# DARFON ELECTRONICS CORP.
# AND SUBSIDIARIES

## Consolidated Financial Statements

December 31, 2014 and 2013
(With Independent Auditors' Report Thereon)

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## Independent Auditors' Report

The Board of Directors
Darfon Electronics Corp.:

We have audited the accompanying consolidated balance sheets of Darfon Electronics Corp. (the "Company") and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2013 financial statements of Darfon Electronics Czech s.r.o., an indirect wholly owned subsidiary. Total assets of Darfon Electronics Czech s.r.o. as of December 31, 2013, were NT$262,156 thousand, constituting 1.43% of consolidated total assets, and net sales were NT$501,810 thousand, constituting 2.14% of consolidated net sales, in 2013. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Darfon Electronics Czech s.r.o., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Darfon Electronics Corp. and subsidiaries as of December 31, 2014 and 2013, and the results of their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2014 and 2013, in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent-company-only financial statements of Darfon Electronics Corp. as of and for the years ended December 31, 2014 and 2013, on which we have issued an unqualified opinion and a modified unqualified opinion, respectively.

KPMG

Taipei, Taiwan (the Republic of China)
March 16, 2015

**Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of financial performance, and cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

## DARFON ELECTRONICS CORP. AND SUBSIDIARIES

### Consolidated Balance Sheets

### December 31, 2014 and 2013

### (in thousands of New Taiwan dollars)

| Assets | | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents (notes 6(1) & (19)) | $ | 808,617 | 1,042,547 |
| Financial assets at fair value through profit or loss—current (notes 6(2) & (19)) | | 10,660 | 10,603 |
| Available-for-sale financial assets—current (notes 6(3) & (19)) | | 131,587 | - |
| Notes and accounts receivable, net (notes 6(4) & (19)) | | 5,044,293 | 4,646,017 |
| Accounts receivable from related parties (notes 6(4) & (19) and 7) | | 28,116 | 28,475 |
| Other receivables (notes 6(4) & (19) and 8) | | 219,759 | 170,626 |
| Other receivables from related parties (notes 6(4) & (19) and 7) | | - | 27,172 |
| Inventories (note 6(5)) | | 3,244,344 | 3,337,539 |
| Prepaid expenses and other current assets | | 1,446,989 | 1,279,093 |
| Noncurrent assets held for sale, net (notes 6(6) and 11) | | 501,395 | - |
| **Total current assets** | | 11,435,760 | 10,542,072 |
| **Noncurrent assets:** | | | |
| Available-for-sale financial assets—noncurrent (notes 6(3) & (19)) | | 6,000 | 127,153 |
| Property, plant and equipment (notes 6(7) & (12) and 8) | | 6,381,370 | 7,192,048 |
| Intangible assets (note 6(8)) | | 61,128 | 76,212 |
| Deferred income tax assets (note 6(14)) | | 145,796 | 146,237 |
| Refundable deposits (note 6(19)) | | 24,661 | 32,652 |
| Prepaid pension cost—noncurrent (note 6(13)) | | 10,159 | 8,618 |
| Long-term prepaid rents (note 6(12)) | | 71,514 | 98,624 |
| Other noncurrent assets | | 67,592 | 50,873 |
| **Total noncurrent assets** | | 6,768,220 | 7,732,417 |
| **Total assets** | $ | 18,203,980 | 18,274,489 |

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES

**Consolidated Balance Sheets**

**December 31, 2014 and 2013**

**(in thousands of New Taiwan dollars)**

| Liabilities and Equity | December 31, 2014 | December 31, 2013 |
|---|---|---|
| **Current liabilities:** | | |
| Short-term borrowings (notes 6(9) & (19)) | $ 997,558 | 1,825,613 |
| Notes and accounts payable (note 6(19)) | 5,145,509 | 4,919,164 |
| Accounts payable to related parties (notes 6(19) and 7) | 41,588 | 32,322 |
| Other payables (notes 6(15) & (19)) | 1,515,003 | 1,375,426 |
| Other payables to related parties (notes 6(19) and 7) | 17,615 | 17,395 |
| Other current liabilities | 183,148 | 166,811 |
| **Total current liabilities** | 7,900,421 | 8,336,731 |
| **Noncurrent liabilities:** | | |
| Long-term borrowings (notes 6(10) & (19) and 8) | 1,109,550 | 1,063,955 |
| Provisions—noncurrent (note 6(11)) | 99,058 | 93,997 |
| Other noncurrent liabilities | 9,088 | 11,540 |
| Accrued pension liabilities (note 6(13)) | 85,515 | 86,445 |
| **Total noncurrent liabilities** | 1,303,211 | 1,255,937 |
| **Total liabilities** | 9,203,632 | 9,592,668 |
| **Equity attributable to shareholders of the Company (note 6(15))** | | |
| Common stock | 3,189,020 | 3,189,020 |
| Capital surplus—additional paid-in capital | 4,471,758 | 4,471,758 |
| Retained earnings: | | |
| Legal reserve | 606,836 | 606,583 |
| Special reserve | - | 199,292 |
| Unappropriated earnings | 302,830 | 92,030 |
| Total retained earnings | 909,666 | 897,905 |
| Other components of equity: | | |
| Foreign currency translation reserve | 358,671 | 62,694 |
| Unrealized gain (loss) on available-for-sale financial assets | 34,130 | 23,696 |
| Total other components of equity | 392,801 | 86,390 |
| Equity attributable to shareholders of the Company | 8,963,245 | 8,645,073 |
| **Non-controlling interests** | 37,103 | 36,748 |
| **Total equity** | 9,000,748 | 8,681,821 |
| **Total liabilities and equity** | $ 18,203,980 | 18,274,489 |

See accompanying notes to consolidated financial statements.

## DARFON ELECTRONICS CORP. AND SUBSIDIARIES

### Consolidated Statements of Comprehensive Income

### For the years ended December 31, 2014 and 2013

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

| | | 2014 | 2013 |
|---|---|---|---|
| **Net sales (notes 6(17) and 7)** | $ | 21,577,869 | 23,501,401 |
| **Cost of sales (notes 6(5), (7), (12), (13) & (15), 7 and 12)** | | 19,152,305 | 21,123,118 |
| **Gross profit** | | 2,425,564 | 2,378,283 |
| **Operating expenses (notes 6(4), (7), (8), (11), (12) (13) & (15), 7 and 12)** | | | |
| Selling | | 980,111 | 983,874 |
| Administrative | | 589,047 | 603,321 |
| Research and development | | 838,342 | 891,531 |
| **Total operating expenses** | | 2,407,500 | 2,478,726 |
| **Operating income (loss)** | | 18,064 | (100,443) |
| **Non-operating income and expenses:** | | | |
| Other income (note 6(18)) | | 85,816 | 63,266 |
| Other gains and losses (notes 6(12) & (18) and 7) | | 92,848 | 121,905 |
| Finance cost (note 6(18)) | | (84,137) | (80,361) |
| **Total non-operating income and expenses** | | 94,527 | 104,810 |
| **Income before income tax** | | 112,591 | 4,367 |
| Income tax expenses (note 6(14)) | | (34,117) | (523) |
| **Net income** | | 78,474 | 3,844 |
| **Other comprehensive income** | | | |
| Foreign currency translation differences (note 6(15)) | | 295,977 | 221,207 |
| Net change in fair value of available-for-sale financial assets (note 6(15)) | | 10,434 | 41,779 |
| Actuarial gains (losses) on defined benefit plans (note 6(13)) | | (3,094) | 4,516 |
| Less: Income tax related to components of other comprehensive income (note 6(14)) | | (516) | 807 |
| **Other comprehensive income, net of income tax** | | 303,833 | 266,695 |
| **Total comprehensive income** | $ | 382,307 | 270,539 |
| **Net income attributable to:** | | | |
| Shareholders of the Company | $ | 78,119 | 2,527 |
| Non-controlling interests | | 355 | 1,317 |
| | $ | 78,474 | 3,844 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the Company | $ | 381,952 | 269,222 |
| Non-controlling interests | | 355 | 1,317 |
| | $ | 382,307 | 270,539 |
| **Earnings per share (in New Taiwan dollars) (note 6(16))** | | | |
| **Basic earnings per share** | $ | 0.24 | 0.01 |
| **Diluted earnings per share** | $ | 0.24 | 0.01 |

See accompanying notes to consolidated financial statements.

DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

| | Equity attributable to shareholders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Retained earnings | | | | Other components of equity | | | | | |
| | Common stock | Capital surplus - additional paid-in capital | Legal reserve | Special reserve | Unappropriated earnings | Subtotal | Foreign currency translation reserve | Unrealized gain (loss) on available-for-sale financial assets | Subtotal | Equity attributable to shareholders of the Company | Non-controlling interests | Total equity |
| **Balance at January 1, 2013** | $ 3,189,020 | 4,471,758 | 584,101 | 38,344 | 460,565 | 1,083,010 | (158,513) | (18,083) | (176,596) | 8,567,192 | 37,331 | 8,604,523 |
| Appropriation approved by the shareholders: | | | | | | | | | | | | |
| Appropriation of legal reserve | - | - | 22,482 | - | (22,482) | - | - | - | - | - | - | - |
| Appropriation of special reserve | - | - | - | 160,948 | (160,948) | - | - | - | - | - | - | - |
| Cash dividends to shareholders | - | - | - | - | (191,341) | (191,341) | - | - | - | (191,341) | - | (191,341) |
| Decrease in non-controlling interests | - | - | - | - | - | - | - | - | - | - | (1,900) | (1,900) |
| Net income in 2013 | - | - | - | - | 2,527 | 2,527 | - | - | - | 2,527 | 1,317 | 3,844 |
| Other comprehensive income in 2013, net of income tax | - | - | - | - | 3,709 | 3,709 | 221,207 | 41,779 | 262,986 | 266,695 | - | 266,695 |
| Total comprehensive income in 2013 | - | - | - | - | 6,236 | 6,236 | 221,207 | 41,779 | 262,986 | 269,222 | 1,317 | 270,539 |
| **Balance at December 31, 2013** | 3,189,020 | 4,471,758 | 606,583 | 199,292 | 92,030 | 897,905 | 62,694 | 23,696 | 86,390 | 8,645,073 | 36,748 | 8,681,821 |
| Appropriation approved by the shareholders: | | | | | | | | | | | | |
| Appropriation of legal reserve | - | - | 253 | - | (253) | - | - | - | - | - | - | - |
| Reversal of special reserve | - | - | - | (199,292) | 199,292 | - | - | - | - | - | - | - |
| Cash dividends to shareholders | - | - | - | - | (63,780) | (63,780) | - | - | - | (63,780) | - | (63,780) |
| Net income in 2014 | - | - | - | - | 78,119 | 78,119 | - | - | - | 78,119 | 355 | 78,474 |
| Other comprehensive income in 2014, net of income tax | - | - | - | - | (2,578) | (2,578) | 295,977 | 10,434 | 306,411 | 303,833 | - | 303,833 |
| Total comprehensive income in 2014 | - | - | - | - | 75,541 | 75,541 | 295,977 | 10,434 | 306,411 | 381,952 | 355 | 382,307 |
| **Balance at December 31, 2014** | $ 3,189,020 | 4,471,758 | 606,583 | - | 302,830 | 909,666 | 358,671 | 34,130 | 392,801 | 8,963,245 | 37,103 | 9,000,348 |

See accompanying notes to consolidated financial statements.

DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from (used in) operating activities:** | | |
| Income before income tax | $ 112,591 | 4,367 |
| Adjustments for: | | |
| Depreciation | 918,012 | 1,024,558 |
| Amortization | 56,750 | 86,594 |
| Interest expense | 84,137 | 80,361 |
| Interest income | (20,346) | (12,843) |
| Impairment loss on accounts receivable | 643 | 560 |
| Gain on disposal and retirement of property, plant and equipment, net | (89,114) | (36,941) |
| Reversal of impairment loss on non-financial assets | - | (279) |
| Unrealized foreign exchange loss | 57,195 | 19,401 |
| **Subtotal** | 1,007,277 | 1,161,411 |
| Changes in operating assets: | | |
| Financial assets/liabilities at fair value through profit or loss | (57) | 26,965 |
| Notes and accounts receivable | (398,919) | 1,461,356 |
| Accounts receivable from related parties | 359 | (591) |
| Other receivables | (46,210) | (52,397) |
| Other receivables from related parties | 27,172 | (27,172) |
| Inventories | 93,195 | 653,027 |
| Prepaid expenses and other current assets | (169,437) | (497,542) |
| | (493,897) | 1,563,646 |
| Changes in operating liabilities: | | |
| Notes and accounts payable | 226,345 | (1,250,594) |
| Accounts payable to related parties | 9,266 | 4,770 |
| Other payables | 120,885 | (227,178) |
| Other payables to related parties | 220 | 2,109 |
| Provision | 5,061 | (4,605) |
| Other current liabilities | 16,337 | (113,127) |
| Other noncurrent liabilities | (5,960) | 462 |
| | 372,154 | (1,588,163) |
| **Total changes in operating assets and liabilities** | (121,743) | (24,517) |
| **Total adjustments** | 885,534 | 1,136,894 |
| **Cash generated from operations** | 998,125 | 1,141,261 |
| Interest received | 20,346 | 12,843 |
| Interest paid | (87,292) | (79,934) |
| Income taxes paid | (53,140) | (79,635) |
| **Net cash flows from operating activities** | 878,039 | 994,535 |

See accompanying notes to consolidated financial statements.

DARFON ELECTRONICS CORP. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2014 and 2013**

**(in thousands of New Taiwan dollars)**

| | | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from (used in) investing activities:** | | | |
| Additions to property, plant and equipment | | (376,355) | (627,012) |
| Proceeds from disposal of property, plant and equipment | | 157,176 | 92,979 |
| Decrease in refundable deposits | | 7,991 | 7,682 |
| Increase in other noncurrent assets | | (53,585) | (46,586) |
| Increase in restricted cash in banks | | (2,923) | (9,758) |
| **Net cash used in investing activities** | | (267,696) | (582,695) |
| **Cash flows from (used in) financing activities:** | | | |
| Decrease in short-term borrowings | | (828,055) | (367,472) |
| Increase in long-term borrowings | | 1,106,585 | 409,220 |
| Repayment of long-term borrowings | | (1,118,185) | (375,610) |
| Distribution of cash dividends | | (63,780) | (191,341) |
| Acquisition of non-controlling interests | | - | (1,900) |
| **Net cash used in financing activities** | | (903,435) | (527,103) |
| **Effects of exchange rate changes** | | 59,162 | (46,752) |
| **Net decrease in cash and cash equivalents** | | (233,930) | (162,015) |
| **Cash and cash equivalents at beginning of year** | | 1,042,547 | 1,204,562 |
| **Cash and cash equivalents at end of year** | $ | 808,617 | 1,042,547 |
| **Cash paid for additions to property, plant and equipment:** | | | |
| Additions to property, plant and equipment | $ | 394,043 | 603,153 |
| Plus (less): change in payables | | (17,688) | 23,859 |
| Cash paid | $ | 376,355 | 627,012 |

See accompanying notes to consolidated financial statements.

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

## 1. Organization and business

Darfon Electronics Corporation (the "Company") was incorporated on May 8, 1997, as a company limited by shares under the laws of the Republic of China ("R.O.C."). The address of the Company's registered office is No. 167, Shan-Ying Road, Gueishan, Taoyuan, Taiwan. In November 2007, the Company's shares were listed on Taiwan Stock Exchange.

The Company and its subsidiaries (hereinafter jointly referred to as the "Consolidated Companies") are engaged in the manufacture and sale of human interface devices, power devices, integrated components and materials, and green devices.

## 2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 16, 2015.

## 3. New accounting standards and interpretations not yet adopted

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

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

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

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

| New or amended standards and interpretations | Effective date per IASB |
|---|---|
| • Amendments to IFRS 7 *Disclosure — Offsetting Financial Assets and Financial Liabilities* | January 1, 2013 |
| • IFRS 10 *Consolidated Financial Statements* | January 1, 2013 (effective January 1, 2014, for investment entities per amendments to IFRS 10, IFRS 12 and IAS 27) |
| • 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 |
| • Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* | July 1, 2012 |
| • Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* | January 1, 2012 |
| • Amendments to IAS 19 (Revised 2011) *Employee Benefits* | January 1, 2013 |
| • Amendments to IAS 27 (Revised 2011) *Separate Financial Statements* | January 1, 2013 |
| • Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* | January 1, 2014 |
| • IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* | January 1, 2013 |

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

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

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

Furthermore, IAS 19 (Revised 2011) has eliminated the requirement of recognizing actuarial gains or losses arising from defined benefit plans in retained earnings. The Consolidated Companies have opted to recognize the aforementioned actuarial gains or losses in other equity accounts starting in 2015, and a retrospective adjustment will be made. Accordingly, the Consolidated Companies will reclassify the actuarial gains or losses arising from the defined benefit plans recognized and accumulated in retained earnings prior to January 1, 2015, from retained earnings to other equity accounts. Except for the adjustments in retained earnings consisting of an increase of $20,487 against a decrease in other equity of the same amount, there is no significant impact on the consolidated financial statements.

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

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

C. IFRS 13 *Fair Value Measurement*

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

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

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

| New or amended standards and interpretations | Effective date per IASB |
|---|---|
| • IFRS 9 *Financial Instruments* | January 1, 2018 |
| • Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture* | January 1, 2016 |
| • Amendments to IFRS10, IFRS12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* | January 1, 2016 |
| • Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* | January 1, 2016 |
| • IFRS 14 *Regulatory Deferral Accounts* | January 1, 2016 |
| • IFRS 15 *Revenue from Contracts with Customers* | January 1, 2017 |
| • Amendments to IAS1 *Disclosure Initiative* | January 1,2016 |
| • Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization* | January 1, 2016 |
| • Amendments to IAS 16 and IAS 41 *Bearer Plants* | January 1, 2016 |
| • Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* | July 1, 2014 |
| • Amendments to IAS 27 *Equity Method in Separate Financial Statements* | January 1, 2016 |
| • Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* | January 1, 2014 |
| • Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* | January 1, 2014 |
| • IFRIC 21 *Levies* | January 1, 2014 |

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

## 4. Summary of significant accounting policies

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

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

(a) Statement of compliance

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

(b) Basis of preparation

(1) Basis of measurement

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

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

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

iii Defined benefit liabilities are recognized as the present value of the benefit obligation less the fair value of plan assets.

(2) Functional and presentation currency

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

(c) Basis of consolidation

(1) Principles of preparation of the consolidated financial statements

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

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

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

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

(2) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements:

| Name of Investor | Name of Investee | Main Business | Percentage of Ownership 2014.12.31 | Percentage of Ownership 2013.12.31 |
|---|---|---|---|---|
| The Company | Darfon (BVI) Corporation (DFBVI) | Trading of electronic products | 100.00% | 100.00% |
| The Company | Darfon (Labuan) Corporation (DFLB) | Investment holding | 100.00% | 100.00% |
| The Company | Darfon Materials Corp. (DMC) | Manufacture and sale of MLCC, inductors and paste | 100.00% | 100.00% |
| The Company | Darfon Gemmy Corp. (DZL) | Investment holding | 100.00% | 100.00% |
| The Company | Darfon Innovation Corp. (DTC) | Manufacture of lighting equipment, design and sale of IT products | 52.00% | 52.00% |
| DFBVI/DFLB | Darfon Electronics (Suzhou) Co., Ltd. (DFS) | Manufacture and sale of the Company's products | 100.00% | 100.00% |
| DFBVI/DFLB | Darfon Electronics, Shenzhen (DFZ) | Manufacture and sale of the Company's products | 100.00% | 100.00% |
| DFLB | Darfon Electronics Czech s.r.o (DFC) | Trading of electronic products | 100.00% | 100.00% |
| DFLB | Darfon America Corp. (DFA) | Trading of electronic products | 100.00% | 100.00% |
| DFLB | Huaian Darfon Electronics Co., Ltd. (DFH) | Manufacture and sale of the Company's products | 100.00% | 100.00% |

(Continued)

| Name of Investor | Name of Investee | Main Business | Percentage of Ownership 2014.12.31 | 2013.12.31 |
|---|---|---|---|---|
| DFLB | Darfon Korea Co., Ltd. (DFK) | Trading of electronic products | 100.00% | 100.00% |
| DFLB | Darfon Precision Holdings Co., Ltd. (DPH) | Investment holding | 100.00% | 100.00% |
| DFLB | Darfon Electronics, Chongqing (DFQ) | Trading of electronic products | 100.00% | 100.00% |
| DPH | Darfon Precision (Suzhou) Co., Ltd. (DPS) | Mold development and manufacture | 100.00% | 100.00% |
| DZL | Darfon Innovation Corp. (DTC) | Manufacture of lighting equipment, design and sale of IT products | 25.00% | 25.00% |

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

(d) Foreign currency

(1) Foreign currency transactions

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

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

(2) Foreign operations

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

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the monetary item is, in substance, a part of net investment in that foreign operation, and the related foreign exchange gains and losses thereon are recognized as other comprehensive income.

(Continued)

(e) Classification of current and noncurrent assets and liabilities

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

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

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

(1) It is expected to be settled in the normal operating cycle;
(2) It is held primarily for the purpose of trading;
(3) It is due to be settled within twelve months after the reporting period; or
(4) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(f) Cash and cash equivalents

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

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Consolidated Companies become a party to the contractual provisions of the instruments.

1. Financial assets

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

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

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

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

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized as "non-operating income and expenses—other income".

(3) Available-for sale financial assets

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

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

(4) Impairment of financial assets

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

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

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

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

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

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

(5) Derecognition of financial assets

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

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

(Continued)

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

2. Financial liabilities

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

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

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

(2) Other financial liabilities

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

(3) Derecognition of financial liabilities

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

3. Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Consolidated Companies have the legally enforceable right to offset and intend to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(Continued)

4. Derivative financial instruments, including hedge accounting

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

(h) Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition ready for sale. Inventories are measured individually at the lower of cost or net realizable value. The cost of inventories is based on the standard cost method. The difference between standard cost and actual cost is allocated to inventory and cost of sales on a proportional basis except for inefficient fixed manufacturing overheads, which are charged to cost of sales. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and necessary selling expenses at the balance sheet date.

(i) Noncurrent assets held for sale

Noncurrent assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through a sale transaction rather than through continuing use are reclassified as noncurrent assets held for sale. Such noncurrent assets must be available for immediate sale in their present condition, and the sale within one year must be highly probable.

Immediately before the initial classification of the noncurrent assets (or disposal groups) as held for sale, the carrying amount of the assets (or all the assets and liabilities in the groups) is measured in accordance with the Consolidated Companies' applicable accounting policies. Thereafter, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group will first be allocated to goodwill, and then the remaining assets and liabilities will be apportioned on a pro rata basis, except that no loss is allocated to the assets not within the scope of IAS 36 *Impairments of Assets*, and such assets will continue to be measured in accordance with the Consolidated Companies' accounting policies. Impairment losses on assets initially classified as noncurrent assets held for sale and any subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

When intangible assets or property, plant and equipment are classified as held for sale, they are no longer amortized or depreciated. The equity method of accounting is discontinued from the date when equity-method investments are classified as held for sale.

(Continued)

(j) Property, plant and equipment

(1) Recognition and measurement

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

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

(2) Reclassification to investment property

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

(3) Subsequent cost

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

(4) Depreciation

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

The estimated useful lives for the current and comparative periods of property, plant and equipment are as follows: machinery and equipment: 2 to 10 years; furniture, fixtures, and other equipment: 3 to 10 years; buildings—main structure and other equipment pertaining to buildings: 4 to 40 years; buildings—electronic and air-conditioning facilities: 20 to 30 years.

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

(k) Leases

Payments made under operating leases (excluding insurance and maintenance expense) are charged to expense over the lease term on a straight-line basis.

(Continued)

(l) Intangible assets

Acquired software is carried at cost. Subsequent to the initial recognition, acquired software is carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis. The estimated useful lives of acquired software for the current and comparative periods are 4 to 10 years.

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

(m) Impairment – non-financial assets

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

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

(n) Provisions

Provisions are recognized when the Consolidated Companies have a present obligation (legal or constructive) as a result of a past event, it is probable that the Consolidated Companies will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance costs.

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

(Continued)

(o) Revenue recognition

1. Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and discounts. Sales returns are estimated based on historical experience and other relevant factors. Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Consolidated Companies retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Consolidated Companies; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is not recognized for the sale of key components to an original design manufacturer for manufacture or assembly as the significant risks and rewards of the ownership of materials are not transferred.

2. Royalties

Royalty revenue shall be recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

Revenue arising from royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement.

