,345 |

Note 1: Directors' and supervisors' remuneration amounting to $0 and employees' bonus amounting to $6,822,891 had been deducted from the consolidated statement of comprehensive income for 2012.
Note 2: Directors' and supervisors' remuneration amounting to $0 and employees' bonus amounting to $7,682,195 had been deducted from the consolidated statement of comprehensive income for 2013.

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated August 13, 2014.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 2014/6/30
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

| | Notes | 2014/6/30 | 2013/6/30 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Consolidated profit before tax for the period | | $ 57,958,053 | $ 48,140,990 |
| Adjustments to reconcile consolidated profit before tax to net cash provided by operating activities | | | |
| Income and expenses having no effect on cash flows | | | |
| Depreciation | 6(33) | 35,847,017 | 36,841,771 |
| Amortization | 6(33) | 402,479 | 423,404 |
| Provision for doubtful accounts and sales discount | | - | 227,523 |
| Loss on impairment of non-financial assets | 6(7)(11) | 1,010,776 | 35,376 |
| Loss on impairment of financial assets | 6(10) | 87,730 | - |
| (Gain) loss on disposal of property, plant and equipment, net | 6(32) | ( 244,530 ) | 194,316 |
| (Gain) loss on financial assets or liabilities at fair value through profit or loss, net | 6(2) | ( 852,416 ) | 183,588 |
| Share of profit of associates and joint ventures accounted for using equity method | | ( 1,229,850 ) | ( 1,447,586 ) |
| Change in consolidated entities with no cash flow effect | 6(32) | ( 367,490 ) | ( 551,075 ) |
| Interest expense | 6(35) | 6,719,364 | 3,851,272 |
| Interest income | 6(30) | ( 12,332,773 ) | ( 3,755,113 ) |
| Dividend income | 6(30) | ( 77,909 ) | ( 143,927 ) |
| Changes in assets/liabilities relating to operating activities | | | |
| Net changes in assets relating to operating activities | | | |
| Financial assets held for trading | | ( 54,244,877 ) | ( 209,047 ) |
| Notes receivable | | 348,706 | 56,476 |
| Accounts receivable | | 284,543,973 | 164,976,553 |
| Accounts receivable due from related parties | | 8,314,567 | 15,085,824 |
| Other receivables | | ( 5,349,218 ) | ( 10,075,705 ) |
| Inventories | | ( 18,474,417 ) | 24,459,584 |
| Prepayments | | ( 1,894,799 ) | ( 694,598 ) |
| Net changes in liabilities relating to operating activities | | | |
| Accounts payable | | ( 223,345,206 ) | ( 151,346,353 ) |
| Accounts payable to related parties | | ( 2,944,947 ) | ( 8,904,561 ) |
| Other payables | | ( 19,618,510 ) | ( 46,749,485 ) |
| Provisions for liabilities - current | | 190,105 | ( 1,433,704 ) |
| Receipts in advance | | 6,132,152 | ( 753,515 ) |
| Other current liabilities | | ( 1,486,147 ) | 711,411 |
| Accrued pension liabilities | | 42,973 | ( 66,477 ) |
| Cash generated from operations | | 59,134,806 | 69,056,942 |
| Income tax paid | | ( 23,809,777 ) | ( 17,484,649 ) |
| Net cash provided by operating activities | | 35,325,029 | 51,572,293 |

(Continued)

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 2014/6/30
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

| | Notes | 2014/6/30 | 2013/6/30 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of property, plant and equipment | 6(38) | ($ 6,819,840 ) | ($ 34,098,343 ) |
| Increase in other financial assets | | ( 2,494,242 ) | ( 870,232 ) |
| Acquisition of available-for-sale financial assets | | ( 179,327 ) | ( 132,000 ) |
| Increase in other non-current assets | | ( 2,699,454 ) | ( 189,503 ) |
| Acquisition of investments accounted for using equity method | | ( 541,163 ) | ( 1,078,665 ) |
| Acquisition of financial assets carried at cost | | ( 1,413,039 ) | ( 248,958 ) |
| Acquisition of intangible assets | 6(12) | ( 60,380 ) | - |
| Increase in land use right | | ( 32,513 ) | ( 60,939 ) |
| Proceeds from disposal of financial assets carried at cost | | 33,872 | 39,942 |
| Proceeds from disposal of available-for-sale financial assets | | 175,833 | 147 |
| Proceeds from disposal of investments accounted for using equity method | | 116,866 | 2,428,216 |
| Proceeds from disposal of property, plant and equipment | | 829,653 | 879,116 |
| Increase in other receivables due from related parties | 7 | ( 330,000 ) | - |
| Other investing activities | | ( 837,797 ) | 242,032 |
| Interest received | | 12,112,696 | 3,844,902 |
| Dividends received | | 77,909 | 143,927 |
| Changes in cash and cash equivalents transferred to non-current assets held for sale | 6(7) | ( 660,263 ) | - |
| Net cash used in investing activities | | ( 2,721,189 ) | ( 29,100,358 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| (Decrease) increase in short-term loans | | ( 153,312,743 ) | 46,706,574 |
| Decrease in short-term notes and bills payable | | ( 16,985,883 ) | ( 2,397,840 ) |
| Proceeds from issuing bonds | | 22,443,461 | 15,292,000 |
| Proceeds from long-term debt | | 552,000 | 3,110,151 |
| Repayments of long-term debt | | ( 2,699,233 ) | ( 5,413,350 ) |
| (Decrease) increase in other non-current liabilities | | ( 593,398 ) | 2,766,933 |
| Changes in non-controlling interests | 6(29) | 2,348,523 | 888,015 |
| Interest paid | | ( 6,449,631 ) | ( 2,933,615 ) |
| Net cash (used in) provided by financing activities | | ( 154,696,904 ) | 58,018,868 |
| Net effect of changes in foreign currency exchange rates | | ( 3,948,465 ) | 16,473,188 |
| (Decrease) increase in cash and cash equivalents | | ( 126,041,529 ) | 96,963,991 |
| Cash and cash equivalents at beginning of period | | 694,027,045 | 505,526,956 |
| Cash and cash equivalents at end of period | | $ 567,985,516 | $ 602,490,947 |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated August 13, 2014.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)
(REVIEWED BUT UNAUDITED)

1. HISTORY AND ORGANIZATION

Hon Hai Precision Industry Co., Ltd. (the "Company") was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in the manufacture, sales and service of connectors, case, thermal module, wired/wireless communication products, optical products, power supply modules, and assemblies for use in the IT, communications, automotive equipment, precision molding, automobile, and consumer electronics industries.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on August 13, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, 'Financial instruments') as endorsed by the FSC in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|---|
| Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1) | July 1, 2010 |
| Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1) | July 1, 2011 |
| Government loans (amendment to IFRS 1) | January 1, 2013 |
| Disclosures－Transfers of financial assets (amendment to IFRS 7) | July 1, 2011 |

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|---|
| Disclosures－Offsetting financial assets and financial liabilities | January 1, 2013 |
| IFRS 10, 'Consolidated financial statements' | January 1, 2013 (Investment entities: January 1, 2014) |
| IFRS 11, 'Joint arrangements' | January 1, 2013 |
| IFRS 12, 'Disclosure of interests in other entities' | January 1, 2013 |
| IFRS 13, 'Fair value measurement' | January 1, 2013 |
| Presentation of items of other comprehensive income (amendment to IAS 1) | July 1, 2012 |
| Deferred tax: recovery of underlying assets (amendment to IAS 12) | January 1, 2012 |
| IAS 19 (revised), 'Employee benefits' | January 1, 2013 |
| IAS 27, 'Separate financial statements' (as amended in 2011) | January 1, 2013 |
| IAS 28, 'Investments in associates and joint ventures' (as amended in 2011) | January 1, 2013 |
| Offsetting financial assets and financial liabilities (amendment to IAS 32) | January 1, 2014 |
| IFRIC 20, 'Stripping costs in the production phase of a surface mine' | January 1, 2013 |
| Improvements to IFRSs 2010 | January 1, 2011 |
| Improvements to IFRSs 2009－2011 | January 1, 2013 |

Based on the Group's assessment, the adoption of the 2013 version of IFRS has no significant impact on the consolidated financial statements of the Group, except the following:

A. IAS 19 (revised), 'Employee benefits'

Additional disclosures are required to present how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

B. IAS 1, 'Presentation of financial statements'

The amendment requires entities to separate items presented in OCI classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Group will adjust its presentation of the statement of comprehensive income.

C. IFRS 12, 'Disclosure of interests in other entities'

The standard integrates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will disclose additional information about its interests in consolidated entities and unconsolidated entities accordingly.

D. IFRS 13, ‘Fair value measurement’

The standard defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. Based on the Group’s assessment, the adoption of the standard has no significant impact on its consolidated financial statements, and the Group will disclose additional information about fair value measurements accordingly.

E. Disclosures - Transfers of financial assets (amendment to IFRS 7)

The amendment enhances qualitative and quantitative disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in transferred assets, existing at the reporting date.

Based on the Group’s assessment, the adoption of the amendment will require the Group to include qualitative and quantitative disclosures for all transferred financial assets.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

The following are the assessment of new standards, interpretations and amendments issued by IASB but not yet endorsed by the FSC in 2013 (application of the new standards and amendments should follow the regulations of the FSC):

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
| --- | --- |
| IFRS 9, ‘Financial instruments' | January 1, 2018 |
| Accounting for acquisition of interests in joint operations (amendments to IFRS 11) | January 1, 2016 |
| IFRS 14, 'Regulatory deferral accounts' | January 1, 2016 |
| IFRS 15, ‘Revenue from contracts with customers' | January 1, 2017 |
| Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38) | January 1, 2016 |
| Agriculture: bearer plants (amendments to IAS 16 and IAS 41) | January 1, 2016 |
| Defined benefit plans: employee contributions (amendments to IAS 19R) | July 1, 2014 |
| Recoverable amount disclosures for non-financial assets (amendments to IAS 36) | January 1, 2014 |
| Novation of derivatives and continuation of hedge accounting (amendments to IAS 39) | January 1, 2014 |
| IFRIC 21, ‘Levies’ | January 1, 2014 |
| Improvements to IFRSs 2010-2012 | July 1, 2014 |
| Improvements to IFRSs 2011-2013 | July 1, 2014 |

The Group is assessing the potential impact of the new standards, interpretations and amendments above and will disclose the potential impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the principal accounting policies applied in the preparation of these consolidated financial statements set out below have been consistently applied to all the periods presented.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IAS 34, 'Interim Financial Reporting' as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Available-for-sale financial assets measured at fair value.

(c) Liabilities on cash-settled share-based payment arrangements measured at fair value.

(d) Defined benefit liabilities recognized based on the net amount of pension fund assets plus unrecognized past period's service cost, less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. In general, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The existence and effect of potential voting rights that are currently exercisable or convertible have been considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss.

B. Subsidiaries included in the consolidated financial statements:

| | | | Ownership (%) | | | |
|---|---|---|---|---|---|---|
| Investor | Subsidiary | Main Business Activities | 2014.6.30 | 2013.12.31 | 2013.6.30 | Note |
| Hon Hai Precision Industry Co., Ltd. | Foxconn (Far East) Limited and subsidiaries | Investment holdings in companies in Mainland China, Hong Kong, Europe and America primarily engaged in manufacturing, sale, research and development of computer cases, connectors and computer components | 100 | 100 | 100 | (a) |
| " | Foxconn Holding Ltd. and subsidiaries | Investment holdings in hi-tech companies in Asia-Pacific and America | 100 | 100 | 100 | (a) |
| " | Hyield Venture Capital Co., Ltd. and subsidiaries | Venture capital investments in companies primarily engaged in manufacturing of automobile wires/electronic devices and electronic components, and services of planning, advisory and business management | 98 | 98 | 98 | (a) |
| " | Bao Shin International Investment Co., Ltd. and subsidiaries | Domestic investments in companies primarily engaged in development and sale of computer systems, manufacturing and sale of machinery and equipment | 100 | 100 | 100 | (a) |

| Investor | Subsidiary | Main Business Activities | Ownership (%) 2014.6.30 | 2013.12.31 | 2013.6.30 | Note |
|---|---|---|---|---|---|---|
| Hon Hai Precision Industry Co., Ltd. | Hon Yuan International Investment Co., Ltd. and subsidiaries | Domestic investments in companies primarily engaged in manufacturing and sale of machinery and equipment | 100 | 100 | 100 | (a) |
| " | Hon Chi International Investment Co., Ltd. and subsidiaries | Domestic investments in companies primarily engaged in software and electronic information application services, and manufacturing and sale of machinery and equipment | 100 | 100 | 100 | (a) |
| " | Lin Yih International Investment Co., Ltd. | Investment holdings in R.O.C. companies | 100 | 100 | 100 | (a) |
| " | Hon Hai/ Foxconn Logistics California LLC. | Logistics services in America | 100 | 100 | 100 | (a) |
| " | Hon Hai/ Foxconn Logistics Texas LLC. | Logistics services in America | 100 | 100 | 100 | (a) |
| " | Ambit International Ltd. and subsidiaries | Investment holdings in companies in Mainland China primarily engaged in manufacturing and sale of power supply modules, application modules and network cables assemblies | 100 | 100 | 100 | (a) |
| " | Foxconn Singapore (Pte) Ltd. and subsidiaries | Asia-Pacific sales company | 100 | 100 | 100 | (a) |
| " | Foxconn International Inc. | Patent applications in America | 100 | 100 | 100 | (a) |
| " | Altus Technology Inc. | Manufacture and design of cellular phone and camera lens and packaging of sensors | 100 | 100 | 100 | (a) |

| Investor | Subsidiary | Main Business Activities | Ownership (%) 2014.6.30 | 2013.12.31 | 2013.6.30 | Note |
|---|---|---|---|---|---|---|
| Hon Hai Precision Industry Co., Ltd. | Premier Image Technology -Hong Kong Limited and subsidiaries | Manufacture and sale of camera | 99.96 | 99.96 | 99.96 | (a) |
| " | Foxconn SA B.V. and subsidiaries | Investment holdings in Russian domestic sales companies | 97.76 | 97.76 | 97.76 | (a) |
| " | Margini Holdings Limited and subsidiaries | Investment holdings in Vietnam export processing and construction services companies and Brazil domestic sales companies | 100 | 100 | 100 | (a) |
| " | Foxconn Holdings B.V. - Netherland and subsidiaries | Investment holdings in companies in Europe | 100 | 100 | 100 | (a) |
| " | Syntrend Creative Park Co., Ltd. | Retail of office machinery and equipment and electronic appliances, and information/ software services | 73.47 | 73.47 | 80 | (a) |
| " | Ambit Microsystems Corporation | Mobile communications business | 100 | 100 | 100 | (a)(b) |

(a) The financial statements of the entity as of and for the six-month periods ended June 30, 2014 and 2013 were not reviewed by independent accountants as the entity did not meet the definition of significant subsidiary.

(b) On June 18, 2014, the Board of Directors has resolved the merger of Ambit Microsystems Corporation, a subsidiary of the Company, and Asia Pacific Telecom, which became the surviving company. The merger was temporarily set to be effective on June 30, 2015 at a swap ratio of 1:0.4975. Related information is provided in Note 6(7).

(c) The financial statements of certain consolidated subsidiaries for the six-month periods ended June 30, 2014 and 2013 were not reviewed by independent accountants, which reflect total assets of $460,603,798 and $424,874,438, constituting 23.39% and 21.77% of total consolidated assets, and total liabilities were $182,836,656 and $207,457,003, constituting 16.13% and 16.97% of the consolidated total liabilities as of June 30, 2014 and 2013, respectively, as well as the total comprehensive income of $4,381,814, $4,692,149, $5,922,446, and $2,567,539, constituting 21.86%, 18.73%, 13.45% and 4.36% of the consolidated total comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translation

A. The consolidated financial statements are presented in NTD, which is the Company’s functional and the Group’s presentation currency.

B. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translated at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses’.

C. Translation of foreign operations

(a) The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognized in other comprehensive income.

(b) When the foreign operation as an associate is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, when the Group still retains partial interest in the former foreign associate after losing significant influence over the former foreign associate, such transactions should be accounted for as disposal of all interest in these foreign operations.

