

MIN AIK TECHNOLOGY CO., LTD.
AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2013 and 2012
(With Independent Auditors' Report Thereon)



安侯建業聯合會計師事務所

KPMG

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Independent Accountants' Audit Report

To the Board of Directors
Min Aik Technology Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Min Aik Technology Co., Ltd. and its subsidiaries as of December 31, 2013, and December 31 and January 1, 2012, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the Company's investee companies Das Technology Co., Ltd. and Ablytek Co., Ltd., which were accounted for under the equity method. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to those investments, is based solely on the reports of the other auditors. The Company's investment in these companies amounted to \$124,527 and \$168,414 thousand, constituting 1.77% and 2.33% of the consolidated total assets, as of December 31, 2013 and 2012, respectively, and the share of profit (loss) of these companies, recorded as "profit of associates accounted for using equity method", amounted to \$1,792 and \$(29,292) thousand, constituting 0.25% and 2.41% of the consolidated net profit before tax, for the years ended December 31, 2013 and 2012, respectively.

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 standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of the other auditors, the consolidated financial statements mentioned in the first paragraph present fairly, in all material respects, the consolidated financial position of Min Aik Technology Co., Ltd. and its subsidiaries as of December 31, 2013, and December 31 and January 1, 2012, and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission, ROC.



Min Aik Technology Co., Ltd. has prepared its annual parent-company-only financial reports as of and for the years ended December 31, 2013 and 2012, on which we have issued a modified unqualified opinion.

A handwritten signature of the KPMG firm, written in black ink, appearing as 'KPMG' with a stylized flourish at the end.

March 28, 2014

The accompanying financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards, and interpretations endorsed by the Financial Supervisory Commission in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

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

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013, and December 31 and January 1, 2012
(expressed in thousands of New Taiwan dollars)

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
Cash and cash equivalents (note 6(a))	\$ 2,449,122	35	2,042,305	28	1,771,553	25
Current financial assets at fair value through profit or loss (notes 6(b) and 6(i))	-	-	10,744	20	-	-
Accounts receivable, net (notes 6(c) and 7)	1,353,256	19	1,401,585	20	912,917	13
Other accounts receivable (notes 6(c), 7 and 8)	225,632	3	219,344	3	518,945	8
Inventories (note 6(d))	655,033	9	982,006	14	1,378,017	19
Prepayments	47,200	1	70,528	1	65,622	1
	<u>4,730,243</u>	<u>67</u>	<u>4,726,582</u>	<u>66</u>	<u>4,647,054</u>	<u>65</u>
Non-current assets:						
Non-current financial assets at fair value through profit or loss (notes 6(b) and 6(i))	-	-	-	-	5,994	-
Non-current financial assets at cost, net (note 6(b))	187,771	3	371,400	5	285,286	4
Investments accounted for using equity method (note 6(e))	706,520	10	592,114	8	861,822	12
Property, plant and equipment (notes 6(f), 7 and 8)	1,264,227	18	1,350,221	19	1,009,213	14
Deferred tax assets (note 6(m))	49,833	1	88,151	1	240,001	3
Other non-current assets (notes 6(g) and 6(i))	82,039	1	87,923	1	120,764	2
	<u>2,290,390</u>	<u>33</u>	<u>2,489,809</u>	<u>34</u>	<u>2,523,080</u>	<u>35</u>
Total assets	\$ 7,020,633	100	7,216,391	100	7,170,134	100
Liabilities and equity						
Current liabilities:						
Short-term borrowings (note 6(h))	\$ -	-	-	-	82	-
Current financial liabilities at fair value through profit or loss (notes 6(b) and 6(i))	-	-	832,267	12	-	-
Accounts payable	981,996	15	63,377	1	809,413	11
Accounts payable to related parties (note 7)	143,384	2	1,069	-	123,167	2
Current tax liabilities	81,044	1	342,726	5	140,333	2
Bonds payable, current portion (note 6(j))	-	-	15,133	-	-	-
Long-term borrowings, current portion (note 6(i))	376,091	5	467,952	6	55,987	1
Other current liabilities, others (note 7)	<u>1,649,893</u>	<u>24</u>	<u>1,862,030</u>	<u>26</u>	<u>360,909</u>	<u>5</u>
Non-current liabilities:						
Non-current financial liabilities at fair value through profit or loss (notes 6(b) and 6(i))	-	-	-	-	12,576	-
Bonds payable (note 6(j))	-	-	-	-	566,619	8
Long-term borrowings (note 6(i))	237,060	3	187,860	3	23,756	-
Deferred tax liabilities (note 6(m))	307,136	4	307,551	4	282,956	4
Other non-current liabilities	16,373	-	16,513	-	16,674	-
	<u>560,571</u>	<u>7</u>	<u>511,924</u>	<u>7</u>	<u>902,581</u>	<u>12</u>
Total liabilities	2,210,666	31	2,373,954	33	2,968,278	41
Equity attributable to owners of parent (note 6(n)):						
Ordinary shares	1,742,020	25	1,675,554	23	1,642,984	23
Advance receipts for share capital	-	-	7,304	-	-	-
Capital surplus	1,554,915	22	1,290,613	18	1,229,460	17
Retained earnings:						
Legal reserve	594,576	8	492,796	7	469,320	7
Special reserve	9,004	-	-	-	32,447	-
Unappropriated retained earnings	809,417	12	1,181,691	16	581,537	8
	<u>1,412,997</u>	<u>20</u>	<u>1,674,487</u>	<u>23</u>	<u>1,083,304</u>	<u>15</u>
Other equity interest:						
Exchange differences on translation of foreign financial statements	(85,194)	(1)	(9,004)	-	44,481	1
Total equity attributable to owners of parent	<u>4,624,738</u>	<u>66</u>	<u>4,638,954</u>	<u>64</u>	<u>4,000,229</u>	<u>56</u>
Non-controlling interests	183,229	3	203,483	3	201,627	3
Total equity	<u>4,809,967</u>	<u>69</u>	<u>4,842,437</u>	<u>67</u>	<u>4,201,856</u>	<u>59</u>
Total liabilities and equity	\$ 7,020,633	100	7,216,391	100	7,170,134	100