3. Interest income

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

4. Government grant

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

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Consolidated Companies with no future related costs is recognized in profit or loss of the period in which it becomes receivable.

(Continued)

(p) Employee benefits

1. Defined contribution plans

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

2. Defined benefit plans

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

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

The Consolidated Companies recognize all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

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

3. Short-term employee benefits

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

(q) Income taxes

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

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

(Continued)

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

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

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

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

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

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

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

(r) Business combination

Goodwill is measured as the excess of the acquisition-date fair value of the consideration transferred (including any non-controlling interest in the acquiree) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Consolidated Companies shall re-assess whether they have correctly identified all of the assets acquired and liabilities assumed and recognize any additional assets or liabilities that are identified in that review, and recognize a gain on the bargain purchase thereafter.

For each business combination, non-controlling interest in the acquiree is measured at either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets.

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

(Continued)

Acquisition-related costs are expensed as incurred except for the costs related to issuance of debt or equity instruments.

(s) Earnings per share ("EPS")

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

(t) Operating segments

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

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in the future periods affected.

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

(a) Impairment of tangible and intangible assets other than goodwill

In the process of evaluating the potential impairment, the Consolidated Companies are required to make subjective judgments in determining the independent cash flows and expected future revenue and expenses related to the specific asset groups considering the usage of assets and business characteristics. Any changes in these estimates resulting from changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(b) Recognition and measurement of deferred income tax assets

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Company's subjective judgments and estimates, including future revenue growth and profitability, and feasible tax planning strategies. Any changes in the global economic environment, industry trends, and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

(c) Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Consolidated Companies use judgments and estimates to determine the net realizable value of inventory at each reporting date. Due to rapid technological changes, the Consolidated Companies estimate the net realizable value of inventory based on obsolescence and unmarketable items at the reporting date and then write down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

## 6. Significant account disclosures

(1) Cash and cash equivalents

| | | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Cash on hand | $ | 3,674 | 4,280 |
| Demand deposits and checking accounts | | 698,943 | 957,798 |
| Time deposits | | 106,000 | 80,469 |
| | $ | 808,617 | 1,042,547 |

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

Financial assets at fair value through profit or loss—current:

| | | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Open-end mutual funds | $ | 10,660 | 10,603 |

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(3) Available-for-sale financial assets

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Domestic listed stock | $ 131,587 | 121,153 |
| Unlisted stock | 6,000 | 6,000 |
| | $ 137,587 | 127,153 |
| Current | $ 131,587 | - |
| Noncurrent | 6,000 | 127,153 |
| | $ 137,587 | 127,153 |

In February 2010, the Consolidated Companies subscribed shares of Lextar Electronics Corp. ("Lextar") through a private offering. Lextar was granted approval of its application for public offering of the privately placed securities by the FSC on September 5, 2014, and the privately placed securities were listed on the Taiwan Stock Exchange on September 18, 2014. The Group reclassified the investment in Lextar from available-for-sale financial assets – noncurrent to available-for-sale financial assets – current because the restriction on transfer of the privately placed securities had been lifted.

(4) Notes and accounts receivable, and other receivables

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Notes and accounts receivable | $ 5,079,678 | 4,680,009 |
| Less: allowance for doubtful accounts | (35,385) | (33,992) |
| | 5,044,293 | 4,646,017 |
| Accounts receivable from related parties | 28,116 | 28,475 |
| Other receivables | 219,759 | 170,626 |
| Other receivables from related parties | - | 27,172 |
| | $ 5,292,168 | 4,872,290 |

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

1. For the years ended December 31, 2014 and 2013, movements of the allowance for doubtful receivables were as follows:

| | Individually assessed impairment |
|---|---|
| Balance at January 1, 2014 | $ 33,992 |
| Impairment loss | 643 |
| Effect of exchange rate changes | 750 |
| Balance at December 31, 2014 | $ 35,385 |

| | Individually assessed impairment |
|---|---|
| Balance at January 1, 2013 | $ 32,203 |
| Impairment loss | 560 |
| Effect of exchange rate changes | 1,229 |
| Balance at December 31, 2013 | $ 33,992 |

2. Aging analysis of notes and accounts receivable, and other receivables that are overdue but not impaired is as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Past due 1~30 days | $ 947,267 | 825,310 |
| Past due 31~120 days | 19,289 | 156,690 |
| | $ 966,556 | 982,000 |

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

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

3. The Consolidated Companies entered into factoring contracts with several financial institutions to sell part of accounts receivable without recourse. As of December 31, 2014 and 2013, details of these contracts were as follows:

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Buyer | Amount sold | Factoring credit limit | Amount advanced (derecognized) | Range of interest rates | Collateral | |
| Bank SinoPac | $ - | 158,250 | - | | | - |
| Taishin International Bank | - | 569,700 | - | | | - |
| Taipei Fubon Bank | - | 158,250 | - | | | - |
| Yuanta Bank | 384,007 | 1,139,400 | 384,007 | | Promissory note | 1,139,400 |
| E. Sun Bank | 142,874 | 474,750 | 142,874 | | | - |
| Far Eastern international Bank | 489,845 | 949,500 | 489,845 | | | - |
| China Citic Bank | 515,616 | 1,455,900 | 413,983 | | | - |
| | $ 1,532,342 | 4,905,750 | 1,430,709 | 1.0075%~2.49% | | 1,139,400 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Buyer | Amount sold | Factoring credit limit | Amount advanced (derecognized) | Range of interest rates | Collateral | |
| Bank SinoPac | $ 89,450 | 1,100,000 | 89,450 | | Promissory note | 1,100,000 |
| Taishin International Bank | 4,297 | 1,013,370 | 4,297 | | | - |
| Taipei Fubon Bank | 4,310 | 327,855 | 4,310 | | | - |
| Yuanta Bank | 630,300 | 1,072,980 | 630,300 | | Promissory note | 1,072,980 |
| E. Sun Bank | 171 | 447,075 | 171 | | | - |
| Far Eastern international Bank | 521,290 | 596,100 | 521,290 | | | - |
| Chinatrust Commercial Bank | 594,430 | 1,788,300 | 445,313 | | | - |
| First Sino Bank | 98,730 | 1,341,225 | 88,857 | | | - |
| | $ 1,942,978 | 7,686,905 | 1,783,988 | 0.855%~3.324% | | 2,172,980 |

As of December 31, 2014 and 2013, the factored accounts receivable, net of the advance amount, were $101,633 and $158,990, respectively, and were classified as other receivables in the accompanying consolidated balance sheets.

(5) Inventories

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Raw materials | $ 1,330,774 | 1,607,562 |
| Work in process | 300,554 | 411,841 |
| Finished goods | 1,613,016 | 1,318,136 |
| | $ 3,244,344 | 3,337,539 |

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2014 and 2013, the Consolidated Companies recognized the write-downs of inventories to net realizable value as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Write-downs of inventories to net realizable value | $ | 20,050 | 10,704 |

(6) Noncurrent assets held for sale

On September 19, 2014, the Consolidated subsidiary DPS was informed by the government of Mudu Town, Wuzhong District, Suzhou, PRC, that the land use rights and buildings of DPS will be expropriated. The selling procedures were expected to be completed in 2015. The related assets are reclassified to noncurrent assets held for sale, and details are as follows:

| | | December 31, 2014 |
|---|---|---|
| Property, plant and equipment | $ | 471,776 |
| Long-term prepaid rent | | 29,619 |
| | $ | 501,395 |

(7) Property, plant and equipment

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

| | | Land | Building | Machinery and equipment | Furniture and fixtures | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| Balance at January 1, 2014 | $ | 606,960 | 6,491,055 | 6,125,754 | 109,132 | 399,009 | 128,984 | 13,860,894 |
| Additions | | - | 65,973 | 307,569 | 7,045 | 16,457 | (3,001) | 394,043 |
| Disposals | | - | (142,376) | (567,481) | (23,510) | (56,832) | - | (790,199) |
| Reclassification | | - | (559,838) | (1,017,662) | (157) | (7,850) | (33,525) | (1,619,032) |
| Effect of exchange rate changes | | - | 214,873 | 224,541 | 2,163 | 10,084 | 2,267 | 453,928 |
| Balance at December 31, 2014 | $ | 606,960 | 6,069,687 | 5,072,721 | 94,673 | 360,868 | 94,725 | 12,299,634 |
| Balance at January 1, 2013 | $ | 443,970 | 6,215,789 | 6,025,099 | 60,883 | 420,884 | 163,382 | 13,330,007 |
| Additions | | 162,990 | 50,381 | 356,325 | 41,269 | 17,881 | (25,693) | 603,153 |
| Disposals | | - | (674) | (485,040) | (9,860) | (43,094) | - | (538,668) |
| Reclassification | | - | 5,158 | 10,947 | 13,709 | (14,417) | (15,397) | - |
| Effect of exchange rate changes | | - | 220,401 | 218,423 | 3,131 | 17,755 | 6,692 | 466,402 |
| Balance at December 31, 2013 | $ | 606,960 | 6,491,055 | 6,125,754 | 109,132 | 399,009 | 128,984 | 13,860,894 |
| Depreciation and impairment loss: | | | | | | | | |
| Balance at January 1, 2014 | $ | - | 1,651,559 | 4,672,871 | 94,434 | 249,982 | - | 6,668,846 |
| Depreciation | | - | 253,619 | 614,636 | 4,616 | 45,141 | - | 918,012 |
| Disposals | | - | (142,376) | (502,402) | (23,510) | (53,849) | - | (722,137) |
| Reclassification | | - | (181,648) | (958,723) | (160) | (6,725) | - | (1,147,256) |
| Effect of exchange rate changes | | - | 47,047 | 144,695 | 1,847 | 7,210 | - | 200,799 |
| Balance at December 31, 2014 | $ | - | 1,628,201 | 3,971,077 | 77,227 | 241,759 | - | 5,918,264 |

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

| | | Land | Building | Machinery and equipment | Furniture and fixtures | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $ | - | 1,356,328 | 4,209,545 | 55,294 | 286,505 | - | 5,907,672 |
| Depreciation | | - | 246,477 | 741,414 | 36,482 | 185 | - | 1,024,558 |
| Reversal on impairment loss | | - | - | (279) | - | - | - | (279) |
| Disposals | | - | (393) | (433,425) | (9,859) | (38,953) | - | (482,630) |
| Reclassification | | - | 209 | 42 | 9,709 | (9,960) | - | - |
| Effect of exchange rate changes | | - | 48,938 | 155,574 | 2,808 | 12,205 | - | 219,525 |
| Balance at December 31, 2013 | $ | - | 1,651,559 | 4,672,871 | 94,434 | 249,982 | - | 6,668,846 |
| Carrying amounts | | | | | | | | |
| Balance at December 31, 2014 | $ | 606,960 | 4,441,486 | 1,101,644 | 17,446 | 119,109 | 94,725 | 6,381,370 |
| Balance at December 31, 2013 | $ | 606,960 | 4,839,496 | 1,452,883 | 14,698 | 149,027 | 128,984 | 7,192,048 |

Please refer to note 8 for details of the property, plant and equipment pledged as collateral as of December 31, 2014 and 2013.

The additions to land for the year ended December 31, 2013, were the purchase of land previously leased from the Industrial Development Bureau, Ministry of Economic Affairs, with its approval. For the related information, please refer to note 6(12).

(8) Intangible assets

The movements of costs and amortization of intangible assets were as follows:

| | | Software | Total |
|---|---|---|---|
| **Costs** | | | |
| Balance at January 1, 2014 | $ | 117,397 | 117,397 |
| Effect of exchange rate changes | | 290 | 290 |
| Balance at December 31, 2014 | $ | 117,687 | 117,687 |
| Balance at January 1, 2013 | $ | 115,579 | 115,579 |
| Reclassification | | 988 | 988 |
| Effect of exchange rate changes | | 830 | 830 |
| Balance at December 31, 2013 | $ | 117,397 | 117,397 |
| **Accumulated amortization and impairment loss** | | | |
| Balance at January 1, 2014 | $ | 41,185 | 41,185 |
| Amortization | | 15,275 | 15,275 |
| Effect of exchange rate changes | | 99 | 99 |
| Balance at December 31, 2014 | $ | 56,559 | 56,559 |
| Balance at January 1, 2013 | $ | 25,426 | 25,426 |
| Amortization | | 15,258 | 15,258 |
| Effect of exchange rate changes | | 501 | 501 |
| Balance at December 31, 2013 | $ | 41,185 | 41,185 |
| **Carrying amounts** | | | |
| Balance at December 31, 2014 | $ | 61,128 | 61,128 |
| Balance at December 31, 2013 | $ | 76,212 | 76,212 |

(Continued)

For the years ended December 31, 2014 and 2013, amortization of intangible assets reported under the consolidated statements of comprehensive income was as follows:

| | 2014 | 2013 |
|---|---|---|
| Operating expenses | $ 15,275 | 15,258 |

(9) Short-term borrowings

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Unsecured bank borrowings | $ 997,558 | 1,825,613 |
| Unused credit facilities | $ 8,370,940 | 8,702,225 |
| Interest rate | 0.6556%~3.35% | 0.25%~2.53% |

(10) Long-term borrowings

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Secured bank borrowings | $ 1,109,550 | 1,063,955 |
| Unused credit facilities | $ 1,890,450 | 1,936,045 |
| Interest rate | 1.18%~1.71% | 1.02%~1.85% |

Refer to note 8 for a description of pledged property related to the secured long-term borrowings.