(c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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) <u>Cash equivalents</u>

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the above criteria and are held for the purpose of meeting short-term cash commitment in operations are classified as cash equivalents.

(7) <u>Financial assets at fair value through profit or loss</u>

A. Financial assets at fair value through profit or loss are financial assets held for trading or designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

(b) Capable of eliminating or significantly reducing a measurement or recognition inconsistency; or

(c) Performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(8) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘financial assets measured at cost’.

(9) Accounts receivable

Accounts receivable are generated by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

A. The Group assesses at balance sheet date whether there is objective evidence that an individual financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the individual financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is an impairment loss is as follows:
   (a) Significant financial difficulty of the issuer or debtor;
   (b) A breach of contract, such as a default or delinquency in interest or principal payments;
   (c) The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
   (d) Increase in probability of the borrower going bankruptcy or suffering financial reorganisation;
   (e) The disappearance of an active market for that financial asset because of financial difficulties;
   (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
   (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
   (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
   (a) Financial assets measured at cost
   The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset directly.
   (b) Available-for-sale financial assets
   The amount of the impairment loss is measured as the difference between the asset’s acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from ‘other comprehensive income’ to ‘profit or loss’. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment

in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset directly.

(11) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows from the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell.

(14) Investments accounted for under equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for under the equity method and are initially recognized at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.

G. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

H. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it retains significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(15) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. While land is not depreciated, other property, plant and equipment apply that cost model are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each component of property, plant and equipment is significant in relation to the total cost of the item, it must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are audited, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 51 years |
| (Auxiliary buildings | 6 ~ 11 years) |
| Machinery and equipment | 3 ～ 9 years |
| Office equipment | 4 ～ 6 years |
| Other equipment | 1 ～ 6 years |

(16) <u>Investment property</u>

An investment property is stated initially at its cost and measured subsequently using the cost model. Investment property is depreciated on a straight-line basis over its estimated useful life of 6 ~ 51 years.

(17) <u>Intangible assets</u>

A. Goodwill is generated by adopting the acquisition method when merger and acquisition occurs.

B. Patent is amortised on a straight-line basis over its estimated useful life of 1 ~ 20 years.

C. Concession license is amortised using the straight-line method starting from the date the license was granted by the National Communications Commission until expiration.

(18) <u>Impairment of non-financial assets</u>

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

B. Goodwill for impairment testing purpose is allocated to cash generating units. This allocation is identified based on operating segments. Goodwill is allocated to a cash generating unit or a group of cash generating units that expects to benefit from the business combinations.

(19) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

(b) Capable of eliminating or significantly reducing a measurement or recognition inconsistency; or

(c) Performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(22) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(23) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(24) Financial liabilities and equity instruments - Bonds payable

A. Ordinary corporate bonds issued by the Group are initially recognized at fair value, net of transaction costs incurred. Ordinary corporate bonds are subsequently stated at amortised cost;

any difference between the proceeds (net of transaction costs) and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

B. Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares but not by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement. Convertible corporate bonds are accounted for as follows:

(a) Conversion options, call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

(b) Bonds payable of convertible corporate bonds is the remaining value of total issue price less amounts of 'financial assets or financial liabilities at fair value through profit or loss' as stated above, and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

(c) Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to each liability components in proportion to the allocation of proceeds.

(d) When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable' and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above mentioned liability component.

(25) <u>Derivative financial instruments</u>

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognized in profit or loss.

(26) <u>Provisions</u>

Provisions of warranties are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(27) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise.

iii. Past service costs are recognized immediately in profit or loss if vested immediately; if not, the past service costs are amortized on a straight-line basis over the vesting period.

iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

C. Employees’ bonus and directors’ and supervisors’ remuneration

Employees’ bonus and directors’ and supervisors’ remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees’ bonus and directors’ and supervisors’ remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders’ meeting subsequently, the differences should be recognized based on the accounting for changes in estimates. The Group calculates the number of shares of employees’ stock bonus based on the fair value per share at the previous day of the stockholders’ meeting held in the year following the financial reporting year, after taking into account the effects of ex-rights and ex-dividends.

(28) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. For the cash-settled share-based payment arrangements, the employee services received and the liability incurred are measured at the fair value of the liability to pay for those services, and are recognized as compensation cost and liability over the vesting period. The fair value of the liability shall be remeasured at each balance sheet date until settled, with any changes in fair value recognized in profit or loss.

(29) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures, employees’ training costs and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

G. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(30) Dividends

Dividends are recorded in the Company’s financial statements in the period in which they are approved by the Company’s shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(31) Revenue recognition

The Group manufactures and sells 3C products. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group’s activities. Revenue arising from the sales of goods should be recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(32) Government grants

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as non-current liabilities and are amortised to profit or loss over the estimated useful lives of the related assets using the straight-line method.

(33) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The above information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

A. Revenue recognition

The determination of whether the Group is acting as principal or agent in a transaction is based on an evaluation of Group's exposure to the significant risks and rewards associated with the sale of goods or the rendering of service in accordance with the business model and substance of the transaction. When exposed to the significant risks and rewards, the Group acts as a principal, and the amount received or receivable from customer is recognised as revenue on a gross basis. Where the Group acts as an agent, net revenue is recognised representing the commission earned. The Group provides integrated electronics manufacturing services to meet the following criteria by judgment, and recognises revenue on a gross basis:

a. The Group has primary responsibilities for the goods or services it provides;
b. The Group bears inventory risk;
c. The Group bears credit risk of customers.

B. Financial assets-impairment of equity investments

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

C. Financial assets measured at cost

The Group can not obtain sufficient information for its unquoted equity investments to determine the fair value, so their fair values cannot be reliably measured. Therefore, the investments are classified as "financial assets carried at cost."

(2) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of June 30, 2014, the carrying amount of inventories was $331,259,509.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Cash on hand and revolving funds | $ 1,298,848 | $ 3,338,615 | $ 6,017,649 |
| Checking accounts and demand deposits | 171,979,538 | 120,750,443 | 301,972,808 |
| Cash equivalents | | | |
| Time deposits | 394,707,130 | 567,070,489 | 290,215,801 |
| Sweep fund | - | 2,867,498 | 4,284,689 |
| | $ 567,985,516 | $ 694,027,045 | $ 602,490,947 |

A. The Group associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. The Group's time deposits pledged to others as collateral had been transferred to "other current assets". Please refer to Note 8 for details.

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

| Assets | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Current items: | | | |
| Principal and income protected financial products | $ 54,399,675 | $ - | $ - |
| Principal protected floating rate financial products | 966,915 | - | - |
| Beneficiary certificates | 540,602 | 430,040 | 162,364 |
| Forward exchange contracts | 308,707 | 451,973 | 267,725 |
| Cross currency swap contracts | 29,995 | 316,099 | - |
| Others | 192,086 | - | - |
| | $ 56,437,980 | $ 1,198,112 | $ 430,089 |
| Non-current item: | | | |
| Convertible bonds payable | $ - | $ - | $ 179,300 |
| **Liabilities** | | | |
| Current items: | | | |
| Cross currency swap contracts | ($ 115,018) | $ - | $ - |
| Forward exchange contracts | ( 67,503) | ( 39,946) | ( 84,027) |
| Euro-Convertible Bond conversion rights | - | - | ( 112) |
| | ($ 182,521) | ($ 39,946) | ($ 84,139) |

A. The Group recognised net profit of $944,356, loss of $171,117, profit of 852,416 and loss of $159,308 on financial assets held for trading for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

B. The Group has signed a contract for principal protected financial products with the bank for the six-month period ended June 30, 2014. The expected annualised rate of return is between 3.5% and 5.7%.

C. The counterparties of the Group's debt derivative instruments have good credit quality, all with investment credit rating or above. The maximum exposure to credit risk at balance sheet date is the carrying amount of financial assets at fair value through profit or loss.

D. The non-hedging derivative instruments transaction and contract information are as follows:

| | June 30, 2014 | | |
|---|---|---|---|
| | Contract amount (Nominal Principal in thousands) | | Contract period |
| Derivative Financial Assets | | | |
| Current items: | | | |
| Cross currency swap contracts | TWD (BUY) | 6,010,900 | 2014.05.27~2014.11.24 |
| | USD (SELL) | 200,000 | 2014.05.27~2014.11.24 |
| Foreign exchange forward contracts | KRW (BUY) | 5,933,220 | 2014.05.15~2014.09.18 |
| | RMB (BUY) | 4,856,055 | 2014.03.21~2015.01.15 |
| | MXN (BUY) | 714,361 | 2014.03.11~2014.11.13 |
| | JPY (BUY) | 24,997 | 2014.06.06~2014.08.08 |
| | BRL (BUY) | 7,305 | 2014.05.29~2014.07.17 |
| | USD (SELL) | 837,809 | 2014.03.11~2015.01.15 |
| | INR (SELL) | 14,634 | 2014.06.06~2014.08.08 |
| Principal protected floating rate financial products | RMB | 200,000 | 2014.05.30~2014.08.28 |
| Derivative Financial Liabilities | | | |
| Current items: | | | |
| Cross currency swap contracts | TWD (BUY) | 43,820,980 | 2014.04.15~2014.12.31 |
| | USD (SELL) | 1,460,000 | 2014.04.15~2014.12.31 |
| Foreign exchange forward contracts | MXN (BUY) | 433,896 | 2014.05.15~2014.09.11 |
| | RMB (BUY) | 311,377 | 2014.02.27~2014.09.22 |
| | USD (BUY) | 146,364 | 2014.04.18~2014.09.10 |
| | JPY (BUY) | 23,000 | 2014.06.05~2014.07.17 |
| | RMB (SELL) | 783,941 | 2014.04.18~2014.09.10 |
| | USD (SELL) | 83,698 | 2014.02.27~2014.09.22 |
| | BRL (SELL) | 43,587 | 2014.05.15~2014.08.07 |
| | EUR (SELL) | 1,000 | 2014.06.06~2014.08.28 |

| | December 31, 2013 | | |
|---|---|---|---|
| | Contract amount (Nominal Principal in thousands) | | Contract period |
| Derivative Financial Assets | | | |
| Current items: | | | |
| Cross currency swap contracts | TWD (BUY) | 26,580,800 | 2013.11.26~2014.03.31 |
| | USD (SELL) | 898,000 | 2013.11.26~2014.03.31 |
| Foreign exchange forward contracts | MXN (BUY) | 210,632 | 2013.10.10~2014.05.02 |
| | KRW (BUY) | 1,170,070 | 2013.11.21~2014.02.20 |
| | USD (BUY) | 232,459 | 2013.10.24~2014.03.06 |
| | RMB (BUY) | 8,841,823 | 2013.09.10~2014.03.24 |
| | JPY (BUY) | 10,000 | 2013.11.28~2014.01.16 |
| | USD (SELL) | 1,461,100 | 2013.09.10~2014.05.02 |
| | EUR (SELL) | 32,300 | 2013.10.24~2014.03.06 |
| | BRL (SELL) | 110,108 | 2013.11.18~2014.02.13 |
| | RMB (SELL) | 853,232 | 2013.11.06~2014.03.05 |
| Derivative Financial Liabilities | | | |
| Current items: | | | |
| Foreign exchange forward contracts | BRL (BUY) | 18,335 | 2013.11.21~2014.01.09 |
| | KRW (BUY) | 3,911,640 | 2013.12.19~2014.03.13 |
| | MXN (BUY) | 811,904 | 2013.10.22~2014.04.10 |
| | RMB (BUY) | 304,260 | 2013.12.18~2014.01.22 |
| | USD (BUY) | 40,152 | 2013.10.14~2014.03.27 |
| | JPY (BUY) | 109,778 | 2013.11.21~2014.04.25 |
| | USD (SELL) | 124,272 | 2013.10.22~2014.04.10 |
| | EUR (SELL) | 24,700 | 2013.10.14~2014.03.27 |
| | BRL (SELL) | 5,366 | 2013.11.21~2014.01.23 |
| | INR (SELL) | 326,989 | 2013.10.14~2014.04.25 |

| | | June 30, 2013 | |
|---|---|---|---|
| Derivative Financial Assets | Contract amount (Nominal Principal in thousands) | | Contract period |
| Current items: | | | |
| Foreign exchange forward contracts | HUF (BUY) | 149,355 | 2013.06.06~2013.07.25 |
| | JPY (BUY) | 7,010,195 | 2013.04.08~2013.10.28 |
| | RMB (BUY) | 3,069,792 | 2012.11.05~2013.09.27 |
| | USD (BUY) | 177,613 | 2013.04.09~2013.09.27 |
| | EUR (SELL) | 4,200 | 2013.04.09~2013.09.26 |
| | BRL (SELL) | 41,835 | 2013.05.29~2013.07.25 |
| | INR (SELL) | 126,558 | 2013.04.09~2013.08.30 |
| | USD (SELL) | 560,752 | 2012.11.05~2013.10.28 |
| | RMB (SELL) | 925,857 | 2013.05.08~2013.09.27 |
| Derivative Financial Liabilities | | | |
| Current items: | | | |
| Foreign exchange forward contracts | BRL (BUY) | 7,121 | 2013.06.20~2013.07.24 |
| | JPY (BUY) | 40,000 | 2013.06.13~2013.08.08 |
| | KRW (BUY) | 4,878,060 | 2013.04.18~2013.09.26 |
| | MXN (BUY) | 897,097 | 2013.04.09~2013.09.19 |
| | USD (BUY) | 122,297 | 2013.04.11~2013.09.20 |
| | USD (SELL) | 78,250 | 2013.04.09~2013.09.26 |
| | BRL (SELL) | 20,936 | 2013.06.13~2013.08.08 |
| | EUR (SELL) | 1,000 | 2013.05.23~2013.08.22 |
| | INR (SELL) | 121,346 | 2013.06.20~2013.09.20 |
| | RMB (SELL) | 682,937 | 2013.04.11~2013.07.24 |

(a) Cross currency swap contracts

The cross currency swap contracts signed by the Company are to fulfill capital movement. For exchange rate, principals denominated in two currencies are exchanged at the same exchange rate at the initial and final exchanges, thus, there is no foreign exchange risk. For interest rate, the fixed rate between two currencies is used to exchange, thus, there is no market interest rates.

(b) Forward foreign exchange contracts

The group enters into foreign exchange forward transactions to hedge the following risk of exchange rate:

A. Operating activities: Import of raw materials and export sales.

B. Investing activities: Import of machinery and equipment.

C. Financing activities: Long-term and short-term foreign currency assets and liabilities.

(c) Principal protected floating rate financial products

The Group’s principal protected floating rate financial products signed with the bank are issued by banks with good credit quality to fulfill short-term capital allocation and improve rate of return of utlisation of capital. The principal is invested in interbank deposits, interbank borrowings and other low-risk investment instruments or embedded financial derivatives related to foreign currency and etc. The abovementioned minimum floating rate of the contract shall not be lower than the interest rate on deposit for the same duration.

(d) The issuance of convertible bonds by the Company was recognized under financial liabilities designated at fair value through profit or loss on initial recognition due to their compound instrument feature, and the convertible corporate bonds expired on October 12, 2013. The Group recognized gain on valuation of convertible bonds amounting to $3,336 and $15,176 for the three-month and six-month periods ended June 30, 2013, respectively. For the terms of the 2010 1st unsecured euro convertible bonds, please refer to Note 6(19) A.

E. The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

| Items | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Current items: | | | |
| Listed stocks | $ 1,867 | $ 59,088 | $ 59,452 |
| Adjustment of available-for-sale financial assets | 1,076,196 | 1,028,083 | 775,674 |
| | $ 1,078,063 | $ 1,087,171 | $ 835,126 |
| Non-current items: | | | |
| Listed stocks | $ 23,471,461 | $ 7,125,704 | $ 7,526,402 |
| Foreign investment fund | 552,595 | - | - |
| Emerging stocks | 69,009 | 28,740 | 28,740 |
| | 24,093,065 | 7,154,444 | 7,555,142 |
| Adjustment of available-for-sale financial assets | 15,960,503 | 4,700,240 | 5,769,239 |
| | $ 40,053,568 | $ 11,854,684 | $ 13,324,381 |

A. On June 26, 2014, GoPro, Inc. (formerly known as Woodman Labs, Inc.), which was invested by the Group, was listed on NASDAQ. Thus, the investment of ‘financial assets measured at cost’ amounting to $5,606,417 was reclassified to ‘available-for-sale financial assets’.