(11) Provision—noncurrent

| | Warranties |
|---|---|
| Balance at January 1, 2014 | $ 93,997 |
| Reversal of provision | 5,531 |
| Amount utilized | (470) |
| Balance at December 31, 2014 | $ 99,058 |
| Balance at January 1, 2013 | $ 98,602 |
| Reversal of provision | (3,777) |
| Amount utilized | (828) |
| Balance at December 31, 2013 | $ 93,997 |

(Continued)

As of December 31, 2014 and 2013, the provision for warranties mainly related to the selling of human interface devices, power devices, and integrated components and materials. The provision for warranties is estimated based on historical warranty data associated with similar products.

(12) Operating leases

The future operating leases are as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Not later than 1 year | $ 51,605 | 46,426 |
| Later than 1 year but not later than 5 years | 86,457 | 77,840 |
| | $ 138,062 | 124,266 |

The Company had rented the land from the Industrial Development Bureau, Ministry of Economic Affairs ("MOEAIDB") in the Tainan Technological Industrial Park. According to the leasing contract, the Company could submit an application to purchase the land to the Tainan Technological Industrial Service Center, and all of the rent paid during the leasing period could be used to reduce the purchase price of the land.

In accordance with the above leasing contract, the Company submitted an application to the Tainan Technological Industrial Service Center in 2013, and got approval and received the land transfer certification from the MOEAIDB in December 2013. The purchase price and the related direct cost of land was $162,990. Total rent paid during the leasing period was $78,686, and was recognized as "non-operating income and expenses—other gains and losses."

In addition to the above leasing of land, the Consolidated Companies have also leased offices, warehouses, and employee dormitories under operating leases. The leases typically run for a period of 1 to 10 years. The consolidated subsidiaries in China have land use rights for a leasing period of 50 years, recognized as "long-term prepaid rent".

The rental expenses of operating leases for the years ended as of December 31, 2014 and 2013, were $129,437 and $130,577, respectively.

(13) Employee benefits

1. Defined benefit plans

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

Present value of defined benefit obligations in excess of fair value of plan assets:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Present value of unfunded benefit obligations | $ 85,515 | 86,445 |
| Present value of funded benefit obligations | 97,839 | 89,253 |
| Total present value of benefit obigations | 183,354 | 175,698 |
| Fair value of plan assets | (97,839) | (89,253) |
| Recognized liabilities for defined benefit obligations | $ 85,515 | 86,445 |

Fair value of plan assets in excess of present value of defined benefit obligations:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Present value of unfunded benefit obligations | $ - | - |
| Present value of funded benefit obligations | 3,792 | 3,633 |
| Total present value of benefit obligations | 3,792 | 3,633 |
| Fair value of plan assets | (13,951) | (12,251) |
| Recognized assets for defined benefit obligations | $ (10,159) | (8,618) |

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

(a) Composition of plan assets

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

As of December 31, 2014, the Consolidated Companies' labor pension fund account balance at Bank of Taiwan amounted to $111,790. Refer to the website of the Bureau of Labor Funds for information on the labor pension assets including the asset portfolio and yield of the Fund.

(Continued)

(b) Movements in present value of defined benefit obligations

In 2014 and 2013, the movements in present value of the defined benefit obligations of the Consolidated Companies were as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Defined benefit obligation at January 1 | $ | 179,331 | 182,990 |
| Benefits paid by the plan | | - | (2,870) |
| Current service costs and interest costs | | 4,436 | 4,241 |
| Actuarial losses (gains) | | 3,379 | (5,030) |
| Defined benefit obligation at December 31 | $ | 187,146 | 179,331 |

(c) Movements in fair value of plan assets

In 2014 and 2013, the movements in fair value of the plan assets of the Consolidated Companies were as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Fair value of plan assets at January 1 | $ | 101,504 | 95,330 |
| Contributions made | | 7,892 | 7,820 |
| Benefits paid by the plan | | - | (2,870) |
| Expected return on plan assets | | 2,109 | 1,738 |
| Actuarial losses | | 285 | (514) |
| Fair value of plan assets at December 31 | $ | 111,790 | 101,504 |

(d) Expenses recognized in profit or loss

In 2014 and 2013, the expenses recognized in profit or loss were as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Current service cost | $ | 850 | 1,038 |
| Interest costs | | 3,586 | 3,203 |
| Expected return on plan assets | | (2,109) | (1,738) |
| | $ | 2,327 | 2,503 |

| | 2014 | 2013 |
|---|---|---|
| Cost of sales | $ 418 | 564 |
| Selling expenses | 244 | 150 |
| Administrative expenses | 736 | 764 |
| Research and development expenses | 929 | 1,025 |
| | $ 2,327 | 2,503 |
| Actual return on plan assets | $ 2,394 | 1,224 |

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

In 2014 and 2013, the actuarial gains and losses recognized in other comprehensive were as follows:

| | 2014 | 2013 |
|---|---|---|
| Cumulative amount at January 1 | $ 21,438 | 25,954 |
| Recognized during the period | 3,094 | (4,516) |
| Cumulative amount at December 31 | $ 24,532 | 21,438 |

(f) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Discount rate | 2.00% | 1.75% |
| Expected return on plan assets | 2.00% | 1.75% |
| Future salary increases | 2.00% | 2.00% |

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

(g) Experience adjustments based on historical information

Present value of defined benefit obligations in excess of fair value of plan assets:

| | December 31, 2014 | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Present value of defined benefit obligations | $ 183,354 | 175,698 | 179,590 | 153,151 |
| Fair value of plan assets | (97,839) | (89,253) | (84,561) | (79,526) |
| Liabilities for defined benefit obligations | $ 85,515 | 86,445 | 95,029 | 73,625 |
| Experience adjustments arising from present value of defined benefit obligations | $ 3,293 | 2,197 | 11,128 | - |
| Experience adjustments arising from fair value of plan assets | $ 256 | (455) | (874) | - |

(Continued)

Fair value of plan assets in excess of present value of defined benefit obligations:

| | December 31, 2014 | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Present value of defined benefit obligations | $ 3,792 | 3,633 | 3,400 | 2,992 |
| Fair value of plan assets | (13,951) | (12,251) | (12,769) | (9,301) |
| Assets for defined benefit obligations | $ (10,159) | (8,618) | (9,369) | (6,309) |
| Experience adjustments arising from present value of defined benefit obligations | $ 86 | 370 | 53 | - |
| Experience adjustments arising from fair value of plan assets | $ 29 | (59) | (102) | - |

The Consolidated Companies were expecting to contribute $7,956 to the defined benefit plan in the year following December 31, 2014.

(h) When calculating the present value of the defined benefit obligations, the Consolidated Companies use judgments and estimations to determine the actuarial assumptions for each measurement date, including discount rates and future salary changes. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2014, the Consolidated Companies' net pension liabilities were $75,356. If the discount rate had increased or decreased by 0.25%, the Consolidated Companies' net pension liabilities would have decreased by $7,048 or increased by $7,414, respectively. If the salary adjustment rate had increased or decreased by 0.25%, the Consolidated Companies' net pension liabilities would have increased by $7,300 or decreased by $6,974, respectively.

2. Defined contribution plans

The Company and its domestic subsidiaries contribute monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Foreign subsidiaries make contributions in compliance with the respective local regulations.

For the years ended December 31, 2014 and 2013, the Consolidated Companies recognized pension expenses of $288,217 and $300,393, respectively, in relation to the defined contribution plans.

(Continued)

(14) Income taxes

1. The components of income tax expense were as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Current income tax expense | | | |
| Current period | $ | 31,937 | 19,223 |
| Adjustment for prior years | | 1,223 | 174 |
| | | 33,160 | 19,397 |
| Deferred income tax expense (benefit) | | | |
| Origination and reversal of temporary differences | | (13,336) | 9,379 |
| Changes in unrecognized tax losses | | 14,293 | (28,253) |
| | | 957 | (18,874) |
| Income tax expense | $ | 34,117 | 523 |

In 2014 and 2013, there was no income tax recognized directly in equity.

In 2014 and 2013, the components of income tax recognized in other comprehensive income were as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Actuarial gains and losses under defined benefit plan | $ | (516) | 807 |

Reconciliation of income tax expense and income before income tax for 2014 and 2013 was as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Income before income tax | $ | 112,591 | 4,367 |
| Income tax using the Company's statutory tax rate | $ | 19,141 | 742 |
| Effect of tax rates in foreign jurisdictions | | (4,199) | (19,750) |
| Investment tax credits | | (6,182) | (20,836) |
| Changes in operating loss carryforwards | | (10,256) | 61,046 |
| Changes in unrecognized temporary differences | | (6,771) | (251) |
| 10% surtax on distributed earnings | | 14,150. | - |
| Prior years' adjustments | | (984) | 174 |
| Others | | 29,218 | (20,602) |
| Income tax expense | $ | 34,117 | 523 |

(Continued)

2. Deferred income tax assets and liabilities

(a) Unrecognized deferred income tax liabilities

As the Company was able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2014 and 2013, and management believed that it was probable that the temporary differences would not reverse in the foreseeable future, such temporary differences were not recognized as deferred income tax liabilities. The related amounts were as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Aggregate taxable temporary differences associated with investments in subsidiaries | $ 223,234 | 167,482 |

(b) Unrecognized deferred income tax assets

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Deductable temporary differences | $ 204,801 | 211,572 |
| Operating loss carryforwards | 266,478 | 276,733 |
| | $ 471,279 | 488,305 |

As the Consolidated Companies determined that it is not probable that future taxable profits will be available against which the temporary differences and operating loss carryforwards can be utilized, these items were not recognized as deferred income tax assets.

As of December 31, 2014, the unrecognized tax loss carryforwards and the respective expiry years were as follows:

| Tax loss carryforwards | Income tax effect of tax loss carryforwards | Expiration year |
|---|---|---|
| $ 554,242 | 131,417 | 2015 |
| 290,495 | 67,159 | 2016 |
| 26,476 | 6,085 | 2017 |
| 91,025 | 22,286 | 2018 |
| 149,892 | 36,255 | 2019 |
| 7,313 | 1,243 | 2020 |
| 7,794 | 1,325 | 2021 |
| 4,166 | 708 | 2022 |
| $ 1,131,403 | 266,478 | |

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

3. Recognized deferred income tax assets and liabilities

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

Deferred income tax assets:

| | Depreciation adjustments for tax purposes | Defined benefit plans | Operating loss carryforwards | Deferred inter-company profits | Warranty provisions | Sales allowance | Others | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1 ,2014 | $ 25,475 | 14,695 | 28,253 | 20,919 | 15,980 | 11,419 | 29,496 | 146,237 |
| Recognized in profit or loss | - | (674) | (14,293) | 6,941 | 860 | 8,292 | (2,083) | (957) |
| Recognized in other comprehensive income | - | 516 | - | - | - | - | - | 516 |
| Balance at December 31, 2014 | $ 25,475 | 14,537 | 13,960 | 27,860 | 16,840 | 19,711 | 27,413 | 145,796 |
| Balance at January 1 ,2013 | $ 25,475 | 16,154 | - | 17,312 | 16,762 | 29,732 | 25,273 | 130,708 |
| Recognized in profit or loss | - | (652) | 28,253 | 3,607 | (782) | (18,313) | 4,223 | 16,336 |
| Recognized in other comprehensive income | - | (807) | - | - | - | - | - | (807) |
| Balance at December 31, 2013 | $ 25,475 | 14,695 | 28,253 | 20,919 | 15,980 | 11,419 | 29,496 | 146,237 |

Deferred income tax liabilities:

| | | Unrealized foreign currency exchange gain |
|---|---|---|
| Balance at January 1 ,2013 | $ | 2,538 |
| Recognized in profit or loss | | (2,538) |
| Balance at December 31, 2013 | $ | - |

As of December 31, 2014, the recognized tax loss carryforwards and the respective expiry years were follows:

| Tax loss carryforwards | Income tax effect of tax loss carryforwards | Expiry years |
|---|---|---|
| $ 82,119 | 13,960 | 2023 |

4. The R.O.C. income tax authorities have examined the income tax returns of the Company for all fiscal years through December 31, 2012.