B. The Group has obtained shares in SK C&C Co., Limited amounting to $11,292,052 in the second quarter of 2014. As of June 30, 2014, the unpaid investment amounted to $11,292,052 (shown as ‘other payables’).

C. The Group recognized net loss or gain in other comprehensive income for fair value change for the three-month and six-month periods ended June 30, 2014 and 2013. Please refer to Notes 6(28) and (29) for details.

(4) Notes and accounts receivable

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Notes receivable | $ 1,011,238 | $ 1,359,944 | $ 720,711 |
| Accounts receivable | 445,933,866 | 731,109,563 | 436,026,187 |
| Less: Allowance for sales returns and allowances | ( 1,624,540) | ( 2,256,264) | ( 1,976,759) |
| Allowance for doubtful accounts | ( 2,451,701) | ( 2,451,701) | ( 2,451,701) |
| | $ 442,868,863 | $ 727,761,542 | $ 432,318,438 |

A. The Company factored its accounts receivable to certain financial institutions without recourse. Under the agreement, the Company is not required to bear uncollectible risk of the underlying accounts receivable, but is liable for the losses incurred on any business dispute, and did not provide any collateral. Accordingly, these accounts receivable meet the derecognition criteria for financial assets. The Company has derecognized the accounts receivable sold to financial institutions, net of the amount estimated for business disputes.

As of June 30, 2014, December 31, 2013, and June 30, 2013, the relevant information of accounts receivable factored but unsettled were as follows:

June 30, 2014

| Accounts receivable factoring not due yet | Amount of accounts receivable derecognised | Amount advanced | Amount of consideration retained |
|---|---|---|---|
| $ 14,935,000 | $ 14,935,000 | $ 14,935,000 | $ - |

December 31, 2013

| Accounts receivable factoring not due yet | Amount of accounts receivable derecognised | Amount advanced | Amount of consideration retained |
|---|---|---|---|
| $ 42,345,320 | $ 42,345,320 | $ 42,345,320 | $ - |

June 30, 2013

| Accounts receivable factoring not due yet | Amount of accounts receivable derecognised | Amount advanced | Amount of consideration retained |
|---|---|---|---|
| $ 6,000,000 | $ 6,000,000 | $ 6,000,000 | $ - |

B. As of June 30, 2014, December 31, 2013, and June 30, 2013, the Group has signed promissory notes amounting to $0, $3,726,250 (US$125 million), and $1,500,000 (US$50 million) as guarantee for those accounts receivable in commercial dispute, respectively.

C. For the three-month and six-month periods ended June 30, 2014 and 2013, the financing charges (expenses) incurred from accounts receivable factoring were $28,136, $13,636, $65,126 and $65,064 (shown as ‘finance costs’), respectively.

D. The maximum exposure to credit risk at June 30, 2014, December 31, 2013, and June 30, 2013 was the carrying amount of each class of accounts receivable.

E. The Group does not hold any collateral as security.

(5) Other receivables

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Tax refund receivable | $ 32,556,144 | $ 31,217,878 | $ 35,124,286 |
| Receivable from purchases made on behalf of others | 2,479,214 | 2,394,786 | 5,077,469 |
| Interest receivable | 1,770,665 | 1,550,588 | 1,090,619 |
| Proceeds from disposal of equipment receivable | 1,497,727 | 946,865 | 269,350 |
| Proceeds from disposal of investment receivable | 949,744 | | - |
| Others | 7,810,620 | 4,105,237 | 6,819,242 |
| | $ 47,064,114 | $ 40,215,354 | $ 48,380,966 |

The counterparties of the Group's other accounts receivable are good credit quality enterprises and government agencies. There is no significant compliance concerns and credit risk.

(6) Inventories

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Raw materials and supplies | $ 90,131,480 | $ 85,298,859 | $ 106,503,978 |
| Work in process | 77,503,308 | 79,002,138 | 67,098,092 |
| Finished goods | 168,914,454 | 150,621,589 | 158,260,978 |
| Inventory in transit | 13,560,276 | 16,429,235 | 13,558,296 |
| | 350,109,518 | 331,351,821 | 345,421,344 |
| Less: Allowance for inventory obsolescence and market price decline | ( 18,850,009) | ( 18,566,729) | ( 19,998,285) |
| | $ 331,259,509 | $ 312,785,092 | $ 325,423,059 |

Expenses and losses incurred on inventories for the three-month and six-month periods ended June 30, 2014 and 2013 were as follows:

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cost of inventories sold | $ 816,236,878 | $ 849,114,723 |
| Loss on inventory obsolescence and market price decline (gain from price recovery) | 1,465,797 | ( 4,224,957) |
| Revenue from sale of scraps | ( 908,407) | ( 1,672,312) |
| Others | 310,005 | 467,117 |
| | $ 817,104,273 | $ 843,684,571 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cost of inventories sold | $ 1,648,185,093 | $ 1,607,796,753 |
| Loss on inventory obsolescence and market price decline | 423,989 | 487,292 |
| Revenue from sale of scraps | ( 1,569,247) | ( 1,672,312) |
| Others | 167,858 | 171,702 |
| | $ 1,647,207,693 | $ 1,606,783,435 |

As the Group sold some inventory with net realizable value lower than its cost, the allowance for inventory obsolescence and market price decline was reversed for the three-month period ended June 30, 2013.

(7) Non-current Assets Held for Sale

On June 18, 2014, the Board of Directors has resolved the merger of Ambit Microsystems Corporation, a subsidiary of the Company, and Asia Pacific Telecom, which became the surviving company. Accordingly, the related assets and liabilities were transferred to disposal group. The merger was temporarily set to be effective on June 30, 2015 at a swap ratio of 1:0.4975. The disposal group is composed of the following as of June 30, 2014:

A. Assets directly relating to disposal group held for sale:

| | June 30, 2014 |
|---|---|
| Cash and cash equivalents | $ 660,263 |
| Other current assets | 10,195 |
| Property, plant and equipment | 191,926 |
| Intangible assets | 8,753,944 |
| Other non-current assets | 27,922 |
| | $ 9,644,250 |

B. Liabilities directly relating to disposal group held for sale:

| | June 30, 2014 |
|---|---|
| Accounts payable and other payables | $ 178,620 |
| Other liabilities | 27,205 |
| | $ 205,825 |

C. Impairment loss of $470,424 was recognised in other gains and losses as a result of the remeasurement of the disposal group held for sale at the lower of its carrying amount or fair value less costs to sell.

(8) Other current assets

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Time deposits with maturity over three months | $ 7,628,796 | $ 5,016,244 | $ 1,129,274 |
| Pledged time deposits | 29,196 | 48,077 | 49,188 |
| Refundable deposits | 1,411 | 100,840 | 1,160,301 |
| | $ 7,659,403 | $ 5,165,161 | $ 2,338,763 |

(9) Financial assets carried at cost

| Items | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Non-current item: | | | |
| Unlisted stocks | $ 6,242,946 | $ 10,843,376 | $ 9,411,632 |

A. According to the Group's intension, its investment in above equity instruments should be classified as 'available-for-sale financial assets'. However, as the above equity instruments are not traded in active market, and no sufficient industry information of companies similar to the above companies or no financial information of the above companies can be obtained, the fair value of the investment in above equity instruments cannot be measured reliably. The Group classified those stocks as 'financial assets carried at cost'.

B. On June 26, 2014, GoPro, Inc. (formerly known as Woodman Labs, Inc.), which was invested by the Group, was listed on NASDAQ. Thus, the investment of 'financial assets measured at cost' was reclassified to 'available-for-sale financial assets'.

C. The Group has assessed the aforementioned financial instruments. Because partial investment was impaired, the Group has recognised impairment loss of $87,730, $0, $87,730 and $0 (shown as 'other gain and loss') for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

D. As of June 30, 2014, December 31, 2013, and June 30, 2013, no financial assets measured at cost held by the Group were pledged to others.

(10) Investments accounted for under equity method

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Foxconn Technology Co., Ltd. | $ 21,090,049 | $ 20,711,747 | $ 19,762,409 |
| Zhen Ding Technology Holding Limited | 11,791,546 | 10,840,035 | 9,126,407 |
| Pan International Industrial Corporation | 2,934,773 | 2,917,719 | 2,969,215 |
| G-Tech Optoelectronics Corporation | 2,287,945 | 2,575,294 | 2,852,556 |
| Others | 9,642,404 | 9,238,204 | 8,831,651 |
| | $ 47,746,717 | $ 46,282,999 | $ 43,542,238 |

A. The investment using the equity method, and some of the amounts were based on the financial statements of the investee companies for the same periods which were not reviewed by independent accountants. The consolidated financial information for the aforementioned unaudited or unreviewed investee companies includes the related investments of $11,373,642 and $8,201,210, constituting 0.58% and 0.42% of the consolidated total assets as of June 30, 2014 and 2013, respectively and the share of profit of associates and joint ventures accounted for under equity method of $319,397, $527,950, $47,937, and $448,716, constituting 1.59%, 2.11%, 0 .11%, and 0.76% of the consolidated comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

B. The financial information of the Group's principal associates is summarized below:

| June 30, 2014 | Assets | Liabilities | Revenue | Profit/(Loss) | Interest held % |
|---|---|---|---|---|---|
| Foxconn Technology Co., Ltd. | $ 93,544,815 | $ 23,398,012 | $ 24,683,320 | $ 1,690,330 | 30% |
| Zhen Ding Technology Holding Limited | 71,803,320 | 46,172,925 | 30,787,851 | 1,895,305 | 41% |
| Pan International Industrial Corporation | 17,375,326 | 6,117,302 | 7,581,336 | 117,010 | 27% |
| G-Tech Optoelectronics Corporation | 17,159,186 | 9,017,692 | 3,564,234 | ( 857,943) | 27% |
| December 31, 2013 | | | | | |
| Foxconn Technology Co., Ltd. | 95,240,193 | 25,972,250 | 94,598,086 | 7,011,205 | 30% |
| Zhen Ding Technology Holding Limited | 71,551,407 | 45,837,313 | 64,483,145 | 5,470,812 | 41% |
| Pan International Industrial Corporation | 19,339,314 | 7,958,994 | 15,460,006 | 488,904 | 27% |
| G-Tech Optoelectronics Corporation | 17,858,894 | 8,806,149 | 9,978,690 | ( 1,289,992) | 27% |
| June 30, 2013 | | | | | |
| Foxconn Technology Co., Ltd. | 90,248,552 | 24,371,044 | 37,737,247 | 3,015,880 | 30% |
| Zhen Ding Technology Holding Limited | 58,219,728 | 36,435,599 | 24,688,439 | 1,864,495 | 41% |
| Pan International Industrial Corporation | 18,705,570 | 7,175,026 | 6,518,558 | 160,339 | 27% |
| G-Tech Optoelectronics Corporation | 18,497,134 | 8,599,333 | 6,099,808 | ( 347,788) | 28% |

C. The fair value of the Group's associates which have quoted market price was as follows:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Foxconn Technology Co., Ltd. | $ 28,376,968 | $ 27,279,516 | $ 26,987,532 |
| Zhen Ding Technology Holding Limited | 29,767,664 | 21,742,810 | 20,526,156 |
| Pan International Industrial Corporation | 3,077,584 | 3,161,139 | 3,153,868 |
| G-Tech Optoelectronics Corporation | 2,511,493 | 2,722,446 | 3,919,697 |

(11) Property, plant and equipment

| | Land | Buildings | Machinery and equipment | Molding equipment | Others | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| At January 1, 2014 | | | | | | | |
| Cost | $ 4,275,148 | $ 175,137,724 | $ 296,433,194 | $ 36,823,985 | $ 95,517,371 | $ 19,506,426 | $ 627,693,848 |
| Accumulated depreciation and impairment | - | ( 41,772,993) | ( 127,799,990) | ( 18,130,735) | ( 60,428,189) | - | ( 248,131,907) |
| | $ 4,275,148 | $ 133,364,731 | $ 168,633,204 | $ 18,693,250 | $ 35,089,182 | $ 19,506,426 | $ 379,561,941 |
| 2014 | | | | | | | |
| Opening net book amount | $ 4,275,148 | $ 133,364,731 | $ 168,633,204 | $ 18,693,250 | $ 35,089,182 | $ 19,506,426 | $ 379,561,941 |
| Additions | - | 25,224 | 1,150,102 | 470,368 | 2,431,196 | 2,366,162 | 6,443,052 |
| Transfer | - | 4,210,292 | 956,562 | - | 578,002 | ( 3,875,976) | 1,868,880 |
| Disposals | - | - | ( 416,007) | ( 2,965) | ( 166,151) | - | ( 585,123) |
| Depreciation charge | - | - | - | - | ( 3,440) | ( 197,848) | ( 201,288) |
| Impairment loss | - | ( 5,061,656) | ( 22,550,688) | ( 3,212,608) | ( 5,022,065) | - | ( 35,847,017) |
| Transferred to non-current assets held for sale | - | - | ( 540,352) | - | - | - | ( 540,352) |
| Net exchange differences | 77,703 | ( 1,026,530) | ( 3,923,362) | ( 630,987) | ( 209,519) | ( 151,358) | ( 5,864,053) |
| Closing net book amount | $ 4,352,851 | $ 131,512,061 | $ 143,309,459 | $ 15,317,058 | $ 32,697,205 | $ 17,647,406 | $ 344,836,040 |
| At June 30, 2014 | | | | | | | |
| Cost | $ 4,352,851 | $ 178,598,892 | $ 288,316,690 | $ 36,743,360 | $ 93,163,696 | $ 17,647,406 | $ 618,822,895 |
| Accumulated depreciation and impairment | - | ( 47,086,831) | ( 145,007,231) | ( 21,426,302) | ( 60,466,491) | - | ( 273,986,855) |
| | $ 4,352,851 | $ 131,512,061 | $ 143,309,459 | $ 15,317,058 | $ 32,697,205 | $ 17,647,406 | $ 344,836,040 |

| | Land | Buildings | Machinery and equipment | Molding equipment | Others | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| At January 1, 2013 | | | | | | | |
| Cost | $ 3,900,934 | $ 166,307,528 | $ 285,431,007 | $ 31,318,103 | $ 91,811,531 | $ 30,700,726 | $ 609,469,829 |
| Accumulated depreciation and impairment | - | ( 39,502,668) | ( 105,825,506) | ( 10,516,820) | ( 48,469,759) | - | ( 204,314,753) |
| | $ 3,900,934 | $ 126,804,860 | $ 179,605,501 | $ 20,801,283 | $ 43,341,772 | $ 30,700,726 | $ 405,155,076 |
| 2013 | | | | | | | |
| Opening net book amount | $ 3,900,934 | $ 126,804,860 | $ 179,605,501 | $ 20,801,283 | $ 43,341,772 | $ 30,700,726 | $ 405,155,076 |
| Additions | - | - | 4,816,194 | 1,411,101 | 1,052,076 | 3,879,434 | 11,158,805 |
| Transfer | - | 8,980,567 | 8,494,376 | 24,667 | 622,639 | ( 14,781,926) | 3,340,323 |
| Disposals | ( 371) | ( 296,396) | ( 463,278) | ( 14,222) | ( 299,165) | - | ( 1,073,432) |
| Depreciation charge | - | ( 4,124,350) | ( 20,685,899) | ( 3,435,114) | ( 8,596,408) | - | ( 36,841,771) |
| Impairment loss | - | - | ( 35,376) | - | - | - | ( 35,376) |
| Net exchange differences | ( 11,976) | 837,172 | 7,601,429 | 623,356 | 4,802,308 | 4,131,866 | 17,984,155 |
| Closing net book amount | $ 3,888,587 | $ 132,201,853 | $ 179,332,947 | $ 19,411,071 | $ 40,923,222 | $ 23,930,100 | $ 399,687,780 |
| At June 30, 2013 | | | | | | | |
| Cost | $ 3,888,587 | $ 169,394,809 | $ 302,562,742 | $ 31,655,085 | $ 91,135,603 | $ 23,930,100 | $ 622,566,926 |
| Accumulated depreciation and impairment | - | ( 37,192,956) | ( 123,229,795) | ( 12,244,014) | ( 50,212,381) | - | ( 222,879,146) |
| | $ 3,888,587 | $ 132,201,853 | $ 179,332,947 | $ 19,411,071 | $ 40,923,222 | $ 23,930,100 | $ 399,687,780 |

The Company's subsidiaries assessed recoverable amounts of those assets where there is an indication that they are impaired. Impairment loss of $540,352, $35,376, $540,352 and $35,376 (shown as 'other gains and losses') was recognized for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

(12) Investment property

| | Land and buildings | |
|---|---|---|
| | 2014 | 2013 |
| At January 1 | | |
| Cost | $ 3,149,232 | $ 1,631,839 |
| Accumulated depreciation and impairment | ( 844,393) | ( 400,836) |
| | $ 2,304,839 | $ 1,231,003 |
| For the six-month periods ended June 30 | | |
| Opening net book amount | $ 2,304,839 | $ 1,231,003 |
| Additions | 180,659 | 1,185,498 |
| Depreciation charge | ( 71,360) | ( 72,353) |
| Net exchange differences | ( 45,799) | 81,144 |
| Closing net book amount | $ 2,368,339 | $ 2,425,292 |
| At June 30 | | |
| Cost | $ 3,338,294 | $ 3,215,379 |
| Accumulated depreciation and impairment | ( 969,955) | ( 790,087) |
| | $ 2,368,339 | $ 2,425,292 |

A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Rental revenue from the lease of the investment property | $ 54,263 | $ 46,835 |
| Direct operating expenses arising from the investment property that generated rental income for the period | $ 41,581 | $ 36,377 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Rental revenue from the lease of the investment property | $ 86,245 | $ 84,526 |
| Direct operating expenses arising from the investment property that generated rental income for the period | $ 71,360 | $ 72,353 |

B. The fair value of the investment property held by the Group as at June 30, 2014, December 31, 2013 and June 30, 2013 was $2,983,860, $3,045,877 and $2,877,911, respectively, which was revalued by independent appraisers. The valuation is based on latest market price of similar investment property in the same area and condition.

(13) Intangible assets

| | Concession license | Goodwill | Patents | Total |
|---|---|---|---|---|
| At January 1, 2014 | | | | |
| Cost | $ 9,180,000 | $ 519,385 | $ 3,539,938 | $ 13,239,323 |
| Accumulated amortization and impairment | - | - | ( 424,045) | ( 424,045) |
| | $ 9,180,000 | $ 519,385 | $ 3,115,893 | $ 12,815,278 |
| 2014 | | | | |
| Opening net book amount | $ 9,180,000 | $ 519,385 | $ 3,115,893 | $ 12,815,278 |
| Additions | - | - | 60,380 | 60,380 |
| Amortisation charge | - | - | ( 213,600) | ( 213,600) |
| Transferred to non-current assets held for sale | ( 9,180,000) | ( 86) | - | ( 9,180,086) |
| Net exchange differences | - | 22,483 | 7,896 | 30,379 |
| Closing net book amount | $ - | $ 541,782 | $ 2,970,569 | $ 3,512,351 |
| At June 30, 2014 | | | | |
| Cost | $ - | $ 541,782 | $ 3,606,803 | $ 4,148,585 |
| Accumulated amortization and impairment | - | - | ( 636,234) | ( 636,234) |
| | $ - | $ 541,782 | $ 2,970,569 | $ 3,512,351 |

| | Goodwill | Patents | Total |
|---|---|---|---|
| At January 1, 2013 | | | |
| Cost | $ 505,969 | $ 3,448,500 | $ 3,954,469 |
| Accumulated amortization and impairment | - | - | - |
| | $ 505,969 | $ 3,448,500 | $ 3,954,469 |
| 2013 | | | |
| Opening net book amount | $ 505,969 | $ 3,448,500 | $ 3,954,469 |
| Additions | - | ( 211,026) | ( 211,026) |
| Net exchange differences | 16,726 | 111,653 | 128,379 |
| Closing net book amount | $ 522,695 | $ 3,349,127 | $ 3,871,822 |
| At June 30, 2013 | | | |
| Cost | $ 522,695 | $ 3,562,500 | $ 4,085,195 |
| Accumulated amortization and impairment | - | ( 213,373) | ( 213,373) |
| | $ 522,695 | $ 3,349,127 | $ 3,871,822 |

A. Goodwill arose mainly from the acquisition of Scientific-Atlanta de Mexico S. de R.L. de C.V. in 2011 which was accounted for using the acquisition method.

B. Patents refer to the panel patents obtained from NEC in September, 2012.

C. Ambit Microsystems Corporation, a subsidiary of the Company, has obtained 4G Mobile Broadband spectrum granted by the competent telecommunication authority on October 30, 2013, and the bid won was for A3 and B3 spectrums for a total bid price of $9,180,000 which was paid in full to the National Communications Commission. On June 18, 2014, the Board of Directors has resolved the merger of Ambit Microsystems Corporation and Asia Pacific Telecom. The Company has reclassified the above concession to available-for-sale non-current assets. Related information is provided in Note 6(7).

D. The details of amortization are as follows:

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Operating costs | $ 110,911 | $ 106,188 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Operating costs | $ 213,600 | $ 211,026 |

(14) Other non-current assets

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Long-term prepaid rent | $ 17,964,511 | $ 18,470,107 | $ 18,995,346 |
| Prepayments for equipment | 870,539 | 1,950,002 | 636,521 |
| Other financial assets - non-current | 31,800 | 31,800 | 34,400 |
| Others | 5,626,751 | 3,927,648 | 5,277,794 |
| | $ 24,493,601 | $ 24,379,557 | $ 24,944,061 |

Long-term prepaid rent refers to the land use rights obtained in China. Upon signing of the lease, the amount has been paid in full. The Group recognized rental expense of $73,335, $114,834, $188,879 and $212,378 for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

(15) Short-term loans

| Type of loans | June 30, 2014 | Interest rate range | Collateral |
|---|---|---|---|
| Bank loans | | | |
| Credit loans | $ 210,288,937 | 0.48%~3.95% | None |

| Type of loans | December 31, 2013 | Interest rate range | Collateral |
|---|---|---|---|
| Bank loans | | | |
| Secured loans | $ 5,811 | 8.04% | Time deposits |
| Credit loans | 366,227,790 | 0.58%~6.216% | None |
| | $ 366,233,601 | | |

| Type of loans | June 30, 2013 | Interest rate range | Collateral |
|---|---|---|---|
| Bank loans | | | |
| Secured loans | $ 9,866 | 8.04% | Time deposits |
| Credit loans | 357,211,646 | 0.45%~5.6% | None |
| | $ 357,221,512 | | |

A. As of June 30, 2014, December 31, 2013, and June 30, 2013, the Company provided guarantees on the short-term credit facilities obtained by Foxconn Slovakia, SPOL S.R.O., a subsidiary of the Company, in the amount of EUR 291 million, EUR 321 million, and EUR 131 million, respectively

B. As of June 30, 2014, December 31, 2013, and June 30, 2013, the Company provided guarantees on the short-term credit facilities obtained by Competition Team Technologies Limited, a subsidiary of the Company, in the amount of RMB 2 billion, RMB 2 billion, and RMB 1.5 billion, respectively.

C. As of June 30, 2014, December 31, 2013, and June 30, 2013, the Company provided guarantees on the short-term credit facilities obtained by Falcon Precision Trading Limited, a subsidiary of the Company, in the amount of RMB 2 billion, RMB 2 billion, and RMB 1.5 billion, respectively.

D. As of June 30, 2014, December 31, 2013, and June 30, 2013, the Company provided guarantees on the short-term credit facilities obtained by Competition Team Ireland Limited, a subsidiary of the Company, in the amount of USD 200 million, USD 200 million, and USD 0, respectively.

E. The Group has signed an agreement to offset financial assets and liabilities with financial institutions in 2013. Details of the offset as of June 30, 2014 and December 31, 2013 are as follows:

| June 30, 2014 | | |
|---|---|---|
| Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the balance sheet | Net amount of financial liabilities presented in the balance sheet |
| $ 442,195,551 | $ 442,195,551 | $ - |

| December 31, 2013 | | |
|---|---|---|
| Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the balance sheet | Net amount of financial liabilities presented in the balance sheet |
| $ 192,553,858 | $ 192,553,858 | $ - |

(16) Short-term notes and bills payable

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Commercial paper | $ 3,000,000 | $ 20,000,000 | $ 5,600,000 |
| Less: unamortized discount | ( 3,366) | ( 17,483) | ( 6,243) |
| | $ 2,996,634 | $ 19,982,517 | $ 5,593,757 |
| Interest rates per annum | 0.75% | 0.808%~0.898% | 0.838%~0.938% |

(17) Other payables

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Awards and salaries payable | $ 44,333,350 | $ 51,699,549 | $ 43,372,962 |
| Payables for equipment | 34,948,253 | 36,080,249 | 26,827,183 |
| Dividends payable | 23,631,672 | - | 17,753,800 |
| Consumption goods expense payable (including indirect materials) | 16,642,436 | 26,698,908 | 18,701,111 |
| Royalty fees payable | 12,138,086 | 24,451,571 | 13,313,253 |
| Other payable for investment | 11,292,052 | - | - |
| Tax payable | 3,467,156 | 2,707,278 | 3,979,616 |
| Employees' bonuses payable | 2,860,481 | 7,682,195 | 2,399,772 |
| Others | 49,199,268 | 41,855,428 | 11,849,840 |
| | $ 198,512,754 | $ 191,175,178 | $ 138,197,537 |

(18) Other current liabilities

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Receipts in advance | $ 27,263,491 | $ 19,484,458 | $ 28,221,177 |
| Deferred income | 3,961,564 | 5,608,445 | 6,657,707 |
| Bonds payable maturing within one year | 9,410,000 | 6,410,000 | 33,214,627 |
| Long-term loans maturing within one year | 8,648,865 | 7,815,888 | 31,008,600 |
| Others | 1,455,624 | 2,941,776 | 4,294,666 |
| | $ 50,739,544 | $ 42,260,567 | $ 103,396,777 |

(19) Bonds payable

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Convertible bonds payable | | | |
| 2010 1st unsecured euro convertible bonds payable | $ - | $ - | $ 31,251,000 |
| Less: Discount on bonds payable | - | - | (203,520) |
| Exchange differences | - | - | (1,242,853) |
| | - | - | 29,804,627 |
| Corporate bonds payable | | | |
| First unsecured corporate bonds issue in 2005 | 2,500,000 | 2,500,000 | 2,500,000 |
| First debenture issue of 2009 | 3,410,000 | 3,410,000 | 6,820,000 |
| First debenture issue of 2010 | 6,000,000 | 6,000,000 | 6,000,000 |
| First debenture issue of 2011 | 6,000,000 | 6,000,000 | 6,000,000 |
| Second debenture issue of 2011 | 7,050,000 | 7,050,000 | 7,050,000 |
| Third debenture issue of 2011 | 4,950,000 | 4,950,000 | 4,950,000 |
| First debenture issue of 2012 | 9,000,000 | 9,000,000 | 9,000,000 |
| Second debenture issue of 2012 | 6,000,000 | 6,000,000 | 6,000,000 |
| Third debenture issue of 2012 | 8,000,000 | 8,000,000 | 8,000,000 |
| Fourth debenture issue of 2012 | 3,300,000 | 3,300,000 | 3,300,000 |
| First debenture issue of 2013 | 11,050,000 | 11,050,000 | 11,050,000 |
| Second debenture issue of 2013 | 6,950,000 | 6,950,000 | - |
| Third debenture issue of 2013 | 6,000,000 | 6,000,000 | |
| First debenture issue of 2014 | 6,000,000 | - | |
| Second debenture issue of 2014 | 12,000,000 | - | - |
| | 98,210,000 | 80,210,000 | 70,670,000 |
| Foreign corporate bonds | | | |
| Foreign unsecured corporate bonds USD-denominated | 19,415,500 | 19,376,500 | 19,500,000 |
| Less: Discount on bonds payable | (75,736) | (86,442) | (98,101) |
| Foreign unsecured corporate bonds JPY-denominated | 2,957,130 | 2,831,950 | 3,030,000 |
| Foreign unsecured corporate bonds JPY-denominated | 1,182,852 | 1,132,780 | 1,212,000 |
| Foreign unsecured corporate bonds JPY-denominated | 591,426 | - | - |
| Foreign unsecured corporate bonds RMB-denominated | 3,852,035 | - | - |
| | 27,923,207 | 23,254,788 | 23,643,899 |
| Total | 126,133,207 | 103,464,788 | 124,118,526 |
| Less: Current portion | (9,410,000) | (6,410,000) | (33,214,627) |
| Bonds payable – long-term | $ 116,723,207 | $ 97,054,788 | $ 90,903,899 |

A. 2010 1st unsecured euro convertible bonds

(a) On August 18, 2010, following the approval from the SFB, the Company issued the 1st unsecured euro zero coupon convertible bonds in the amount of US$1 billion. These convertible bonds cover a period of three years from October 12, 2010 to October 12, 2013.

(b) Regarding the issuance of convertible bonds, the non-equity conversion options were separated from their host contracts and were recognized in 'financial liabilities at fair value through profit or loss' in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts.

(c) The convertible corporate bonds expired on October 12, 2013, and none of the bonds were converted into common stocks.

B. First unsecured corporate bonds issue in 2005

On September 14, 2005, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $11,500,000. As of June 30, 2014, Bond Aa to Af, Bond Ba to Bf and Bond Ca to Cf had been redeemed in the amount of $9,000,000. The amount of the unredeemed bonds is $2,500,000. The terms of these domestic unsecured bonds are summarized as follows:

| Type of bonds | Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|---|
| Bond Da to De | September 2005 | 10 years | $500,000 per bond | 2.37% | Principal is due at maturity<br>Interest is paid annually at simple interest rate. |

C. First debenture issue of 2009

(a) On January 12, 2009, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,820,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| October 2009 | 5 years | $ 6,820,000 | 1.72% | Pay half of principal each in the fourth and fifth year.<br>Interest is paid annually at simple interest rate. |

(b) As of June 30, 2014, in accordance with the conditions of the contractual arrangement, the Company has repaid $3,410,000, and the balance of $3,410,000 was transferred to current liabilities in the fourth quarter of 2013.

D. First debenture issue of 2010

(a) On December 17, 2010, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| December 2010 | 5 years | $ 6,000,000 | 1.43% | Pay half of principal each in the fourth and fifth year. Interest is paid annually at simple interest rate. |

(b) 2010 1st unsecured corporate bonds payable of $3,000,000 had been reclassified to "Current liabilities" in the fourth quarter of 2013.