(Continued)

5. Information about the integrated income tax system:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Unappropriated retained earnings commencing from January 1, 1998 | $ 302,830 | 92,030 |
| Balance of imputation credit account | $ 22,451 | 8,364 |

| | 2014 (estimated) | 2013 (actual) |
|---|---|---|
| Tax creditable ratio for earnings distribution to R.O.C. resident stockholders | 7.41% | 9.60% |

Effective January 1, 2015, the creditable ratio for distribution of earnings to R.O.C. residents will be half of the original creditable ratio mentioned above in accordance with the amended Income Tax Act.

(15) Capital and other components of equity

1. Common stock

As of December 31, 2014 and 2013, the Company's authorized common stock consisted of 400,000 thousand shares at $10 par value per share, of which 318,902 thousand shares were issued and outstanding.

2. Capital surplus

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Paid-in capital in excess of par value | $ 4,471,758 | 4,471,758 |

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

3. Legal reserve

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

4. Special reserve

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

5. Earnings distribution

The Company's articles of incorporation stipulate that the balance of annual income after deducting tax and accumulated deficit, if any, must be appropriated as a legal reserve equal to 10% of such balance. In addition, a special reserve should be set aside or reversed in accordance with applicable regulations. The remaining balance, if any, can be distributed as follows:

a. 5% - 20% as employee bonuses;

b. 1% or less as remuneration for directors; and

c. The remainder, fully or partially, as dividends for stockholders.

Employees entitled to a stock bonus may include subsidiaries' employees that meet certain criteria set by the Board of Directors.

Profits of the Company may be distributed in the form of cash dividends and/or stock dividends. As the Company is a technology- and capital-intensive enterprise in its growth phase, the Company has adopted a remaining earnings appropriation method as its dividend policy in order to meet long-term capital needs and cash requirements of stockholders, and thereby maintain continuous development and steady growth. The ratio for cash dividends shall not be less than 10% of the total distribution, but the ratio can be adjusted in accordance with the actual profit or the operating condition.

The Company accrued employee bonuses of $9,492 and $27,285 (over-accrual of $73, compared to Board meeting suggestions) and directors' remuneration of $703 and $2,016 for the years ended December 31, 2014 and 2013, respectively, based on the total amount of bonus expected to be distributed to employees and expected remuneration for directors. If the actual amounts subsequently resolved by the stockholders differ from the estimated amounts, the differences are treated as a change in accounting estimate and are charged to profit and loss in the year of the stockholders' resolution. If the bonus for employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of stock bonus by the closing price of the shares (after considering the effect of dividends) on the day preceding the shareholders' meeting.

(Continued)

## DARFON ELECTRONICS CORP. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The appropriation of 2013 and 2012 earnings was approved by the shareholders at meetings on June 19, 2014, and June 20, 2013, respectively. The resolved appropriations of employee bonuses and remuneration for directors and the dividend per share were as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Dividend per share (dollars) | Amount | Dividend per share (dollars) | Amount |
| Cash dividend | $ 0.20 | $ 63,780 | 0.60 | 191,341 |
| Employee bonuses in cash | | $ 27,212 | | 8,276 |
| Directors' remuneration | | 2,016 | | 414 |
| | | $ 29,228 | | 8,690 |

Compared to the above appropriations of employee bonuses and directors' remuneration for 2013, an amount of $73 was overestimated in the 2013 financial statements and charged to profit and loss in 2014. The appropriation of employee bonuses and directors' remuneration for 2012 was consistent with the amount recognized in the 2012 financial statements.

The Board meeting on March 16, 2015, proposed the dividend per share, the employee bonuses, and the directors' remuneration for 2014 as follows:

| | 2014 | |
|---|---|---|
| | Dividend per share (dollars) | Amount |
| Cash dividend | $ 0.30 | $ 95,671 |
| Employee bonuses in cash | | $ 9,492 |
| Directors' remuneration | | 703 |
| | | $ 10,195 |

The above appropriations are still subject to approval by the stockholders. Related information can be obtained from the public information website. If the actual amounts of employee bonuses and remuneration to directors subsequently resolved by the stockholders differ from the estimated amounts, the differences are treated as a change in accounting estimate and charged to profit and loss in 2015.

(Continued)

6. Other equity items (net after tax)

| | Foreign currency translation differences | Unrealized gains (loss) on available-for-sale financial assets |
|---|---|---|
| Balance at January 1, 2014 | $ 62,694 | 23,696 |
| Foreign exchange differences arising from translation of foreign operations | 295,977 | - |
| Change in fair value of available-for-sale financial assets | - | 10,434 |
| Balance at December 31, 2014 | $ 358,671 | 34,130 |
| Balance at January 1, 2013 | $ (158,513) | (18,083) |
| Foreign exchange differences arising from translation of foreign operations | 221,207 | - |
| Change in fair value of available-for-sale financial assets | - | 41,779 |
| Balance at December 31, 2013 | $ 62,694 | 23,696 |

(16) Earnings per share ("EPS")

1. Basic earnings per share

| | 2014 | 2013 |
|---|---|---|
| Net income attributable to shareholders of the Company | $ 78,119 | 2,527 |
| Weighted-average number of ordinary shares outstanding (in thousands) | 318,902 | 318,902 |
| Basic earnings per share (dollars) | $ 0.24 | 0.01 |

2 Diluted earnings per share

| | 2014 | 2013 |
|---|---|---|
| Net income attributable to shareholders of the Company | $ 78,119 | 2,527 |
| Weighted-average number of ordinary shares outstanding | 318,902 | 318,902 |
| Effect of potentially dilutive ordinary shares: | | |
| Employee bonuses | 1,093 | 1,388 |
| Weighted-average number of ordinary shares outstanding (after the effect of potentially dilutive ordinary shares) | 319,995 | 320,290 |
| Diluted earnings per share (dollars) | $ 0.24 | 0.01 |

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(17) Revenue

| | | 2014 | 2013 |
|---|---|---|---|
| Revenue from sale of goods | $ | 21,532,521 | 23,501,401 |
| Revenue from royalty | | 45,348 | - |
| | $ | 21,577,869 | 23,501,401 |

(18) Non-operating income and expenses

1. Other income

| | | 2014 | 2013 |
|---|---|---|---|
| Interest income | $ | 20,346 | 12,843 |
| Rental income | | 534 | 577 |
| Customers' compensation | | 21,796 | 16,691 |
| Others | | 43,140 | 33,155 |
| | $ | 85,816 | 63,266 |

2. Other gains and losses

| | | 2014 | 2013 |
|---|---|---|---|
| Foreign exchange gains, net | $ | 8,319 | 25,135 |
| Gains on disposal of property, plant and equipment, net | | 89,114 | 36,941 |
| Gains on financial assets and liabilities at fair value through profit or loss | | 57 | 202 |
| (Reserval of) impairment loss on non-financial assets (note 6(7)) | | - | 279 |
| Government grants (note 6(12)) | | - | 78,686 |
| Others | | (4,642) | (19,338) |
| | $ | 92,848 | 121,905 |

3. Finance costs

| | | 2014 | 2013 |
|---|---|---|---|
| Interest expense on bank loans | $ | 84,137 | 80,361 |

(19) Financial instruments

1. Categories of financial instruments

(a) Financial assets

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Held for trading | $ 10,660 | 10,603 |
| Available-for-sale financial assets | 137,587 | 127,153 |
| Loans and receivables: | | |
| Cash and cash equivalents | 808,617 | 1,042,547 |
| Notes and accounts receivable, and other receivables (including related parties) | 5,292,168 | 4,872,290 |
| Refundable deposits | 24,661 | 32,652 |
| Subtotal | 6,125,446 | 5,947,489 |
| Total | $ 6,273,693 | 6,085,245 |

(b) Financial liabilities

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Financial liabilities measured at amortized cost: | | |
| Short-term borrowings | $ 997,558 | 1,825,613 |
| Notes and accounts payable, and other payables (including related parties) | 6,518,488 | 5,884,421 |
| Long-term debt | 1,109,550 | 1,063,955 |
| Total | $ 8,625,596 | 8,773,989 |

2. Credit risk

The maximum exposure to credit risk is equal to the carrying amount of the Consolidated Companies' financial assets. As of December 31, 2014 and 2013, the Consolidated Companies' maximum exposure to credit risk amounted to $6,273,693 and $6,085,245, respectively.

The majority of the Consolidated Companies' customers are well-known international companies with high financial transparency. Management believes that there is no significant concentration of credit risk due to the Consolidated Companies' large number of customers. Additionally, management of the Consolidated Companies continuously evaluates the credit quality of their customers to lower the credit risk.

3. Liquidity risk

The table below summarizes the maturity profile of the Consolidated Companies' financial liabilities based on contractual undiscounted payments, including principal and interest.

| | Contractual cash flow | Within 1 year | 1-2 years | 2-5 years |
|---|---|---|---|---|
| **December 31, 2014** | | | | |
| Non-derivative financial liabilities: | | | | |
| Short-term borrowings (floating rate) | $ (999,319) | (999,319) | - | - |
| Long-term debt (floating rate) | (1,167,546) | (13,674) | (11,994) | (1,141,878) |
| Notes and accounts payable (including related parties) | (5,187,097) | (5,187,097) | - | - |
| Other payables | (1,313,776) | (1,313,776) | - | - |
| Other payables to related parties | (17,615) | (17,615) | - | - |
| | $ (8,685,353) | (7,531,481) | (11,994) | (1,141,878) |
| **December 31, 2013** | | | | |
| Non-derivative financial liabilities: | | | | |
| Short-term borrowings (floating rate) | $ (1,836,487) | (1,836,487) | - | - |
| Long-term debt (floating rate) | (1,083,199) | (15,460) | (966,843) | (100,896) |
| Notes and accounts payable (including related parties) | (4,951,486) | (4,951,486) | - | - |
| Other payables | (915,540) | (915,540) | - | - |
| Other payables to related parties | (17,395) | (17,395) | - | - |
| | $ (8,804,107) | (7,736,368) | (966,843) | (100,896) |

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

4. Currency risk

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

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| **Financial assets** | **Foreign currency (in thousands)** | **Exchange rate** | **New Taiwan Dollars (in thousands)** | **Change in magnitude** | **Pre-tax effect on profit or loss (in thousands)** |
| Monetary assets | | | | | |
| USD | 160,995 | 31.6500 | 5,095,492 | 1% | 50,955 |
| RMB | 112,961 | 5.1042 | 576,576 | 1% | 5,766 |
| **Financial liabilities** | | | | | |
| Monetary liabilities | | | | | |
| USD | 172,028 | 31.6500 | 5,444,686 | 1% | 54,447 |
| RMB | 269,951 | 5.1042 | 1,377,884 | 1% | 13,779 |

(Continued)

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| **Financial assets** | **Foreign currency (in thousands)** | **Exchange rate** | **New Taiwan Dollars (in thousands)** | **Change in magnitude** | **Pre-tax effect on profit or loss (in thousands)** |
| Monetary assets | | | | | |
| USD | 174,717 | 29.8050 | 5,207,440 | 1% | 52,074 |
| RMB | 96,912 | 4.9234 | 477,137 | 1% | 4,771 |
| **Financial liabilities** | | | | | |
| Monetary liabilities | | | | | |
| USD | 178,396 | 29.8050 | 5,317,093 | 1% | 53,171 |
| RMB | 271,784 | 4.9234 | 1,338,101 | 1% | 13,381 |

5. Interest rate risk

The following sensitivity analysis is based on the risk exposure to floating-interest-rate liabilities on the reporting date. The sensitivity analysis assumes the liabilities recorded at the reporting date had been outstanding for the entire period.