E. First debenture issue of 2011

(a) On January 7, 2011, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| March 2011 | 5 years | $6,000,000 | 1.47% | Pay half of principal each in the fourth and fifth year. Interest is paid annually at simple interest rate. |

(b) 2011 1st unsecured corporate bonds payable of $3,000,000 had been reclassified to "Current liabilities" in the first quarter of 2014

F. Second debenture issue of 2011

On June 1, 2011, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $7,050,000. The terms of these domestic unsecured bonds are summarized as follows:

| Type of bonds | Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|---|
| Bond A | June 2011 | 5 years | $3,000,000 | 1.43% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond B | June 2011 | 7 years | $2,650,000 | 1.66% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond C | June 2011 | 10 years | $1,400,000 | 1.82% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

G. Third debenture issue of 2011

On July 6, 2011, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $4,950,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| July 2011 | 5 years | $ 4,950,000 | 1.51% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

H. First debenture issue of 2012

On December 28, 2011, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $9,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| March 2012 | 5 years | $ 9,000,000 | 1.34% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

I. Second debenture issue of 2012

On May 11, 2012, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| May 2012 | 5 years | $ 6,000,000 | 1.43% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

J. Third debenture issue of 2012

On July 27, 2012, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $8,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| August 2012 | 3 years | $ 8,000,000 | 1.18% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

K. Fourth debenture issue of 2012

On September 28, 2012, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $3,300,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| October 2012 | 5 years | $ 3,300,000 | 1.35% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

L. First debenture issue of 2013

On January 7, 2013, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $11,050,000. The terms of these domestic unsecured bonds are summarized as follows:

| Type of bonds | Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|---|
| Bond A | January 2013 | 5 years | $7,450,000 | 1.33% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond B | January 2013 | 7 years | 3,600,000 | 1.45% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

M. Second debenture issue of 2013

On May 6, 2013, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,950,000. The terms of these domestic unsecured bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| October 2013 | 3 years | $ 6,950,000 | 1.45% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

N. Third debenture issue of 2013

On November 5, 2013, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Type of bonds | Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|---|
| Bond A | December 2013 | 3 years | $3,000,000 | 1.35% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond B | December 2013 | 5 years | $ 800,000 | 1.50% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond C | December 2013 | 7 years | $2,200,000 | 1.85% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

O. First debenture issue of 2014

On March 18, 2014, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Type of bonds | Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|---|
| Bond A | March 2014 | 3 years | $2,050,000 | 1.23% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond B | March 2014 | 5 years | $1,100,000 | 1.40% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond C | March 2014 | 7 years | $ 350,000 | 1.75% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond D | March 2014 | 10 years | $2,500,000 | 2.00% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

P. Second debenture issue of 2014

On April 18, 2014, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $12,000,000. The terms of these domestic unsecured bonds are summarized as follows:

| Type of bonds | Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|---|
| Bond A | May 2014 | 3 years | $2,850,000 | 1.17% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond B | May 2014 | 5 years | $1,600,000 | 1.37% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond C | May 2014 | 7 years | $3,350,000 | 1.70% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond D | May 2014 | 10 years | $4,200,000 | 1.95% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

Q. Foreign unsecured corporate bonds USD-denominated

On December 13, 2012, Competition Team Technologies Ltd., a subsidiary of the Company, issued foreign unsecured corporate bonds in the amount of US$ 650 million, and the Company is the guarantor of the bonds. The terms of these foreign unsecured corporate bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| December 2012 | 5 years | USD 650 million | 2.125% | Principal is due at maturity. Interest is paid semi-annually at simple interest rate. |

R. Foreign unsecured corporate bonds JPY-denominated

On March 21, 2013, Foxconn (Far East) Limited, a subsidiary of the Company, issued foreign unsecured corporate bonds in the amount of JPY 10 billion, and the Company is the guarantor of the bonds. The terms of these foreign unsecured corporate bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| March 2013 | 3 years | JPY 10 billion | 1.28% | Principal is due at maturity. Interest is paid semi-annually at simple interest rate. |

S. Foreign unsecured corporate bonds JPY-denominated

On March 21, 2013, Foxconn (Far East) Limited, a subsidiary of the Company, issued foreign unsecured corporate bonds in the amount of JPY 4 billion, and the Company is the guarantor of the bonds. The terms of these foreign unsecured corporate bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| March 2013 | 3 years | JPY 4 billion | Floating rate of 3-month LIBOR plus 1.10% | Principal is due at maturity. Interest is paid quarterly at simple interest rate. |

T. Foreign unsecured corporate bonds JPY-denominated

On May 9, 2014, Foxconn (Far East) Limited, a subsidiary of the Company, issued foreign unsecured corporate bonds in the amount of JPY 2 billion, and the Company is the guarantor of the bonds. The terms of these foreign unsecured corporate bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| May 2014 | 3 years | JPY 2 billion | 0.95% | Principal is due at maturity. Interest is paid quarterly at simple interest rate. |

U. Foreign unsecured corporate bonds RMB-denominated

On May 23, 2014, Foxconn (Far East) Limited, a subsidiary of the Company, issued foreign unsecured corporate bonds in the amount of RMB 800 million, and the Company is the guarantor of the bonds. The terms of these foreign unsecured corporate bonds are summarized as follows:

| Issuance date | Period | Amount | Coupon rate | Payment term |
|---|---|---|---|---|
| May 2014 | 3 years | RMB 800 million | 3.25% | Principal is due at maturity. Interest is paid quarterly at simple interest rate. |

(20) Long-term loans

| Institution | Loan period | Interest rate range | Collateral | June 30, 2014 |
|---|---|---|---|---|
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2011/3/31~2016/3/31 | 0.6840% | None | $ 12,520,500 |
| 〃 | 2013/8/22~2016/8/22 | 1.2600% | 〃 | 14,935,000 |
| ING Bank, N.V. etc. syndicated loan | 2010/10/22~2015/10/22 | 0.5980% | 〃 | 4,485,800 |
| China Development Industrial Bank | 2011/8/12~2014/8/12 | 1.4100% | 〃 | 2,000,000 |
| First Commercial Bank | 2011/11/30~2026/11/30 | 1.9877% | 〃 | 1,863,000 |
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2012/6/28~2015/6/28 | 1.0600% | 〃 | 3,220,272 |
| Citibank | 2012/9/21~2015/9/20 | 1.1810% | 〃 | 1,125,778 |
| ING Bank, N.V. etc. syndicated loan | 2013/1/7~2020/7/29 | 1.7900% | 〃 | 985,455 |
| First Commercial Bank | 2013/9/6~2033/9/6 | 1.7315% | 〃 | 295,000 |
| | | | | 41,430,805 |
| Less: Current portion | | | | ( 8,648,865) |
| | | | | $ 32,781,940 |

| Institution | Loan period | Interest rate range | Collateral | December 31, 2013 |
|---|---|---|---|---|
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2011/3/31~2016/3/31 | 0.6968% | None | $ 14,478,900 |
| 〃 | 2013/8/22~2016/8/22 | 1.2800% | 〃 | 14,905,000 |
| ING Bank, N.V. etc. syndicated loan | 2010/10/22~2015/10/22 | 0.6850% | 〃 | 4,519,900 |
| China Development Industrial Bank | 2011/8/12~2014/8/12 | 1.4100% | 〃 | 2,000,000 |
| First Commercial Bank | 2011/11/30~2026/11/30 | 1.6803% | 〃 | 1,523,000 |
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2012/6/28~2015/6/28 | 1.0700% | 〃 | 3,131,061 |
| Citibank | 2012/9/21~2015/9/20 | 1.1959% | 〃 | 1,261,041 |
| ING Bank, N.V. etc. syndicated loan | 2013/1/7~2020/7/29 | 1.7900% | 〃 | 1,022,714 |
| First Commercial Bank | 2013/9/6~2033/9/6 | 1.7315% | 〃 | 83,000 |
| | | | | 42,924,616 |
| Less: Current portion | | | | ( 7,815,888) |
| | | | | $ 35,108,728 |

| Institution | Loan period | Interest rate range | Collateral | June 30, 2013 |
| --- | --- | --- | --- | --- |
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2008/8/21~2013/8/21 | 0.7000% | None | $ 12,150,000 |
| 〃 | 2008/9/11~2013/9/11 | 0.6425% | 〃 | 3,375,000 |
| 〃 | 2011/3/31~2014/3/31 | 0.6651% | 〃 | 15,483,600 |
| ING Bank, N.V. etc. syndicated loan | 2010/10/22~2015/10/22 | 0.6230% | 〃 | 5,676,750 |
| China Development Industrial Bank | 2011/8/12~2014/8/12 | 1.4100% | 〃 | 2,000,000 |
| First Commercial Bank | 2011/11/30~2026/11/30 | 1.6803% | 〃 | 783,000 |
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2012/6/28~2015/6/28 | 1.07818% | 〃 | 3,365,188 |
| Citibank | 2012/9/21~2015/9/20 | 1.87275% | 〃 | 1,388,984 |
| ING Bank, N.V. etc. syndicated loan | 2013/1/7~2020/7/29 | 1.7900% | 〃 | 1,171,802 |
| | | | | 45,394,324 |
| Less: Current portion | | | | ( 31,008,600) |
| | | | | $ 14,385,724 |

A. In 2008, Foxconn (Far East) Limited, a subsidiary of the Company, entered into a syndicated credit facility agreement with Mizuho Corporate Bank Ltd. as the lead bank and obtained a credit line in the amount of USD 1,035 million, with the Company as the guarantor of the loan. As of June 30, 2014, the entire loan had been repaid.

B. On March 21, 2011, the Company entered into a syndicated credit facility agreement with Mizuho Corporate Bank Ltd. as the lead bank and obtained a credit line in the amount of JPY 51 billion. The partial amount of JPY 42,500 million had been extended until March 31, 2016 and will be repaid by installment over the remaining contract period. The amount of JPY 21,250 million, due within one year, had been reclassified to “Current liabilities” in the second quarter of 2014.

C. Foxconn (Far East) Limited, a subsidiary of the Company, entered into a syndicated credit facility agreement with Mizuho Corporate Bank Ltd. as the lead bank on June 18, 2013 and obtained a credit line in the amount of USD 500 million, with the Company as the guarantor of the loan.

D. Foxconn Slovakia, SPOL. S R. O., a subsidiary of the Company, entered into a syndicated credit facility agreement with ING Bank N.V. as the lead bank in 2010 and obtained a credit line in the amount of EUR 410 million, of which EUR 35 million had been due for settlement and EUR 265 million had been repaid in advance. As of June 30, 2014, the credit line is EUR 110 million, with the Company as the guarantor of the loan.

E. The Company entered into a comprehensive credit contract with China Development Industrial Bank on August 3, 2011, and obtained a credit line in the amount of $2 billion. The amount of $2 billion had been reclassified to “Current liabilities” in the third quarter of 2013.

F. Syntrend Creative Park Co. Ltd., a subsidiary of the Company, entered into a comprehensive credit contract with First Commercial Bank on April 18, 2011, and obtained a credit line in amount of $2.5 billion.

G. Honfujin Precision Electronics (Chengdu) Limited, a subsidiary of the Company, entered into a syndicated credit facility agreement with Mizuho Corporate Bank Ltd. and Sumitomo Mitsui Banking Corporation on June 11, 2012, and obtained a credit line in the amount of JPY 11 billion, with the Company as the guarantor of the loan.

H. Honfujin Precision Electronics (Chengdu) Limited, a subsidiary of the Company, entered into a U.S. dollar regular loan commitment agreement with Citibank (China) Ltd. on September 21, 2012, and obtained a credit line in the amount of USD 50 million, of which USD 12 million had been repaid in advance. The amount of USD 8 million, due within one year, had been reclassified to “Current liabilities” in the first quarter of 2014, with the Company as the guarantor of the loan.

I. The Company entered into a comprehensive credit facility agreement with ING Bank, N.V. as the lead bank and the loan amount is JPY 3,345,061 thousand, which will be repaid by installment over the contract period. The amount of JPY 514,626 thousand, due within one year, had been reclassified to “Current liabilities” in the second quarter of 2014.

J. Altus Technology Inc., Ingrasys Technology Inc. and Dynamic Computing Technology Co., Ltd., subsidiaries of the Company, entered into a comprehensive credit contract with First Commercial Bank on October 19, 2012, and obtained a credit line in the amount of $1,390,000.

K. Throughout the term of Mizuho Corporate Bank Ltd., ING Bank, N.V., Citibank (China) Ltd. and China Development Industrial Bank, etc. syndicated term loan agreement, the Group shall maintain the agreed financial ratios, to be tested annually and semi-annually on consolidated basis.

(21) Pensions

A. Defined benefit plans

(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

(b) For the aforementioned pension plan, the Group recognised pension costs of $13,590, $13,635, $27,183 and $27,270 for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Operating costs | $ 2,074 | $ 2,024 |
| Selling expenses | 763 | 957 |
| General and administrative expenses | 4,112 | 4,561 |
| Research and development expenses | 6,641 | 6,093 |
| | $ 13,590 | $ 13,635 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Operating costs | $ 4,264 | $ 4,069 |
| Selling expenses | 1,460 | 2,079 |
| General and administrative expenses | 8,406 | 9,096 |
| Research and development expenses | 13,053 | 12,026 |
| | $ 27,183 | $ 27,270 |

(c) Expected contributions to the defined benefit pension plans of the Group within one year from June 30, 2014 is $77,309.

B. Defined contribution plans

(a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The subsidiaries in mainland China have defined contribution pension plans and contribute an amount monthly based on 8%~9% of employees' monthly salaries and wages to an independent fund administered by a government agency. The plan is administered by the government of mainland China. Other than the monthly contributions, the Group does not have further pension liabilities.

(c) The pension costs under the defined contribution pension plans of the Group for the three-month and six-month periods ended June 30, 2014 and 2013 were $4,246,340, $4,872,555, $9,028,119 and $8,919,380, respectively.

(22) Share-based payment

As of June 30, 2014 and 2013, the share-based payment transactions of FIH Mobile Limited, a subsidiary of the Company (listed on the Stock Exchange of Hong Kong), are set forth below:

| Type of arrangement | Grant date | Quantity granted | Contract period | Vesting conditions |
|---|---|---|---|---|
| Employee stock options | July 8, 2011 | 256,159,719 | 1~3 years | Note (1) |
| Other share-based payment plans | December 29, 2006 | 5,748,145 | - | Note (2)(10) |
| " | July 24, 2007 | 502,090 | - | Note (3)(10) |
| " | December 28, 2007 | 20,459,322 | - | Note (4)(10) |
| " | October 29, 2009 | 26,161,489 | - | Note (10) |
| " | April 27, 2010 | 9,435,264 | - | " |
| " | November 19, 2010 | 25,616,428 | - | " |
| " | December 29, 2010 | 35,573,029 | - | " |
| " | April 29, 2011 | 3,302,725 | - | " |
| " | July 8, 2011 | 5,138,266 | - | " |
| " | October 18, 2011 | 21,948,624 | - | " |
| " | December 29, 2011 | 62,423,773 | - | Note (5)(10) |
| " | December 28, 2012 | 135,564,990 | - | Note (6)(10) |
| " | April 22, 2013 | 10,633,361 | - | Note (7)(10) |
| " | October 17, 2013 | 92,215,205 | - | Note (8)(10) |
| " | May 8, 2014 | 138,267,922 | - | Note (9) |

Note 1: Vested upon completion of certain years' service.

Note 2: Of the shares granted, 2,737,718 shares cannot be sold within 1 to 3 years from the grant date.

Note 3: Of the shares granted, 407,000 shares cannot be sold within 1 to 2 years from the grant date.

Note 4: Of the shares granted, 20,362,078 shares cannot be sold within 1 to 3 years from the grant date.

Note 5: Of the shares granted, 13,939,379 shares cannot be sold within 1 to 2 years from the grant date.

Note 6: Of the shares granted, 14,934,766 shares cannot be sold within 1 to 2 years from the grant date.

Note 7: Of the shares granted, 6,210,640 shares cannot be sold within 1 to 2 years from the grant date.

Note 8: Of the shares granted, 33,957,285 shares cannot be sold within 1 to 2 years from the grant date.

Note 9: Of the shares granted, 138,267,922 shares cannot be sold within 1 to 3 years from the grant date.

Note10: Vested immediately.

A. Employee stock options

For the stock options granted with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model. The parameters used in the estimation of the fair value are as follows:

| Grant date | Stock price (HK$) | Exercise price (HK$) | Exercise price volatility | Expected dividend yield rate | Risk-free interest rate | Fair value per share (US$) |
|---|---|---|---|---|---|---|
| July 8, 2011 | $ 3.62 | $ 3.62 | 37% | - | 0.297%~0.667% | $ 0.11 |

(a) For the six-month periods ended June 30, 2014 and 2013, the weighted-average exercise price of employee stock options outstanding were US$0.57 and US$0.53 (in dollars) per share, respectively. For the three-month and six-month periods ended June 30, 2014 and 2013, expenses incurred on employee stock options transactions were $0 (US$0 thousand), $22,447 (US$752 thousand), $284 (US$9.4 thousand) and $43,496 (US$1,466 thousand), respectively.

(b) Details of the employee stock options are set forth below:

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Options outstanding at beginning of period | $ 157,670,091 | $ 206,374,634 |
| Options exercised | ( 30,680,472) | ( 6,514,000) |
| Options revoked | ( 648,713) | ( 8,742,604) |
| Options outstanding at end of period | $ 126,340,906 | $ 191,118,030 |
| Options exercisable at end of period | $ 126,340,906 | $ 116,694,049 |

B. Other share-based payment plans

These share-based payments were granted to employees without consideration received. For the three-month and six-month periods ended June 30, 2014 and 2013, expenses incurred on other share-based payments were $518,173 (US$17,174 thousand), $121,095 (US$4,070 thousand), $635,560 (US$21,052 thousand) and $173,540 (US$5,849 thousand), respectively.

(23) Other non-current liabilities

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Reserve for retirement plan | $ 1,687,991 | $ 1,645,018 | $ 1,664,969 |
| Government grants | 2,549,079 | 3,386,876 | 2,301,866 |
| Capital lease payable | 2,667,516 | 3,039,449 | 2,461,938 |
| Others | 874,203 | 1,122,868 | 3,632,799 |
| | $ 7,778,789 | $ 9,194,211 | $ 10,061,572 |

(24) Provisions

| | | Warranty |
|---|---|---|
| At January 1, 2013 | $ | 2,406,336 |
| Additional provisions | | 665,687 |
| Used during the year | ( | 228,095) |
| Unused amounts reversed | ( | 245,651) |
| Exchange differences | ( | 1,836) |
| At June 30, 2013 | $ | 2,596,441 |

Analysis of total provisions:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Current | $ 2,596,441 | $ 2,406,336 | $ 2,030,576 |

The Group provides warranties on 3C products sold. Provision for warranty is estimated based on historical warranty data of 3C products.

(25) Capital stock

A. On June 26, 2013, the Company's shareholders adopted a resolution to increase the authorized shares to 18 billion shares. As of June 30, 2014, the Company's authorized capital was $150,000,000, consisting of 15 billion shares of ordinary stock, and the paid-in capital was $131,287,068, consisting of 13,128,707 thousand shares with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

B. On June 25, 2014 and June 26, 2013, the Company's shareholders adopted a resolution to distribute employees' stock bonus amounting to $7,682,195 and $6,822,891 for 2013 and 2012, respectively. The employee stock bonus of 89,255 thousand and 109,254 thousand shares were determined based on the closing price on June 24, 2014 and June 25, 2013, respectively, the previous day of the 2014 and 2013 shareholders' meeting after taking into account the effects of ex-rights and ex-dividends. In addition, the Company's shareholders adopted a resolution to issue stock dividends at par value amounting to $15,754,448 and $11,835,866, totaling 1,575,445 thousand and 1,183,587 thousand shares in 2014 and 2013, respectively. The capital increase was approved by the Financial Supervisory Commission, Securities and Futures Bureau on July 17, 2014 and July 29, 2013, respectively. The additional stock allocation ex-right date was scheduled on September 3, 2014 and September 15, 2013 so the additional shares were accounted for as equity and shown as 'stock dividend to be distributed'.

C. Pursuant to the resolution adopted at the stockholders' meeting held on June 1, 1999, and after obtaining approval from the SFC, the Company issued 25 million units of global depository receipts (GDRs) in Europe, Asia and the USA, comprising 50 million shares of common stock (Deposited Shares). The issuance amounted to USD347,250 thousand, and the main terms and conditions of the GDRs are as follows:

(a) Voting

Holders of GDRs have no right to directly exercise voting rights or attend the Company's stockholders' meeting, except when a motion is on the election of directors or supervisors. A holder or holders together holding at least 51% of the GDRs outstanding at the relevant record date of the stockholders' meeting can instruct the Depositary to vote in the same direction in respect of one or more resolutions to be proposed at the meeting.

(b) Sale and withdrawal of GDRs

Under the current R.O.C. law, shares represented by the GDRs may be withdrawn by holders of GDRs commencing three months after the initial issue of GDRs. A holder of a GDR may, provided that the Company has delivered to the custodian physical share certificates in respect of the Deposited Shares, request the Depositary to sell or cause to be sold on behalf of such holder the shares represented by such GDRs.

(c) Dividends

GDR holders are entitled to receive dividends to the same extent as the holders of common stock.

(d) As of June 30, 2014, 139,456 thousand units of GDRs were outstanding, which represents 278,913 thousand shares of common stock.

D. Treasury stocks

The Company's subsidiary, Hong Jingguo International Investment Co., Ltd., acquired ordinary shares issued by the Company in 1998. As of June 30, 2014, December 31, 2013, and June 30, 2013, the subsidiary owned 1,433,093, 1,433,093 and 1,302,812 shares, respectively, of the Company’s common stock at a cost of $18,901.

(26) Capital surplus

Pursuant to the R.O.C. Company Act, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(27) Retained earnings

A. In accordance with the Company’s Articles of Incorporation, current year’s earnings must be distributed in the following order:

(a) Covering accumulated deficit;

(b) Setting aside as legal reserve equal to 10% of current year’s net income after tax and distribution pursuant to clause (A);

(c) Setting aside a special reserve in accordance with applicable legal and regulatory requirement;

(d) The remainder is distributable earnings of which 8% is appropriated as employees’ bonus; qualified employees include employees of affiliates per criteria set by Board of Directors.

The remaining earnings along with the unappropriated earnings at the beginning of the period are considered as accumulated distributable earnings. In accordance with dividend policy, the proposal of earnings appropriation is prepared by the Board of Directors and resolved by the shareholders.

The Company is at the growing stage. The Company's stock dividend policy shall consider the Company's current and future investment environment, capital needs, local and foreign competition situation and capital budget, along with shareholders' profit and the Company's long-term financial plans. The shareholders' dividends are appropriated based on accumulated distributable earnings, which shall not be lower than 15% of the distributable earnings for the period and the cash dividend shall not be less than 10% of the shareholders' dividends

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. The appropriations of 2013 and 2012 earnings had been resolved at the stockholders' meeting on June 25, 2014 and June 26, 2013, respectively. Details are summarized below:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 10,669,716 | $ - | $ 9,476,237 | $ - |
| Stock dividends | 15,754,448 | 1.2 | 11,835,866 | 1.0 |
| Cash dividends | 23,631,672 | 1.8 | 17,753,800 | 1.5 |
| Total | $ 50,055,836 | $ 3.0 | $ 39,065,903 | $ 2.5 |

The information on distribution of earnings will be posted on the "Market Observation Post System" of the TSEC.

E. For the three-month and six-month periods ended June 30, 2014 and 2013, employees' bonus was accrued at $1,453,402, $1,222,391, $2,860,481 and $2,399,772, respectively, based on 8% of net income, and are recognized as operating costs and expenses in current year. No directors' and supervisors' remuneration was recognized for the corresponding periods. The information on employees' bonus and directors' and supervisors' remuneration is posted on the "Market Observation Post System" at the website of the TSEC. Employees' bonus for 2013 as resolved by the stockholders on June 25, 2014 were in agreement with those amounts recognized in the 2013 financial statements.

(28) Other equity items

| | Currency translation adjustments | Available-for-sale investment | Total |
|---|---|---|---|
| At January 1, 2014 | $ 26,432,947 | $ 5,295,914 | $ 31,728,861 |
| - Group | ( 7,800,984) | 11,252,097 | 3,451,113 |
| - Associates | ( 77,254) | 348,447 | 271,193 |
| At June 30, 2014 | $ 18,554,709 | $ 16,896,458 | $ 35,451,167 |
| At January 1, 2013 | $ 1,370,511 | $ 6,435,046 | $ 7,805,557 |
| - Group | 23,710,851 | ( 391,826) | 23,319,025 |
| - Associates | 865,134 | 4,515 | 869,649 |
| At June 30, 2013 | $ 25,946,496 | $ 6,047,735 | $ 31,994,231 |

(29) Non-controlling interests

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| At January 1 | $ 41,254,536 | $ 36,064,490 |
| Share attributable to non-controlling interests: | | |
| Gain (loss) for the year | 726,393 | ( 49,453) |
| Currency translation differences | ( 181,823) | 1,409,296 |
| Unrealized gains and losses on available-for-sale financial assets | 22,308 | ( 6,538) |
| Increase in non-controlling interests | 2,348,523 | 888,015 |
| At June 30 | $ 44,169,937 | $ 38,305,810 |

Certain subsidiaries of the Group have issued employee share-based payment and new shares during 2014 and 2013. The Group has not purchased additional shares in proportion to its ownership and thus, the non-controlling interest of the Group increased by $466,702, decreased by $460,412, increased by $2,348,523 and $888,015, while the equity attributable to owners of the parent decreased by $936,691, $1,234,696, $646,936 and $1,247,307 for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

(30) Operating revenue

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| 3C products (including components and related electronic products) | $ 879,094,312 | $ 895,617,497 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| 3C products (including components and related electronic products) | $ 1,762,573,637 | $ 1,704,629,448 |

(31) Other income

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Rental revenue | $ 143,560 | $ 103,082 |
| Dividend income | 77,688 | 72,997 |
| Interest income: | | |
| Interest income from bank deposits | 7,001,968 | 2,176,805 |
| Other non-operating income | 1,812,069 | 1,832,308 |
| Total | $ 9,035,285 | $ 4,185,192 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Rental revenue | $ 333,679 | $ 230,076 |
| Dividend income | 77,909 | 143,927 |
| Interest income: | | |
| Interest income from bank deposits | 12,332,773 | 3,755,113 |
| Other non-operating income | 2,768,885 | 2,996,670 |
| Total | $ 15,513,246 | $ 7,125,786 |

(32) Other gains and losses

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Net gain on financial assets at fair value through profit or loss | $ 667,364 | $ 39,508 |
| Net gain (loss) on financial liabilities at fair value through profit or loss | 276,992 | ( 210,625) |
| Net currency exchange (loss) gain | ( 2,341,819) | 3,542,920 |
| Gain (loss) on disposal of property, plant and equipment | 196,690 | ( 186,223) |
| Gain on disposal of investment | 304,645 | 611,677 |
| Impairment loss | ( 1,098,506) | ( 9,956) |
| Other gains (losses) | 12,252 | 498,357 |
| Total | ($ 1,982,382) | $ 4,285,658 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Net gain on financial assets at fair value through profit or loss | $ 2,261,048 | $ 27,832 |
| Net loss on financial liabilities at fair value through profit or loss | ( 1,408,632) | ( 187,140) |
| Net currency exchange (loss) gain | ( 1,433,805) | 9,926,170 |
| Gain (loss) on disposal of property, plant and equipment | 244,530 | ( 194,316) |
| Gain on disposal of investment | 367,490 | 551,075 |
| Impairment loss | ( 1,098,506) | ( 35,376) |
| Other gains | 229,833 | 885,886 |
| Total | ($ 838,042) | $ 10,974,131 |

(33) Expenses by nature

Additional disclosures related to cost of sales and operating expenses are as follows:

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Royalty expenses | $ 9,941,224 | $ 11,532,627 |
| Product warranty costs | 10,108,397 | 12,450,287 |
| Employee benefit expense | 70,285,849 | 64,880,496 |
| Depreciation | 17,801,461 | 17,045,147 |
| Amortisation | 184,246 | 221,022 |
| Total | $ 108,321,177 | $ 106,129,579 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Royalty expenses | $ 23,208,225 | $ 22,560,415 |
| Product warranty costs | 24,516,182 | 25,602,771 |
| Employee benefit expense | 140,460,867 | 129,686,747 |
| Depreciation | 35,847,017 | 36,841,771 |
| Amortisation | 402,479 | 423,404 |
| Total | $ 224,434,770 | $ 215,115,108 |

(34) Employee benefit expense

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Wages and salaries | $ 58,087,613 | $ 52,919,643 |
| Share-based payment | 518,172 | 22,447 |
| Labor and health insurance fees | 3,171,070 | 2,668,638 |
| Pension costs | 4,259,930 | 4,886,190 |
| Other personnel expenses | 4,249,064 | 4,383,578 |
| | $ 70,285,849 | $ 64,880,496 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Wages and salaries | $ 116,334,530 | $ 108,203,769 |
| Share-based payment | 635,844 | 43,496 |
| Labor and health insurance fees | 6,849,857 | 5,660,187 |
| Pension costs | 9,055,302 | 8,946,650 |
| Other personnel expenses | 7,585,334 | 6,832,645 |
| | $ 140,460,867 | $ 129,686,747 |

(35) Financial costs

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Interest expense: | | |
| Bank borrowings | $ 3,182,663 | $ 1,448,530 |
| Bonds payable | 382,227 | 559,113 |
| Financing charges from accounts receivable factoring | 28,136 | 13,636 |
| | $ 3,593,026 | $ 2,021,279 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Interest expense: | | |
| Bank borrowings | $ 5,849,161 | $ 2,750,756 |
| Bonds payable | 870,203 | 1,100,516 |
| Financing charges from accounts receivable factoring | 65,126 | 65,064 |
| | $ 6,784,490 | $ 3,916,336 |

(36) Income tax

A. Income tax expense

(a)Components of income tax expense:

| | For the three-month periods ended June 30, 2014 | 2013 |
|---|---|---|
| Current tax: | | |
| Income tax generated from current income | $ 9,904,360 | $ 10,684,808 |
| Adjustments in respect of prior years | ( 834,470) | ( 410,463) |
| Total current tax | 9,069,890 | 10,274,345 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 2,721,793 | ( 1,660,913) |
| Income tax expense | $ 11,791,683 | $ 8,613,432 |

| | For the six-month periods ended June 30, 2014 | 2013 |
|---|---|---|
| Current tax: | | |
| Income tax generated from current income | $ 19,643,027 | $ 16,722,993 |
| Adjustments in respect of prior years | ( 786,368) | 159,579 |
| Total current tax | 18,856,659 | 16,882,572 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | ( 1,353,897) | ( 2,022,291) |
| Income tax expense | $ 17,502,762 | $ 14,860,281 |

B. The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.

C. Unappropriated retained earnings:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Earnings generated in and before 1997 | $ 2,163,509 | $ 2,163,509 | $ 2,163,509 |
| Earnings generated in and after 1998 | 454,338,208 | 465,259,917 | 390,635,635 |
| | $ 456,501,717 | $ 467,423,426 | $ 392,799,144 |

D. The stockholders' deductible tax and expected deductible tax rate are as follows:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Balance of stockholders deductible tax account | $ 59,055,430 | $ 48,383,653 | $ 50,301,609 |

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(37) Earnings per share

| | For the three-month period ended June 30, 2014 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 20,186,135 | 14,708,432 | $ 1.37 |
| Diluted earnings per share: | | | |
| Profit attributable to ordinary shareholders of the parent | $ 20,186,135 | 14,708,432 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' bonus | - | 118,611 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 20,186,135 | 14,827,043 | $ 1.36 |

| | For the three-month period ended June 30, 2013 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 16,977,649 | 14,702,547 | $ 1.15 |
| Diluted earnings per share: | | | |
| Profit attributable to ordinary shareholders of the parent | $ 16,977,649 | 14,702,547 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Convertible bonds-overseas | 141,425 | 308,052 | |
| Employees’ bonus | - | 139,996 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 17,119,074 | 15,150,595 | $ 1.13 |

| | For the six-month period ended June 30, 2014 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 39,728,898 | 14,705,505 | $ 2.70 |
| Diluted earnings per share: | | | |
| Profit attributable to ordinary shareholders of the parent | $ 39,728,898 | 14,705,505 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' bonus | - | 121,537 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 39,728,898 | 14,827,042 | $ 2.68 |

| | For the six-month period ended June 30, 2013 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 33,330,162 | 14,702,547 | $ 2.27 |
| Diluted earnings per share: | | | |
| Profit attributable to ordinary shareholders of the parent | $ 33,330,162 | 14,702,547 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Convertible bonds-overseas | 278,656 | 308,052 | |
| Employees' bonus | - | 144,268 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 33,608,818 | 15,154,867 | $ 2.22 |

The number of shares had retroactively been adjusted by the stock dividends as of June 30, 2014.