If the interest rate had been 100 basis points (1%) higher/lower, with all other variables held constant, pre-tax income for the years ended December 31, 2014 and 2013, would have been \$21,071 and \$28,896 lower/higher, respectively, which mainly resulted from the loans and borrowings with floating interest rates.

6. Fair value

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

The Consolidated Companies' management considers that the carrying amounts of their financial assets and financial liabilities measured at amortized cost approximate their fair values.

(b) Financial instruments that are measured at fair value

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

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

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

–Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Continued)

| | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| December 31, 2014 | | | | | |
| Financial assets at fair value through profit or loss— | | | | | |
| Open-end mutual funds | $ | 10,660 | - | - | 10,660 |
| Available-for-sale financial assets | | 131,587 | - | 6,000 | 137,587 |
| | $ | 142,247 | - | 6,000 | 148,247 |
| December 31, 2013 | | | | | |
| Financial assets at fair value through profit or loss— | | | | | |
| Open-end mutual funds | $ | 10,603 | - | - | 10,603 |
| Available-for-sale financial assets | | 18,105 | 103,048 | 6,000 | 127,153 |
| | $ | 28,708 | 103,048 | 6,000 | 137,756 |

In 2014, the available-for-sale financial assets (private placement of Lextar) were transferred from Level 2 to Level 1 because the restriction on transfer of the privately placed securities had been lifted and the securities were listed on the Taiwan Stock Exchange. There were no transfers between fair value levels for the year ended December 31, 2013.

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

The Consolidated Companies use the following methods in determining the fair value of their financial assets and liabilities:

(i) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market prices (e.g., publicly traded stocks and open-end mutual funds).

(ii) The fair value of listed equity securities—private placement is estimated based on the publicly quoted market prices of the same securities without resale restrictions but less liquidity discounts.

(iii) The fair value of privately held stock is estimated by using the market approach and is determined by reference to recent financing activities, valuations of similar companies, net assets, and operating status.

(20) Financial risk management

The Consolidated Companies are exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Consolidated Companies have, disclosed the information on exposure to the aforementioned risks and the Consolidated Companies' policies and procedures to measure and manage those risks below.

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

(Continued)

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

1. Credit risk

   Credit risk is the risk of financial loss to the Consolidated Companies if a customer or counterparty to financial instruments fails to meet its contractual obligations, which arises principally from the Consolidated Companies' cash and cash equivalents, financial assets at fair value through profit or loss, and receivables from customers. The Consolidated Companies maintain cash and cash equivalents and enter into fund beneficiary certificate transactions with reputable financial institutions. Therefore, the exposure related to the potential default by those counter-parties is not considered significant.

   The Consolidated Companies have established a credit policy under which each customer is analyzed individually for creditworthiness for purposes of setting the credit limit. Additionally, the Consolidated Companies continuously evaluate the credit quality of customers and utilize insurance to minimize the credit risk.

2. Liquidity risk

   Liquidity risk is the risk that the Consolidated Companies will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Consolidated Companies manage liquidity risk by monitoring regularly the current and mid- to long-term cash demand, and by maintaining adequate cash and banking facilities. As of December 31, 2014 and 2013, the Consolidated Companies had unused credit facilities of $10,261,390 and $10,638,270, respectively.

3. Market risk

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

   The Consolidated Companies utilize derivative financial instruments to manage foreign currency risks and the volatility of profit or loss. All such transactions are carried out within the guidelines set by the Board of Directors.

(Continued)

(a) Currency risk

The Consolidated Companies are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Consolidated Companies' entities. In addition to using foreign currency borrowing transactions, the Consolidated Companies utilize foreign currency forward contracts and foreign exchange swaps to hedge their foreign currency exposure with respect to their sales and purchases.

(b) Interest rate risk

The Consolidated Companies' short-term borrowings and long-term debt carried floating interest rates. To manage the interest rate risk, the Consolidated Companies periodically assess the interest rates of bank loans and maintain good relationships with financial institutions to obtain lower financing costs. The Consolidated Companies also manage working capital to reduce the dependence on bank loans as well as the risk arising from fluctuation of interest rates.

(c) Other market price risk

The Consolidated Companies are exposed to the risk of price fluctuation in the securities market due to investment in equity financial instruments.

Assuming a hypothetical increase or decrease of 1% in equity price of the equity investment at each reporting date, the other comprehensive income for the years ended December 31, 2014 and 2013, would have increased or decreased by $1,376 and $1,272, respectively.

(21) Capital management

In consideration of industry dynamics and future development, as well as external environment factors, the Company manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements of continuing operations.

For the years ended December 31, 2014 and 2013, there were no changes in the Consolidated Companies' approach to capital management.

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**7. Transactions with related parties**

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Consolidated Companies.

(b) Significant transactions with related parties

1. Sales

| | | 2014 | 2013 |
|---|---|---|---|
| Investor with significant influence | $ | 55 | 122 |
| Other related parties | | 110,118 | 137,657 |
| | $ | 110,173 | 137,779 |

The sales prices and collection terms for related parties were not significant different from those of sales to third-party customers. The collection terms for related parties were OA90 to EOM120 days.

2. Purchases and processing charges

| | | 2014 | 2013 |
|---|---|---|---|
| Other related parties | $ | 91,486 | 87,719 |

There were no significant differences between the purchase prices for related parties and those for third-party suppliers. The payment terms of OA70 days showed no significant difference between related parties and third-party suppliers.

3. In 2014, the Consolidated Companies sold machinery and equipment to other related parites at a price of $71,143, resulting in a gain of $67,702. In 2013, the Consolidated Companies sold machinery and equipment to an investor with significant influence at a price of $27,172, resulting in a gain of $7,845. As of December 31, 2014, the related receivables were all collected. As of December 31, 2013, the related receivables were classified as "other receivables from related parties".

4. Receivables

| Account | Related-party categories | | December 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Accounts receivable | Investor with significant influence | $ | 5 | - |
| Accounts receivable | Other related parties | | 28,111 | 28,475 |
| Other receivables | Investor with significant influence | | - | 27,172 |
| | | $ | 28,116 | 55,647 |

(Continued)

5. Payables

| Account | Related-party categories | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Accounts payable | Other related parties | $ 41,588 | 32,322 |
| Other payables | Investor with significant influence | 22 | 27 |
| Other payables | Other related parties | 17,593 | 17,368 |
| | | $ 59,203 | 49,717 |

6. Leases

The Consolidated Companies leased an employee dormitory from a related party. The rental amount referred to market price in the adjacent area. For the years ended December 31, 2014 and 2013, the related rental expenses were $12,784 and $12,460, respectively.

(c) Compensation of directors and key management personnel

| | 2014 | 2013 |
|---|---|---|
| Short-term employee benefits | $ 39,294 | 39,207 |
| Post-employment benefits | 1,009 | 995 |
| | $ 40,303 | 40,202 |

**8. Pledged assets**

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

| Pledged assets | Pledged to secure | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Land and building | Credit lines of bank loans | $ 1,716,838 | 1,778,299 |
| Certificate of time deposit | Guarantees for customs duties | 13,543 | 10,620 |
| | | $ 1,730,381 | 1,788,919 |

The above-mentioned certificates of time deposit were classified as "other receivables".

## 9. Significant commitments and contingencies

In addition to those in note 6(13), the Consolidated Companies had the following significant commitments:

For the purpose of guaranteeing customs duties, the Consolidated Companies asked financial institutions to provide guarantee letters as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Guarantees for customs duties | $ 148,845 | 311,100 |

## 10. Significant loss from casualty: None.

## 11. Significant subsequent events

The Consolidated subsidiary DPS sold the land use rights and building located on No. 398, Zhu Yuan Road, Mudu Town, Wuzhong District, Suzhou, PRC, at a price of approximately RMB360 million in February 2015. On December 31, 2014, the related assets were reclassified to noncurrent assets held for sale; refer to note 6(6). Once the selling procedures are completed, the pre-tax gain of approximately RMB230 million will be recognized.

## 12. Others

Employee benefits, depreciation and amortization, categorized by function:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Cost of sales | Operating expenses | Total | Cost of sales | Operating expenses | Total |
| Employee benefits: | | | | | | |
| Salaries | $ 2,873,076 | 993,319 | 3,866,395 | 2,785,568 | 1,001,256 | 3,786,824 |
| Labor and health insurance | 156,118 | 89,109 | 245,227 | 162,713 | 94,414 | 257,127 |
| Pension cost | 216,057 | 74,487 | 290,544 | 239,951 | 62,945 | 302,896 |
| Others | 171,924 | 73,029 | 244,953 | 254,149 | 72,868 | 327,017 |
| Depreciation | 729,949 | 188,063 | 918,012 | 808,590 | 215,968 | 1,024,558 |
| Amortization | 37,640 | 19,110 | 56,750 | 63,886 | 22,708 | 86,594 |

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

## 13. Additional disclosures

(a) Information on significant transactions:

The Consolidated Companies, in accordance with the requirements of the *Guidelines Governing the Preparation of Financial Reports by Securities Issuers,* disclose the following information on significant transactions:

1. Financing provided to other parties for the year ended December 31, 2014

(In Thousands of New Taiwan Dollars)

| No. | Financing Company | Counter-party | Financial Statement Account | Related Parties | Maximum Balance for the Period | Ending Balance | Actual Drawdown Amounts | Interest Rate | Nature of Financing | Transaction Amounts | Reasons for Short-term Financing | Allowance for Doubtful Accounts | Collateral | | Financing Limits for Each Borrowing Company | Financing Company's Total Financing Amount Limits |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 0 | The Company | DFS | Other receivables from related parties | yes | 791,250 | - | - | 1.56% | 2 | - | Operating requirement | - | | - | 866,870 (Note 1) | 3,467,480 (Note 1) |
| 0 | The Company | DFS | Other receivables from related parties | yes | 791,250 | 791,250 | - | LIBOR +0.6% | 2 | - | Operating requirement | - | | - | 866,870 (Note 1) | 3,467,480 (Note 1) |
| 0 | The Company | DFQ | Other receivables from related parties | yes | 316,500 | - | - | LIBOR +0.6% | 2 | - | Operating requirement | - | | - | 866,870 (Note 1) | 3,467,480 (Note 1) |
| 0 | The Company | DPS | Other receivables from related parties | yes | 316,500 | - | - | 1.56% | 2 | - | Operating requirement | - | | - | 866,870 (Note 1) | 3,467,480 (Note 1) |
| 0 | The Company | DPS | Other receivables from related parties | yes | 189,900 | 189,900 | 136,095 | 1.20% | 2 | - | Operating requirement | - | | - | 866,870 (Note 1) | 3,467,480 (Note 1) |
| 0 | The Company | DFH | Other receivables from related parties | yes | 316,500 | 316,500 | - | LIBOR +0.6% | 2 | - | Operating requirement | - | | - | 866,870 (Note 1) | 3,467,480 (Note 1) |
| 1 | DFS | DPS | Other receivables from related parties | yes | 255,210 | - | - | 3.30% | 2 | - | Operating requirement | - | | - | 1,439,353 (Note 2) | 1,439,353 (Note 2) |
| 1 | DFS | DPS | Other receivables from related parties | yes | 331,773 | 331,773 | 76,563 | 3.30% | 2 | - | Operating requirement | - | | - | 1,439,353 (Note 2) | 1,439,353 (Note 2) |

Note 1. The aggregate financing amount and individual financial amount shall not exceed 40 and 10 percent, respectively, of the latest audited or reviewed net worth of the Company.

Note 2. The aggregate financing amount and individual financial amount shall not exceed 40 percent of the latest net worth of DFS.

Note 3. Nature of financing: 1. Business transaction purpose. 2. Short-term financing purpose.

Note 4. The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

2. Guarantee and endorsement provided to other parties: None.

(Continued)

## DARFON ELECTRONICS CORP. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

3. Marketable securities held as of December 31, 2014 (excluding investments in subsidiaries, associates, and jointly controlled entities)

(In Thousands of New Taiwan Dollars/Shares (Units))

| Investing Company | Marketable Securities Type and Name | Relationship with the Securities Issuer | Financial Statement Account | Ending Balance | | | | Maximum percentage of ownership during 2014 | | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Number of Shares | Carrying Value | Percentage of Ownership | Fair value | Shares | Percentage of Ownership | |
| The Company | Lextar Electronics Corp. | - | Available-for-sale financial assets—current | 3,037 | 93,991 | 0.49% | 93,991 | 3,037 | 0.57% | - |
| DZL | Dazzo Technology Corp. | - | Available-for-sale financial assets—non-current | 600 | 6,000 | 3.45% | 6,000 | 600 | 3.45% | - |
| DZL | Lextar Electronics Corp. | - | Available-for-sale financial assets—current | 1,215 | 37,596 | 0.20% | 37,596 | 1,215 | 0.23% | - |
| DZL | Nomura Bond | - | Financial assets at fair value through profit or loss—current | 665 | 10,660 | - | 10,660 | 665 | - | - |

4. Marketable securities for which the accumulated purchase or sale amounts exceed $300 million or 20% of the paid-in capital for the year ended December 31, 2014: None.