(38) Non-cash transaction

A. Investing activities with partial cash payments

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Purchase of property, plant and equipment | $ 6,443,052 | $ 11,158,805 |
| Add: opening balance of payable on equipment | 36,080,249 | 49,996,281 |
| Less: ending balance of payable on equipment | ( 34,948,253) | ( 26,827,183) |
| Net exchange differences | ( 755,208) | ( 229,560) |
| Cash paid during the period | $ 6,819,840 | $ 34,098,343 |

B. Financing activities with no cash flow effects:

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Declared cash dividends | $ 23,631,672 | $ 17,753,800 |
| Employees' stock dividends | 7,682,195 | 6,822,891 |
| | $ 31,313,867 | $ 24,576,691 |

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A. Sales

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Sales of goods: | | |
| Associates | $ 6,505,690 | $ 8,100,303 |
| Other related party | 1,672,322 | 8,182,572 |
| | $ 8,178,012 | $ 16,282,875 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Sales of goods: | | |
| Associates | $ 11,190,509 | $ 22,039,482 |
| Other related party | 3,688,872 | 15,282,293 |
| | $ 14,879,381 | $ 37,321,775 |

The above amounts include administration and service revenue. Goods are sold based on the price lists in force and terms that would be available to third parties. The Group sold materials to the above related parties for processing and repurchased the finished goods. The sales amount of materials and repurchase price of finished goods were offset against each other and shown at net amount in the financial statements.

B. Purchases

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Purchase of goods: | | |
| Associates | $ 20,120,700 | $ 17,782,331 |
| Other related party | 4,875,989 | 2,486,433 |
| | $ 24,996,689 | $ 20,268,764 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Purchase of goods: | | |
| Associates | $ 37,724,392 | $ 35,108,503 |
| Other related party | 6,664,879 | 3,868,900 |
| | $ 44,389,271 | $ 38,977,403 |

Purchases from related parties are based on normal commercial terms and conditions.

C. Receivables from related parties:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Accounts receivable: | | | |
| Associates | $ 7,400,581 | $ 8,885,391 | $ 9,676,879 |
| Other related party | 4,233,110 | 11,062,867 | 10,706,948 |
| Subtotal | 11,633,691 | 19,948,258 | 20,383,827 |
| Other receivables - sale of property, plant and equipment | | | |
| Associates | 1,052,813 | 238,917 | 123,150 |
| Other related party | - | 13,547 | 52,647 |
| Other receivables - purchase of materials on behalf of related parities: | | | |
| Associates | 409,507 | 116,987 | 128,750 |
| Other related party | 2,069,707 | 2,041,578 | 1,903,561 |
| Subtotal | 3,532,027 | 2,411,029 | 2,208,108 |
| Total | $ 15,165,718 | $ 22,359,287 | $ 22,591,935 |

The receivables from related parties arise mainly from sale transactions, sales of property, plant and equipment and purchase of raw materials on behalf of others. The amount is due 30 to 90 days after the transaction date. The receivables are unsecured and non-interest bearing.

D. Payables to related parties:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Accounts payable: | | | |
| Associates | $ 22,078,698 | $ 27,714,786 | $ 24,519,426 |
| Other related party | 4,738,094 | 2,046,953 | 2,190,860 |
| Subtotal | 26,816,792 | 29,761,739 | 26,710,286 |
| Other payables - acquisition of property, plant and equipment: | | | |
| Associates | 252,118 | 261,735 | 117,555 |
| Other related party | 278,136 | 272,027 | 258,996 |
| Subtotal | 530,254 | 533,762 | 376,551 |
| Total | $ 27,347,046 | $ 30,295,501 | $ 27,086,837 |

Payables to related parties primarily arose from purchase transactions and procurement of raw materials on behalf of others. The amount is due 30 to 90 days after the transaction date. The payables are non-interest bearing.

E. Prepayments:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Associates | $ 116,610 | $ 39,225 | $ 39,225 |

F. Property transactions:

a) Acquisition of property, plant and equipment:

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Associates | $ 166,129 | $ 25,632 |
| Other related party | 6,758 | 45,526 |
| | $ 172,887 | $ 71,158 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Associates | $ 231,095 | $ 137,653 |
| Other related party | 44,271 | 50,687 |
| | $ 275,366 | $ 188,340 |

b) Disposal of property, plant and equipment:

| | For the three-month periods ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Proceeds from sale of property, plant and equipment | Gain | Proceeds from sale of property, plant and equipment | Gain |
| Associates | $ 897,576 | $ 141,700 | $ 80,937 | $ 9,697 |
| Other related party | - | - | 31,867 | 10,589 |
| | $ 897,576 | $ 141,700 | $ 112,804 | $ 20,286 |

| | For the six-month periods ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Proceeds from sale of property, plant and equipment | Gain | Proceeds from sale of property, plant and equipment | Gain |
| Associates | $ 918,231 | $ 141,955 | $ 586,190 | $ 13,320 |
| Other related party | - | - | 37,955 | 12,478 |
| | $ 918,231 | $ 141,955 | $ 624,145 | $ 25,798 |

G. Loans to related parties

a) Receivables from related parties (shown as ‘other receivables’)

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Associates | $ 330,000 | $ - | $ - |

b) Interest income

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Associates | $ 1,517 | $ 5,162 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Associates | $ 3,385 | $ 5,975 |

Interest on loans to associates was charged at the rate of 1.41%, 0.80%~1.625%, 1.41%, 0.80% for the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

(2) Key management compensation

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Salaries and other short-term employee benefits | $ 14,891 | $ 14,106 |
| Service execution fees | 152 | 276 |
| Share-based payments | 6 | 1,450 |
| Total | $ 15,049 | $ 15,832 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Salaries and other short-term employee benefits | $ 89,046 | $ 63,931 |
| Service execution fees | 303 | 414 |
| Share-based payments | 12 | 2,882 |
| Total | $ 89,361 | $ 67,227 |

8. PLEDGED ASSETS

As of June 30, 2014, December 31, 2013, and June 30, 2013, the book value of the Group's pledged assets are as follows:

| Assets | Nature | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|
| Time deposits and cash (shown as "other current assets") | Short-term loans, customs deposits | $ 29,196 | $ 48,077 | $ 49,188 |
| Time deposits and cash (shown as "other non-current assets") | Bond deposit as security for court proceedings, security deposit for employment of foreign employees and customs deposits | 31,800 | 31,800 | 34,400 |
| | | $ 60,996 | $ 79,877 | $ 83,588 |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Property, plant and equipment | $ 6,346,665 | $ 6,220,274 | $ 9,977,943 |

B. Operating lease commitments

The Company's subsidiary leases factory dormitory under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | June 30, 2014 | | December 31, 2013 | | June 30, 2013 | |
|---|---|---|---|---|---|---|
| Not later than one year | $ | 487,858 | $ | 500,808 | $ | 609,457 |
| Later than one year but not later than five years | | 1,258,268 | | 917,431 | | 969,871 |
| Later than five years | | 128,996 | | 118,465 | | 104,174 |
| Total | $ | 1,875,122 | $ | 1,536,704 | $ | 1,683,502 |

C. The Group entered into an agreement with Qualcomm Incorporated regarding mobile phone use right. Under the agreement, the Group shall pay royalties based on sales volume of the related products.

D. On June 18, 2014, the Company's subsidiary, Ambit Microsystems Corporation, has signed a contract of acquisition of shares through private placement and merger contract with Asia Pacific Telecom:

(a) Asia Pacific Telecom has issued 826,407 thousand shares of ordinary shares through private placement. Ambit Microsystems Corporation was the subscriber and acquired the capital increase through private placement of 582,888 thousand shares with $20 per share. The preconditions are A) both parties sign the merger contract and B) the shareholders of Asia Pacific Telecom approves the private placement and the Board of Directors completes to set price. Within one year of the Asia Pacific Telecom's shareholders' approval of private placement in 2014, Ambit Microsystems Corporation may introduce international strategic investors who are admitted by Asia Pacific Telecom to acquire the remaining 243,519 thousand shares of ordinary shares at the same price and under the same private placement conditions.

(b) Ambit Microsystems Corporation has signed a merger contract with Asia Pacific Telecom through share swap. Ambit Microsystems Corporation was merged and the surviving company was Asia Pacific Telecom. The swap ratio is 1:0.4975. The merger was temporarily set to be effective on June 30, 2015; however, the effective date may be changed by the Board of Directors of both companies based on the process of the merger. If it is necessary to adjust the consolidated consideration per share because of the review of the competent authority, or for smoothly obtaining the approval, review and/or effective application granted by the competent authority, both companies shall maintain fairness as its basic principle and compromise for the consideration and follow-ups.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A. On July 8, 2014, the Company has issued the third unsecured corporate bonds of 2014. Total issuance amounted to $12,000,000, consisting of bond A: $6,000,000 with a coupon rate of 1.70% and issuance period of 7 years; and bond B: $6,000,000 with a coupon rate of 1.95% and an issuance period of 10 years.

B. The Company's subsidiary, Ambit Microsystems Corporation, has participated in Asia Pacific Telecom's private placement of securities on July 11, 2014, for the purchase of 582,888 thousand shares, with a par value of $20, amounting to $11,657,769.

C. A domestic unsecured corporate bonds issuance was approved by the Board of Directors on August 13, 2014, with the total amount of not more than $24,000,000 and the bonds shall be issued in multiple series.

D. In order to raise capital, the Company's subsidiary, Foxconn (Far East) Limited, plans to issue unsecured ordinary corporate bonds amounting to JPY$30,000,000,000 through the middle-term bond issuance platform guaranteed by the Company. The fixed rate is 0.87% and the issuance period is 3 years for the unsecured ordinary corporate bonds.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to operate with the goal to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet less the total of intangible assets.

During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the gearing ratio at 70% or below.

(2) Financial instruments

A. Fair value information of financial instruments

| | June 30, 2014 | |
| --- | --- | --- |
| | Book value | Fair value |
| Financial assets: | | |
| Financial assets with fair values equal to book values | $ 1,174,812,998 | $ 1,174,812,998 |
| Financial assets measured at cost | 6,242,946 | - |
| | $ 1,181,055,944 | $ 1,174,812,998 |

| | December 31, 2013 | |
|---|---|---|
| | Book value | Fair value |
| Financial assets: | | |
| Financial assets with fair values equal to book values | $ 1,501,289,127 | $ 1,501,289,127 |
| Financial assets measured at cost | 10,843,376 | - |
| | $ 1,512,132,503 | $ 1,501,289,127 |

| | June 30, 2013 | |
|---|---|---|
| | Book value | Fair value |
| Financial assets: | | |
| Financial assets with fair values equal to book values | $ 1,119,555,936 | $ 1,119,555,936 |
| Financial assets measured at cost | 9,411,632 | - |
| | $ 1,128,967,568 | $ 1,119,555,936 |

| | June 30, 2014 | |
|---|---|---|
| | Book value | Fair value |
| Financial liabilities: | | |
| Financial liabilities with fair values equal to book values | $ 916,453,474 | $ 916,453,474 |
| Bonds payable | 116,723,207 | 111,409,226 |
| Long-term loans | 32,781,940 | 31,660,681 |
| | $ 1,065,958,621 | $ 1,059,523,381 |

| | December 31, 2013 | |
|---|---|---|
| | Book value | Fair value |
| Financial liabilities: | | |
| Financial liabilities with fair values equal to book values | $ 1,304,361,278 | $ 1,304,361,278 |
| Bonds payable | 97,054,788 | 93,356,250 |
| Long-term loans | 35,108,728 | 33,965,186 |
| | $ 1,436,524,794 | $ 1,431,682,714 |

| | June 30, 2013 | |
|---|---|---|
| | Book value | Fair value |
| Financial liabilities: | | |
| Financial liabilities with fair values equal to book values | $ 1,043,439,899 | $ 1,043,439,899 |
| Bonds payable | 90,903,899 | 83,919,253 |
| Long-term loans | 14,385,724 | 13,848,683 |
| | $ 1,148,729,522 | $ 1,141,207,835 |

The financial assets with fair value that equals to book value include cash and cash equivalents, financial assets measured at fair value through profit or loss, available-for-sale financial assets, notes and accounts receivable and other financial assets. The financial liabilities with fair value that equals to book value include short-term bank loan, financial liabilities measured at fair value through profit or loss, notes and accounts payable and current portion of the long-term liabilities.

B. Financial risk management policies

(a) Risk categories:

The Group employs a comprehensive risk management and control system to clearly identify, measure, and control the various kinds of financial risk it faces, including market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, and liquidity risk.

(b) Management objectives:

i. Except for market risk, which is controlled by outside factors, the remainder of the foregoing types of risks can be controlled internally or removed from business processes. Therefore, the goal in managing each of these risks is to reduce them to zero.

ii. As for market risk, the goal is to optimize its overall position through strict monitoring, suggestion, execution and audit processes, and proper consideration of a) long-term trends in the external economic/financial environment, b) internal operating conditions, and c) the actual effects of market fluctuations.

iii. The Group's overall risk management policy focuses on the unpredictable items in financial markets and seeks to reduce the risk that potentially pose adverse effects on the Group's financial position and financial performance.

iv. For the information of the derivative financial instruments that the Group enters into, please refer to Note 6(2).

(c) Management system:

i. Risk management is executed by the Group’s finance department by following policies approved by the Board. Through cooperation with the Group's operating units, finance department is responsible for identifying, evaluating and hedging financial risks.

ii. The Board has a written policy covering overall risk management. It also has written policies covering specific issues, such as exchange rate risk, interest rate risk, credit risk, derivative and non-derivative financial instruments used, and the investment of excess working capital.

C. Significant financial risks and degrees of financial risks

(a) Market risk

i. <u>Foreign exchange risk</u>

(i) Nature:

The Group is a multinational group in the Electronic manufacturing services industry. Most of the exchange rate risk from operating activities comes from:

a. The transaction dates of receivables and payables denominated in currencies other than functional currency are different, which results in exchange rate risk. Because the amount after the assets and liabilities are offset is insignificant, income/loss is insignificant as well. (Note: The Group has offices in many countries worldwide, so there are various currency exchange rate risks, but mainly from U.S. dollars and RMB.)

b. Except for the above transactions (operating activities) recognized in the income statement, assets and liabilities recognized in the balance sheet and the net investment in foreign operations also result in the exchange rate risk.

(ii) Management:

a. For such risks, the Group has set up policies requiring companies in the Group to manage its exchange rate risks.

b. As to the exchange rate risk arising from the difference between various functional currencies and the reporting currency in the consolidated financial statements, it is managed by the Group's finance department.

(iii) Sources:

a. U.S. dollar and NT dollar:

Foreign exchange risk arises primarily from U.S. dollar-denominated cash, cash equivalents, accounts receivable and other receivables, other assets, loans, accounts payable and other payables and other liabilities, which results in exchange loss or gain when they are translated into New Taiwan dollars.

b. U.S. dollar and RMB:

Foreign exchange risk arises primarily from U.S. dollar-denominated cash, cash equivalents, accounts receivable and other receivables, other assets, loans, accounts payable and other payables and other liabilities, which results in exchange loss or gain when they are translated into RMB.

c. JPY and NT dollar:

Foreign exchange risk arises primarily from yen-denominated loans, accounts payable and other payables, which results in exchange loss or gain when they are translated into New Taiwan dollars.

(iv) Extent

The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| (Foreign currency: Functional currency) | June 30, 2014 Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) | Sensitivity analysis Extent of variation | Effect on profit or loss |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Monetary items | | | | | |
| USD : NTD | $ 15,324,606 | 29.87 | $ 457,745,981 | 1% | $ 4,577,460 |
| USD : RMB | 10,240,739 | 29.87 | 305,890,874 | 1% | 3,058,909 |
| Net effect in consolidated entities with foreign currency | | | | | |
| USD : NTD | $ 23,145,906 | 29.87 | $ 691,368,212 | | |
| Financial liabilities | | | | | |
| Monetary items | | | | | |
| USD : NTD | $ 10,980,330 | 29.87 | $ 327,982,457 | 1% | $ 3,279,825 |
| USD : RMB | 19,337,095 | 29.87 | 577,599,028 | 1% | 5,775,990 |
| JPY : NTD | 51,305,509 | 0.2946 | 15,114,603 | 1% | 151,146 |

| (Foreign currency: Functional currency) | December 31, 2013 Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) | Sensitivity analysis Extent of variation | Effect on profit or loss |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Monetary items | | | | | |
| USD : NTD | $ 19,384,532 | 29.81 | $ 577,852,899 | 1% | $ 5,778,529 |
| USD : RMB | 12,925,509 | 29.81 | 385,309,423 | 1% | 3,853,094 |
| Net effect in consolidated entities with foreign currency | | | | | |
| USD : NTD | $ 22,197,067 | 29.81 | $ 661,694,567 | | |
| Financial liabilities | | | | | |
| Monetary items | | | | | |
| USD : NTD | $ 16,390,668 | 29.81 | $ 488,605,813 | 1% | $ 4,886,058 |
| USD : RMB | 20,869,632 | 29.81 | 622,123,730 | 1% | 6,221,237 |
| JPY : NTD | 57,327,987 | 0.2839 | 16,275,416 | 1% | 162,754 |

| (Foreign currency: Functional currency) | June 30, 2013 | | | | |
| --- | --- | --- | --- | --- | --- |
| | | | | Sensitivity analysis | |
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) | Extent of variation | Effect on profit or loss |
| Financial assets | | | | | |
| Monetary items | | | | | |
| USD : NTD | $ 12,647,363 | 30.00 | $ 379,420,890 | 1% | $ 3,794,209 |
| USD : RMB | 9,255,409 | 30.00 | 277,662,270 | 1% | 2,776,623 |
| Net effect in consolidated entities with foreign currency | | | | | |
| USD : NTD | $ 20,266,520 | 30.00 | $ 607,995,600 | | |
| Financial liabilities | | | | | |
| Monetary items | | | | | |
| USD : NTD | $ 9,767,126 | 30.00 | $ 293,013,780 | 1% | $ 2,930,138 |
| USD : RMB | 17,343,965 | 30.00 | 520,318,950 | 1% | 5,203,190 |
| JPY : NTD | 58,590,167 | 0.3036 | 17,787,975 | 1% | 177,880 |

ii. Equity securities

(i) Nature

The Group primarily invests in domestic and foreign publicly traded and unlisted equity instruments, which are accounted for as available-for-sale financial assets and financial assets carried at cost. The price of those equity instruments will be affected by the uncertainty of the future value of the investment.

(ii) Extent

If such equity instruments' price rise or fall by 1%, with all other factors held constant, the impact on equity due to available-for-sale equity instruments are $411,316 and $141,595 for the six-month periods ended June 30, 2014 and 2013, respectively.

iii. Futures

(i) Nature

The Group is exposed to commodity price risk because of future commodity price fluctuations.

(ii) Extent

The Group sets stop-loss amount to reduce its futures market risk whenever futures contracts are entered into. As a result, there is no significant futures market risk.

iv. Interest rate risk

The Group's interest rate risk arises from long-term loans or corporate bonds with floating rates. The Company's long-term corporate bonds with fixed interest rates do not have interest rate risk or fair value interest rate risk.

Long-term loans or corporate bonds with floating rates expose the Group to cash flow interest rate risk, but most of the risks are offset by cash and cash equivalents with variable interest rates.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments.

ii. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. The Group assesses the credit quality of the customers by taking into account their financial position, past experience and other factors to conduct its internal risk management.

iii. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of directors. The utilisation of credit limits is regularly monitored. Major credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, short-term financial products invested in banks and financial institutions, and other financial instruments. The counterparties are banks with good credit quality and financial institutions with investment grade or above and government agencies, so there is no significant compliance concerns and credit risk.

iv. The aging analysis of notes receivable and accounts receivable (including related parties) that were past due but not impaired is as follows:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Up to 30 days | $ 2,738,496 | $ 8,224,520 | $ 5,992,128 |
| 31 to 90 days | 3,995,353 | 3,145,815 | 2,126,542 |
| 91 to 180 days | 1,354,854 | 1,086,131 | 1,176,452 |
| 181 to 360 days | 95,685 | 506,697 | 587,810 |
| Over 360 days | 268,709 | 49,915 | 57,905 |
| | $ 8,453,097 | $ 13,013,078 | $ 9,940,837 |

The ageing analysis is based on the past due date.

v. Movements on the Group's provision for impairment of notes receivable and accounts receivable (including related parties) are as follows:

(i) As of June 30, 2014, December 31, 2013, and June 30, 2013, accounts receivable that had been impaired were $2,451,701, $2,451,701 and $2,451,701, respectively.

(ii) Movement in allowance for individual provision for bad debts is as follows:

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| At January 1 | $ 2,451,701 | $ 2,224,178 |
| Provision of impairment | - | 227,523 |
| At June 30 | $ 2,451,701 | $ 2,451,701 |

vi. The credit quality of accounts receivable (including related parties) that were neither past due nor impaired is in the following categories based on the Group's Credit Quality Control Policy:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Group 1 | $ 283,567,606 | $ 527,536,494 | $ 270,050,678 |
| Group 2 | 59,698,108 | 97,519,461 | 155,036,878 |
| Group 3 | 91,120,512 | 89,230,431 | 7,051,859 |
| Group 4 | 11,663,231 | 20,410,336 | 10,622,013 |
| | $ 446,049,457 | $ 734,696,722 | $ 442,761,428 |

Group 1: Standard Poor's, Fitch's, or Moody's rating of A-level, or rated as A-level in accordance with the Group's credit polices for those that have no external credit ratings.

Group 2: Standard Poor's or Fitch's rating of BBB, Moody's rating of Baa, or rated as B or C in accordance with the Group's credit polices for those that have no external credit ratings.

Group 3: Standard Poor's or Fitch's rating of BB + and below, or Moody's rating of Ba1 and below.

Group 4: Rated as other than A, B, or C in accordance with the Group's credit polices for those that have no external credit ratings.

(c) Liquidity risk

i. Cash flow forecasting is performed by each operating entity of the Group and aggregated by Group treasury. The Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

ii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

| June 30, 2014 | Less than 3 months | Between 3 to 6 months | Between 6 months to 1 year | Between 1 to 2 years | Between 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| Short-term loans | $ 171,662,780 | $38,626,157 | $ - | $ - | $ - | $ - | $ 210,288,937 |
| Short-term notes and bills payable | 2,996,634 | - | - | - | - | - | 2,996,634 |
| Accounts payable (including related parties) | 486,401,951 | 6,515 | 5,297 | - | - | - | 486,413,763 |
| Other payables | 198,239,657 | 78,444 | 194,653 | - | - | - | 198,512,754 |
| Bonds payable | - | 6,410,000 | 3,000,000 | 20,639,982 | 78,558,961 | 17,600,000 | 126,208,943 |
| Long-term loans | - | 5,324,433 | 3,324,432 | 13,396,567 | 16,999,962 | 2,385,411 | 41,430,805 |
| | $ 859,301,022 | $50,445,549 | $ 6,524,382 | $34,036,549 | $95,558,923 | $19,985,411 | $1,065,851,836 |

| December 31, 2013 | Less than 3 months | Between 3 to 6 months | Between 6 months to 1 year | Between 1 to 2 years | Between 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| Short-term loans | $ 361,513,330 | $ 2,808,740 | $ 1,911,531 | $ - | $ - | $ - | $ 366,233,601 |
| Short-term notes and bills payable | 19,982,517 | - | - | - | - | - | 19,982,517 |
| Accounts payable (including related parties) | 689,391,137 | 23,131,099 | 181,912 | - | - | - | 712,704,148 |
| Other payables | 184,355,029 | 6,310,344 | 509,805 | - | - | - | 191,175,178 |
| Bonds payable | - | - | 6,410,000 | 16,500,000 | 73,441,230 | 7,200,000 | 103,551,230 |
| Long-term loans | 2,606,300 | - | 5,209,588 | 12,502,486 | 20,708,040 | 1,898,202 | 42,924,616 |
| | $1,257,848,313 | $32,250,183 | $14,222,836 | $29,002,486 | $94,149,270 | $ 9,098,202 | $1,436,571,290 |

| June 30, 2013 | Less than 3 months | Between 3 to 6 months | Between 6 months to 1 year | Between 1 to 2 years | Between 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| Short-term loans | $ 270,463,409 | $ 58,497,644 | $28,260,459 | $ - | $ - | $ - | $ 357,221,512 |
| Short-term notes and bills payable | 5,593,757 | - | - | - | - | - | 5,593,757 |
| Accounts payable (including related parties) | 466,695,356 | 11,379,083 | 45,288 | - | - | - | 478,119,727 |
| Other payables | 134,197,168 | 1,191,333 | 2,809,036 | - | - | - | 138,197,537 |
| Bonds payable | - | 33,410,000 | - | 3,410,000 | 82,592,000 | 5,000,000 | 124,412,000 |
| Long-term loans | 15,525,000 | - | 15,483,600 | 5,365,188 | 7,065,734 | 1,954,802 | 45,394,324 |
| | $ 892,474,690 | $104,478,060 | $46,598,383 | $ 8,775,188 | $89,657,734 | $ 6,954,802 | $ 1,148,938,857 |

Derivative financial liabilities:

| June 30, 2014 | Less than 3 months | Between 3 to 6 months | Between 6 months to 1 year | Between 1 to 2 years | Between 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| Cross currency swap contracts | $ 18,292 | $ 96,726 | $ - | $ - | $ - | $ - | $ 115,018 |
| Forward exchange contracts | 67,503 | - | - | - | - | - | 67,503 |
| | $ 85,795 | $ 96,726 | $ - | $ - | $ - | $ - | $ 182,521 |
| December 31, 2013 | | | | | | | |
| Forward exchange contracts | $ 39,946 | $ - | $ - | $ - | $ - | $ - | $ 39,946 |
| June 30, 2013 | | | | | | | |
| Forward exchange contracts | $ 84,027 | $ - | $ - | $ - | $ - | $ - | $ 84,027 |
| Euro-Convertible Bond conversion rights | - | - | 112 | - | - | - | 112 |
| | $ 84,027 | $ - | $ 112 | $ - | $ - | $ - | $ 84,139 |

(3) <u>Fair value estimation</u>

The table below analyses the valuation technique used to value the financial instruments measured at fair value. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

These instruments held by the Group are mainly equity instruments, the fair value of which is based on the quoted prices from the Stock Exchange, OTC market or regulatory agency's market actual data. They are classified as "financial assets and liabilities at fair value through profit or loss" or "available-for-sale financial assets".

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

These instruments held by the Group are financial instruments that do not have level 1 quoted prices, such as derivative instruments or forward exchange contracts. The fair value is mainly determined by valuation techniques or the use of counterparties' quote information. The valuation techniques maxmize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. These financial instruments are classified as "financial assets and liabilities at fair value through profit or loss".

Level 3: Inputs for the asset or liability that are not based on observable market data.

The following table presents the Group's financial assets and liabilities that are measured at fair value at June 30, 2014, December 31, 2013, and June 30, 2013.

| June 30, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Principal and income protected financial products | $ - | $ 54,399,675 | $ - | $ 54,399,675 |
| Principal protected floating rate financial products | - | 966,915 | - | 966,915 |
| Beneficiary certificates | 81,600 | 459,002 | - | 540,602 |
| Forward exchange contracts | - | 308,707 | - | 308,707 |
| Cross currency swap contracts | - | 29,995 | - | 29,995 |
| Others | 192,086 | - | - | 192,086 |
| Available-for-sale financial assets | | | | |
| Equity securities | 40,582,151 | - | - | 40,582,151 |
| Foreign investment fund | - | 549,480 | - | 549,480 |
| | $ 40,855,837 | $ 56,713,774 | $ - | $ 97,569,611 |

| June 30, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Cross currency swap contracts | $ - | ($ 115,018) | $ - | ($ 115,018) |
| Forward exchange contracts | - | ( 67,503) | - | ( 67,503) |
| | $ - | ($ 182,521) | $ - | ($ 182,521) |

| December 31, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | $ 451,973 | $ - | $ 451,973 |
| Beneficiary certificates | 430,040 | - | - | 430,040 |
| Convertible bonds | - | 316,099 | - | 316,099 |
| Available-for-sale financial assets | | | | |
| Equity securities | 12,941,855 | - | - | 12,941,855 |
| | $ 13,371,895 | $ 768,072 | $ - | $ 14,139,967 |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | ($ 39,946) | $ - | ($ 39,946) |

| June 30, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | $ 267,725 | $ - | $ 267,725 |
| Beneficiary certificates | 162,364 | - | - | 162,364 |
| Convertible bonds | - | 179,300 | - | 179,300 |
| Available-for-sale financial assets | | | | |
| Equity securities | 14,159,507 | - | - | 14,159,507 |
| | $ 14,321,871 | $ 447,025 | $ - | $ 14,768,896 |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | ($ 84,027) | $ - | ($ 84,027) |
| Euro-Convertible Bond conversion rights | - | ( 112) | - | ( 112) |
| | $ - | ($ 84,139) | $ - | ($ 84,139) |

14. SEGMENT INFORMATION

(1) General information

The Group has adopted eCMMS (E-enabled Components, Modules, Moves & Services) strategy, and provided a one-stop shop to its customers, which are primarily in the 3C industries, with a total solution for design, development, engineering, procurement, manufacturing, logistics and after-sales service. The Group segregates operating segments from both a customer service and product perspective.

In accordance with IFRS No. 8, “Operating Segments”, the Group has determined the operating segments and reportable operating segments. Operating segments which have met certain quantitative threshold are disclosed individually or aggregately as reportable operating segments; other segments which have not met the quantitative threshold are included in the ‘all other segments’. The Group has identified the electronic manufacturing integrated services department, which provides global 3C production-related one-stop services, as a reportable operating segment.

(2) Measurement of segment information

The chief operating decision maker assesses performance and allocates resources of the operating segments based on each operating segment’s revenue and operating income after adjusting the internal costs and allocated expenses. Except that recognition of internal costs shall be in accordance with the Group’s related internal calculation basis, the operating segments’ accounting policies are the same as disclosed in Note 4.

(3) Segment information

The financial information of reportable segments provided to chief operating decision maker is as follows:

| | For the three-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| | Electronic Manufacturing Integration Service | Electronic Manufacturing Integration Service |
| Net external revenue | $ 857,740,862 | $ 930,281,173 |
| Revenue from internal customers | 162,095,181 | 117,407,673 |
| Segment revenue | $ 1,019,836,043 | $ 1,047,688,846 |
| Segment profit | $ 28,309,110 | $ 14,054,188 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| | Electronic Manufacturing Integration Service | Electronic Manufacturing Integration Service |
| Net external revenue | $ 1,720,952,125 | $ 1,757,661,138 |
| Revenue from internal customers | 313,578,834 | 203,613,426 |
| Segment revenue | $ 2,034,530,959 | $ 1,961,274,564 |
| Segment profit | $ 53,181,638 | $ 35,370,553 |

(4) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length. The revenue from external parties reported to the chief operating decision-maker is measured in a manner consistent with that in the income statement.

A reconciliation of reportable segment profit or loss to the profit before tax and discontinued operations for the three-month and six-month periods ended June 30, 2014 and 2013 is provided as follows:

| | For the three-month periods ended June 30, | |
|---|---|---|
| Operating revenue | 2014 | 2013 |
| Total reported segment revenue | $ 1,019,836,043 | $ 1,047,688,846 |
| Other operating segment revenue | 19,192,973 | ( 1,881,999) |
| Elimination of intersegment revenue | ( 159,934,704) | ( 150,189,350) |
| Total corporate revenue | $ 879,094,312 | $ 895,617,497 |

| | For the six-month periods ended June 30, | |
|---|---|---|
| Operating revenue | 2014 | 2013 |
| Total reported segment revenue | $ 2,034,530,959 | $ 1,961,274,564 |
| Other operating segment revenue | 41,517,708 | 27,818,015 |
| Elimination of intersegment revenue | ( 313,475,030) | ( 284,463,131) |
| Total corporate revenue | $ 1,762,573,637 | $ 1,704,629,448 |

| | For the three-month periods ended June 30, | |
|---|---|---|
| Profit and loss | 2014 | 2013 |
| Profit of reported segment | $ 28,309,110 | $ 14,054,188 |
| Profit (loss) of other operating segments | ( 983,289) | 2,234,240 |
| Elimination of intersegment transactions and internal costs and allocated expenses adjustments | 5,091,363 | 9,255,389 |
| Profit before income tax | $ 32,417,184 | $ 25,543,817 |

| Profit and loss | For the six-month periods ended June 30, 2014 | 2013 |
|---|---|---|
| Profit of reported segment | $ 53,181,638 | $ 35,370,553 |
| Profit (loss) of other operating segments | 903,271 | 2,410,393 |
| Elimination of intersegment transactions and internal costs and allocated expenses adjustments | 3,873,144 | 10,360,044 |
| Profit before income tax | $ 57,958,053 | $ 48,140,990 |