5. Acquisition of real estate which exceeds $300 million or 20% of the paid-in capital for the year ended December 31, 2014: None.

6. Disposal of real estate which exceeds $300 million or 20% of the paid-in capital for the year ended December 31, 2014: None.

7. Total purchases from and sales to related parties which exceed NT$100 million or 20% of the paid-in capital for the year ended December 31, 2014.

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Relationship | Transaction Details | | | | Transactions with Terms Different from Others | | Note/Account (Payable) Receivable | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ (Sale) | Amount | % of Total Purchases/ (Sales) | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total | |
| The Company | DFBVI | Parent-subsidiary | (Sale) | 523,160 | 4% | EOM90 | Normal price | OA90 to EOM 120 | 564,652 | 13% | Note 3 |
| The Company | DFC | Parent-subsidiary | (Sale) | 333,272 | 3% | EOM120 | Normal price | OA90 to EOM 120 | 176,504 | 4% | Note 3 |
| The Company | DFA | Parent-subsidiary | (Sale) | 703,368 | 6% | OA90 | Normal price | OA90 to EOM 120 | 268,007 | 6% | Note 3 |
| The Company | DFBVI | Parent-subsidiary | Purchase | 10,974,164 | 95% | OA90 | Note 2 | OA90 | (2,728,058) | 92% | Note 3 |
| The Company | DMC | Parent-subsidiary | Purchase | 142,128 | 1% | OA90 | Note 1 | OA90 | (2,140) | - | Note 3 |
| DFBVI | The Company | Parent-subsidiary | (Sale) | 10,974,164 | 89% | OA90 | Note 1 | Note 1 | 2,728,058 | 87% | Note 3 |
| DFBVI | DFS | Associate | (Sale) | 894,954 | 7% | OA90 | Note 1 | Note 1 | 282,192 | 9% | Note 3 |
| DFBVI | DFZ | Associate | (Sale) | 297,726 | 2% | OA90 | Note 1 | Note 1 | 66,177 | 2% | Note 3 |
| DFBVI | DFH | Associate | (Sale) | 116,328 | 1% | OA90 | Note 1 | Note 1 | 23,391 | 1% | Note 3 |
| DFBVI | The Company | Parent-subsidiary | Purchase | 523,160 | 5% | EOM90 | Note 1 | Note 1 | (564,652) | 17% | Note 3 |
| DFBVI | DFS | Associate | Purchase | 5,059,806 | 44% | OA90 | Note 1 | Note 1 | (1,158,494) | 35% | Note 3 |
| DFBVI | DFZ | Associate | Purchase | 500,108 | 4% | OA90 | Note 1 | Note 1 | (34,292) | 1% | Note 3 |
| DFBVI | DFH | Associate | Purchase | 2,614,548 | 23% | OA90 | Note 1 | Note 1 | (789,870) | 24% | Note 3 |
| DFBVI | DFQ | Associate | Purchase | 2,793,632 | 24% | OA90 | Note 1 | Note 1 | (742,681) | 23% | Note 3 |

(Continued)

# DARFON ELECTRONICS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

| | | | Transaction Details | | | | Transactions with Terms Different from Others | | Note/Account (Payable) Receivable | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company Name | Related Party | Relationship | Purchase/ (Sale) | Amount | % of Total Purchases/ (Sales) | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total | Note |
| DFS | DFBVI | Associate | (Sale) | 5,059,806 | 39% | OA90 | Normal price | OA30 to EOM 120 | 1,158,494 | 42% | Note 3 |
| DFS | DFZ | Associate | (Sale) | 197,155 | 2% | OA360 | Normal price | OA30 to EOM 120 | 94,597 | 3% | Note 3 |
| DFS | DFH | Associate | (Sale) | 399,914 | 3% | OA90 | Normal price | OA30 to EOM 120 | 94,583 | 3% | Note 3 |
| DFS | DFQ | Associate | (Sale) | 285,977 | 2% | OA360 | Normal price | OA30 to EOM 120 | 135,919 | 5% | Note 3 |
| DFS | DFBVI | Associate | Purchase | 894,954 | 7% | OA90 | Note 2 | OA30 to EOM 120 | (282,192) | 8% | Note 3 |
| DFS | DPS | Associate | Purchase | 209,815 | 2% | EOM90 | Note 2 | OA30 to EOM 120 | (43,229) | 1% | Note 3 |
| DFZ | DFBVI | Associate | (Sale) | 500,108 | 32% | OA90 | Normal price | OA30 to EOM 120 | 34,292 | 7% | Note 3 |
| DFZ | DFBVI | Associate | Purchase | 297,726 | 20% | OA90 | Note 2 | OA30 to EOM 120 | (66,177) | 18% | Note 3 |
| DFZ | DFS | Associate | Purchase | 197,155 | 13% | OA360 | Note 2 | OA30 to EOM 120 | (94,597) | 25% | Note 3 |
| DFH | DFBVI | Associate | (Sale) | 2,614,548 | 63% | OA90 | Normal price | OA30 to EOM 120 | 789,870 | 70% | Note 3 |
| DFH | DFQ | Associate | (Sale) | 153,437 | 4% | OA90 | Normal price | OA30 to EOM 120 | 60,234 | 5% | Note 3 |
| DFH | DFS | Associate | Purchase | 399,914 | 10% | OA90 | Normal price | OA30 to EOM 150 | (94,583) | 10% | Note 3 |
| DFH | DFBVI | Associate | Purchase | 116,328 | 3% | OA90 | Normal price | OA30 to EOM 150 | (23,391) | 2% | Note 3 |
| DFH | DPS | Associate | Purchase | 113,527 | 3% | EOM90 | Normal price | OA30 to EOM 150 | (28,103) | 3% | Note 3 |
| DPS | DFS | Associate | (Sale) | 209,815 | 56% | EOM90 | Normal price | OA30 to EOM 150 | 43,229 | 31% | Note 3 |
| DPS | DFH | Associate | (Sale) | 113,527 | 30% | EOM90 | Normal price | OA30 to EOM 150 | 28,103 | 20% | Note 3 |
| DFQ | DFBVI | Associate | (Sale) | 2,793,632 | 99% | OA90 | Normal price | OA30 to EOM 150 | 742,681 | 99% | Note 3 |
| DFQ | DFS | Associate | Purchase | 285,977 | 11% | OA360 | Normal price | OA30 to EOM 150 | (135,919) | 14% | Note 3 |
| DFQ | DFH | Associate | Purchase | 153,437 | 6% | OA90 | Normal price | OA30 to EOM 150 | (60,234) | 6% | Note 3 |
| DFC | The Company | Parent-subsidiary | Purchase | 333,272 | 87% | EOM120 | Normal price | OA30 to EOM 120 | (176,504) | 86% | Note 3 |
| DFA | The Company | Parent-subsidiary | Purchase | 703,368 | 100% | OA90 | Normal price | OA30 to EOM 120 | (268,007) | 100% | Note 3 |
| DMC | The Company | Parent-subsidiary | (Sale) | 142,128 | 75% | OA90 | Normal price | OA30 to EOM 120 | 2,503 | 14% | Note 3 |

Note 1: There is no comparable transaction available.

Note 2: The selling prices for related parties are not comparable to the sales prices for third-party customers as the specifications of products were different.

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

## DARFON ELECTRONICS CORP. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

8. Receivables from related parties which exceed $100 million or 20% of the paid-in capital for the year ended December 31, 2014

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| The Company | DFBVI (accounts receivable) | Parent-subsidiary | 564,652 | 1.24 | 59,492 | - | 155,797 | - |
| The Company | DPS (financing) | Parent-subsidiary | 136,095 | - | - | - | - | - |
| The Company | DFC | Parent-subsidiary | 176,504 | 1.81 | 36,606 | - | 59,758 | - |
| The Company | DFA | Parent-subsidiary | 268,007 | 2.51 | 33,635 | - | 145,444 | - |
| DFBVI | The Company | Parent-subsidiary | 2,728,058 | 4.50 | - | - | 1,812,345 | - |
| DFBVI | DFS | Associate | 282,192 | 3.84 | - | - | 154,404 | - |
| DFS | DFBVI | Associate | 1,158,494 | 4.62 | 6,947 | - | 758,430 | - |
| DFS | DFQ | Associate | 135,919 | 2.53 | 20,810 | - | 56,024 | - |
| DFH | DFBVI | Associate | 789,870 | 3.69 | 32,306 | - | 746,287 | - |
| DFQ | DFBVI | Associate | 742,681 | 4.59 | - | - | - | - |

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

9. Derivative financial instrument transactions: None.

10. Business relationships and significant intercompany transactions for the year ended December 31, 2014

(In Thousands of New Taiwan Dollars)

| No. (Note 1) | Company Name | Counterparty | Nature of Relationship (Note 2) | Transaction Details (Note 3) | | | |
|---|---|---|---|---|---|---|---|
| | | | | Account | Amount | Transaction Terms | Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4) |
| 0 | The Company | DFBVI | 1 | Sales | 523,160 | EOM90 | 2% |
| 0 | The Company | DFS | 1 | Royalty | 43,580 | EOY45 | - |
| 0 | The Company | DFC | 1 | Sales | 333,272 | EOM120 | 2% |
| 0 | The Company | DFA | 1 | Sales | 703,368 | OA90 | 3% |
| 0 | The Company | DMC | 1 | Sales | 9,198 | OA90 | - |
| 0 | The Company | DTC | 1 | Sales | 76,073 | OA90 | - |
| 1 | DFBVI | The Company | 2 | Sales | 10,974,164 | OA90 | 51% |
| 1 | DFBVI | DFS | 3 | Sales | 894,954 | OA90 | 4% |
| 1 | DFBVI | DFQ | 3 | Sales | 67,375 | OA90 | - |
| 1 | DFBVI | DFZ | 3 | Sales | 297,726 | OA90 | 1% |
| 1 | DFBVI | DFH | 3 | Sales | 116,328 | OA90 | 1% |
| 2 | DFS | DFBVI | 3 | Sales | 5,059,806 | OA90 | 23% |
| 2 | DFS | DFZ | 3 | Sales | 197,155 | OA360 | 1% |
| 2 | DFS | DFH | 3 | Sales | 399,914 | OA90 | 2% |
| 2 | DFS | DFQ | 3 | Sales | 285,977 | OA360 | 1% |
| 3 | DFZ | DFBVI | 3 | Sales | 500,108 | OA90 | 2% |
| 3 | DFZ | DFS | 3 | Sales | 20,567 | OA90 | - |
| 4 | DFH | DFBVI | 3 | Sales | 2,614,548 | OA90 | 12% |
| 4 | DFH | DFS | 3 | Sales | 89,242 | OA90 | - |
| 4 | DFH | DFQ | 3 | Sales | 153,437 | OA90 | 1% |
| 5 | DFQ | DFBVI | 3 | Sales | 2,793,632 | OA90 | 13% |
| 5 | DFQ | DFS | 3 | Sales | 6,609 | OA90 | - |
| 5 | DFQ | DFH | 3 | Sales | 15,636 | OA90 | - |
| 6 | DPS | DFS | 3 | Sales | 209,815 | EOM90 | 1% |
| 6 | DPS | The Company | 2 | Sales | 1,287 | EOM90 | - |
| 6 | DPS | DFH | 3 | Sales | 113,527 | EOM90 | 1% |
| 6 | DPS | DFQ | 3 | Sales | 10,792 | EOM90 | - |
| 7 | DMC | The Company | 2 | Sales | 142,128 | OA90 | 1% |
| 7 | DMC | DFS | 3 | Sales | 27,948 | OA90 | - |

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

| No. (Note 1) | Company Name | Counterparty | Nature of Relationship (Note 2) | Transaction Details (Note 3) | | | |
|---|---|---|---|---|---|---|---|
| | | | | Account | Amount | Transaction Terms | Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4) |
| 8 | DTC | DFA | 3 | Sales | 2,573 | OA90 | - |
| 8 | DTC | DFC | 3 | Sales | 45,208 | OA90 | - |
| 8 | DTC | DFS | 3 | Sales | 764 | OA90 | - |
| 9 | DFC | The Company | 2 | Sales | 21,431 | OA90 | - |
| 0 | The Company | DFBVI | 1 | Accounts receivable | 564,652 | EOM90 | 3% |
| 0 | The Company | DFC | 1 | Accounts receivable | 176,504 | EOM120 | 1% |
| 0 | The Company | DFA | 1 | Accounts receivable | 268,007 | OA90 | 1% |
| 0 | The Company | DFS | 1 | Accounts receivable | 45,551 | EOY45 | - |
| 0 | The Company | DFBVI | 1 | Other receivables | 5,986 | - | - |
| 0 | The Company | DMC | 1 | Accounts receivable | 13,869 | OA90 | - |
| 0 | The Company | DTC | 1 | Accounts receivable | 21,521 | OA90 | - |
| 0 | The Company | DPS | 1 | Other receivables (financing) | 136,095 | - | 1% |
| 1 | DFBVI | The Company | 2 | Accounts receivable | 2,728,295 | OA90 | 15% |
| 1 | DFBVI | DFS | 3 | Accounts receivable | 282,192 | OA90 | 2% |
| 1 | DFBVI | DFZ | 3 | Accounts receivable | 66,177 | OA90 | - |
| 1 | DFBVI | DFH | 3 | Accounts receivable | 23,391 | OA90 | - |
| 1 | DFBVI | DFQ | 3 | Accounts receivable | 27,683 | OA90 | - |
| 2 | DFS | DFBVI | 3 | Accounts receivable | 1,158,494 | OA90 | 6% |
| 2 | DFS | DFZ | 3 | Accounts receivable | 94,597 | OA360 | 1% |
| 2 | DFS | DFH | 3 | Accounts receivable | 94,583 | OA90 | 1% |
| 2 | DFS | DFQ | 3 | Accounts receivable | 135,919 | OA360 | 1% |
| 2 | DFS | DPS | 3 | Other receivables (financing) | 76,563 | - | - |
| 3 | DFZ | DFS | 3 | Accounts receivable | 8,781 | OA90 | - |
| 3 | DFZ | DFBVI | 3 | Accounts receivable | 34,292 | OA90 | - |
| 4 | DFH | DFBVI | 3 | Accounts receivable | 789,870 | OA90 | 4% |
| 4 | DFH | DFS | 3 | Accounts receivable | 24,887 | OA90 | - |
| 4 | DFH | DFQ | 3 | Accounts receivable | 60,234 | OA90 | - |
| 5 | DFQ | DFBVI | 3 | Accounts receivable | 742,681 | OA90 | 4% |
| 5 | DFQ | DFS | 3 | Accounts receivable | 6,186 | OA90 | - |
| 5 | DFQ | DFH | 3 | Accounts receivable | 4,465 | OA90 | - |
| 6 | DPS | DFS | 3 | Accounts receivable | 43,229 | EOM90 | - |
| 6 | DPS | DFH | 3 | Accounts receivable | 28,103 | EOM90 | - |

(Continued)

## DARFON ELECTRONICS CORP. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

| No. (Note 1) | Company Name | Counterparty | Nature of Relationship (Note 2) | Transaction Details (Note 3) | | | |
|---|---|---|---|---|---|---|---|
| | | | | Account | Amount | Transaction Terms | Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4) |
| 6 | DPS | DFQ | 3 | Accounts receivable | 617 | EOM90 | - |
| 6 | DPS | DPH | 3 | Accounts receivable | 47,952 | EOM90 | - |
| 7 | DFC | The Company | 2 | Accounts receivable | 361 | OA90 | - |
| 8 | DMC | The Company | 2 | Accounts receivable | 2,503 | OA90 | - |
| 8 | DMC | DFS | 3 | Accounts receivable | 7,874 | OA90 | - |
| 9 | DTC | The Company | 2 | Other receivables | 1,804 | OA90 | - |
| 9 | DTC | DFA | 3 | Accounts receivable | 548 | OA90 | - |
| 9 | DTC | DFC | 3 | Accounts receivable | 28,573 | OA90 | - |
| 9 | DTC | DFS | 3 | Accounts receivable | 239 | OA90 | - |

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

Note 2: The relationships with counterparties are as follows:
No. "1": the Company to subsidiary.
No. "2": subsidiary to the Company.
No. "3": between subsidiaries.

Note 3: Intercompany relationships and significant intercompany transactions are disclosed only for sales and accounts receivable. The corresponding purchases and accounts payable are not disclosed.

Note 4: The transaction amount divided by consolidated operating revenues or consolidated total assets.

(b) Names, locations, and related information of investees over which the Company has controlling power or significant influence for the year ended December 31, 2014 (excluding investee companies in mainland China)

(In Thousands of New Taiwan Dollars)

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount | | Balance as of December 31, 2014 | | | Maximum percentage of Ownership during 2014 | | Net Income (Losses) of the Investee | Investment Income (Loss) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2014 | December 31, 2013 | Shares | Percentage of Ownership | Carrying Value | Shares | Percentage of Ownership | | | |
| The Company | DFBVI | BVI | Trading of electronic products | 870,216 | 870,216 | - | 100.00% | 1,654,260 | - | 100.00% | 60,852 | 60,852 | Parent/ Subsidiary |
| The Company | DFLB | Malaysia | Investment holding | 4,232,764 | 4,232,764 | - | 100.00% | 4,761,863 | - | 100.00% | (28,877) | (28,877) | Parent/ Subsidiary |
| The Company | DMC | Taiwan | Manufacture and sale of MLCC, inductors and paste | 51,969 | 51,969 | 12,995 | 100.00% | 159,336 | 12,995 | 100.00% | 672 | 672 | Parent/ Subsidiary |
| The Company | DZL | Taiwan | Investment holding | 100,000 | 100,000 | 10,000 | 100.00% | 103,654 | 10,000 | 100.00% | 2,023 | 2,023 | Parent/ Subsidiary |
| The Company | DTC | Taiwan | Manufacture of lighting equipment, design and sale of IT products | 104,000 | 104,000 | 10,400 | 52.00% | 83,886 | 10,400 | 52.00% | 1,544 | 803 | Parent/ Subsidiary |
| DZL | DTC | Taiwan | Manufacture of lighting equipment, design and sale of IT products | 50,000 | 50,000 | 5,000 | 25.00% | 40,330 | 5,000 | 25.00% | 1,544 | 386 | Affiliates |
| DFLB | DFC | Czech | Trading of electronic products | 299 | 299 | - | 100.00% | 29,541 | - | 100.00% | (6,470) | (6,470) | Parent/ Subsidiary |

(Continued)

## DARFON ELECTRONICS CORP. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount | | Balance as of December 31, 2014 | | | Maximum percentage of Ownership during 2014 | | Net Income (Losses) of the Investee | Investment Income (Loss) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2014 | December 31, 2013 | Shares | Percentage of Ownership | Carrying Value | Shares | Percentage of Ownership | | | |
| DFLB | DFA | U.S.A | Trading of electronic products | 6,364 | 6,364 | - | 100.00% | 23,471 | - | 100.00% | 2,194 | 2,194 | Parent/ Subsidiary |
| DFLB | DFK | Korea | Trading of electronic products | 1,781 | 1,781 | - | 100.00% | 838 | - | 100.00% | 389 | 389 | Parent/ Subsidiary |
| DFLB | DPH | BVI | Investment holding | 834,461 | 834,461 | - | 100.00% | 451,114 | - | 100.00% | (91,440) | (91,440) | Parent/ Subsidiary |

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

(c) Information on investments in Mainland China

1. Name and main businesses and products of investee companies in Mainland China:

(In Thousands of New Taiwan Dollars)

| Investee Company | Main Businesses and Products | Total Amount of Paid-in Capital | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2014 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2014 | Net Income (Los) of Investee | % of Ownership of Direct or Indirect Investment | Maximum percentage of ownership during 2014 | | Investment Income (Loss) | Carrying Value as of December 31, 2014 | Accumulated Inward Remittance of Earnings as of December 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | Shares | Percentage of Ownership | | | |
| Darfon Electronics (Suzhou) Co., Ltd. (DFS) | Manufacture and sale of the Company's products | 1,747,871 (USD55,225) (Note 3) | Note 1 | 1,610,985 (USD50,900) | - | - | 1,610,985 (USD50,900) (Note 3) | 106,011 | 100.00% | - | 100.00% | 106,011 (Note 2) | 3,390,244 | - |
| Darfon Electronics Shenzhen (DFZ) | Manufacture and sale of the Company's products | 569,700 (USD18,000) | Note 1 | 569,700 (USD18,000) | - | - | 569,700 (USD18,000) | (39,724) | 100.00% | - | 100.00% | (39,724) (Note 2) | 498,739 | - |
| Huaian Darfon Electronics Co., Ltd. (DFH) | Manufacture and sale of the Company's products | 1,550,850 (USD49,000) | Note 1 | 1,550,850 (USD49,000) | - | - | 1,550,850 (USD49,000) | 20,790 | 100.00% | - | 100.00% | 20,790 (Note 2) | 1,883,412 | - |
| Darfon Precision (Suzhou) Co., Ltd. (DPS) | Mold development and manufacture | 1,079,265 (USD34,100) | Note 1 | 919,433 (USD29,050) | - | - | 919,433 (USD29,050) | (90,660) | 100.00% | - | 100.00% | (90,660) (Note 2) | 507,366 | - |
| Darfon Electronics Chongqing (DFQ) | Manufacture and sale of the Company's products | 316,500 (USD10,000) | Note 1 | 316,500 (USD10,000) | - | - | 316,500 (USD10,000) | 25,123 | 100.00% | - | 100.00% | 25,123 (Note 2) | 301,655 | - |

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

Note 2: Investment income or loss was recognized based on the audited financial statements of investee companies.

Note 3: Including US$4,325 thousand from capitalization of retained earnings.

Note 4: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

2. Limits on investments in Mainland China:

| Accumulated Investment in Mainland China as of December 31, 2014 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|---|---|---|
| $4,967,468 (USD 156,950) | $5,262,604 (USD 166,275) | Note |

The above amounts were translated into New Taiwan dollars at the exchange rate of US$1=NT$31.65.

Note: Since the Company has obtained the certificate of headquarters operation, there is no upper limit on investments in Mainland China.

3. Significant transactions with investee companies in Mainland China:

The transactions between the Company and investee companies (the intercompany transactions) have been eliminated when preparing the consolidated financial statements; please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions".

**14. Segment information**

(a) General information

The Consolidated Companies are mainly engaged in the R&D, manufacturing, and sale of human interface devices, power devices, integrated components and materials, and green devices.

In response to rapid changes in the electronics manufacturing industry, the Consolidated Companies integrated their two operating segments into one segment in the fourth quarter of 2014.

(b) Reportable segments' profit or loss, basis of measurement, and reconciliation

Segment profit or loss, segment assets, and segment liabilities are consistent with the consolidated financial statements. Please refer to the consolidated balance sheets and consolidated statements of comprehensive income.

(c) Product information

Revenues from external customers are detailed below:

| | 2014 | 2013 |
|---|---|---|
| HID | $ 18,150,469 | 18,295,006 |
| PED and ICM | 3,427,400 | 5,206,395 |
| Total | $ 21,577,869 | 23,501,401 |

(d) Geographic information

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

Revenues from external customers are detailed below:

| **Region** | **2014** | **2013** |
|---|---|---|
| Taiwan | $ 1,777,996 | 1,087,520 |
| USA | 398,934 | 1,152,089 |
| Mainland China | 17,813,530 | 19,305,061 |
| Others | 1,587,409 | 1,956,731 |
| | $ 21,577,869 | 23,501,401 |

Noncurrent assets:

| **Region** | **December 31, 2014** | **December 31, 2013** |
|---|---|---|
| Taiwan | $ 2,610,123 | 2,917,193 |
| Mainland China | 3,967,255 | 4,497,492 |
| Others | 4,226 | 3,072 |
| | $ 6,581,604 | 7,417,757 |

The above noncurrent assets do not include financial instruments, deferred income tax assets, and pension fund assets.

(e) Major customer information

| **Customer** | **2014** | **2013** |
|---|---|---|
| Sales to Customer A | $ 5,025,113 | 4,615,355 |