See accompanying notes to financial statements.

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

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

	2013		2012	
	Amount	%	Amount	%
Sales revenue (notes 6(p) and 7)	\$ 6,576,544	100	6,805,313	100
Cost of sales (notes 6(d), 6(k), 6(l), 7 and 12)	5,402,168	82	5,625,565	83
Gross profit	1,174,376	18	1,179,748	17
Operating expenses (notes 6(k), 6(l), 7 and 12):				
Selling expenses	180,734	3	197,126	3
Administrative expenses	298,302	4	409,189	6
Research and development expenses	181,836	3	186,142	3
Total operating expenses	660,872	10	792,457	12
Net operating income	513,504	8	387,291	5
Non-operating income and expenses (notes 6(b), 6(e), 6(j), 6(q) and 7):				
Other income	60,346	1	794,031	12
Other gains and losses	78,591	1	(56,608)	(1)
Finance costs	(10,988)	-	(31,316)	-
Share of profit of associates accounted for using equity method	85,953	1	120,451	2
Total non-operating income and expenses	213,902	3	826,558	13
Profit before tax	727,406	11	1,213,849	18
Less: tax expense (note 6(m))	200,087	3	214,273	3
Profit	527,319	8	999,576	15
Other comprehensive income:				
Foreign currency translation differences for foreign operations	(120,148)	(2)	(61,728)	(1)
Less: income tax relating to components of other comprehensive income	(14,945)	-	(7,211)	-
Other comprehensive income, net	(105,203)	(2)	(54,517)	(1)
Comprehensive income	\$ 422,116	6	945,059	14
Profit attributable to:				
Owners of parent	\$ 516,107	8	1,018,359	15
Non-controlling interests	11,212	-	(18,783)	-
	\$ 527,319	8	999,576	15
Comprehensive income attributable to:				
Owners of parent	\$ 439,917	6	964,874	14
Non-controlling interests	(17,801)	-	(19,815)	-
	\$ 422,116	6	945,059	14
Basic earnings per share (NT dollars)(note 6(o))	\$	3.00		6.15
Diluted earnings per share (NT dollars)(note 6(o))	\$	2.96		5.89

See accompanying notes to financial statements.

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the years ended December 31, 2013 and 2012
(expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of parent							Total	Other equity interest		Total equity attributable to owners of parent
	Share capital			Retained earnings					Ex change of translation differences on foreign financial statements	Non-controlling interests	
	Ordinary shares	Capital collected in advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings					
Balance on January 1, 2012	\$ 1,642,984	-	1,229,460	469,320	32,447	581,537	1,083,304	44,481	201,627	4,201,856	
Profit (loss) for the year ended December 31, 2012	-	-	-	-	-	1,018,359	1,018,359	-	(18,783)	999,576	
Other comprehensive income for the year ended December 31, 2012	-	-	-	-	-	1,018,359	1,018,359	(53,485)	(1,032)	(54,517)	
Comprehensive income for the year ended December 31, 2012	-	-	-	-	-	1,018,359	1,018,359	(53,485)	(19,815)	945,059	
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	23,476	-	(23,476)	-	-	-	-	
Special reserve appropriated	-	-	-	-	(32,447)	32,447	(427,176)	-	-	(591,474)	
Cash dividends on ordinary shares	-	-	(164,298)	-	-	(427,176)	-	-	-	234,830	
Conversion of convertible bonds	32,570	7,304	194,956	-	-	-	-	-	-	30,495	
Changes in equity of associates accounted for using equity method	-	-	30,495	-	-	-	-	-	-	21,671	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	
Balance on December 31, 2012	1,675,554	7,304	1,290,613	492,796	-	1,181,691	1,674,487	(9,004)	203,483	4,842,437	
Profit for the year ended December 31, 2013	-	-	-	-	-	516,107	516,107	(76,190)	(29,013)	527,319	
Other comprehensive income for the year ended December 31, 2013	-	-	-	-	-	516,107	516,107	(76,190)	(17,801)	(105,203)	
Comprehensive income for the year ended December 31, 2013	-	-	-	-	-	516,107	516,107	-	-	422,116	
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	101,780	-	(101,780)	-	-	-	-	
Special reserve appropriated	-	-	-	-	9,004	(9,004)	(777,597)	-	-	(777,597)	
Cash dividends on ordinary shares	-	-	-	-	-	(777,597)	-	-	-	323,211	
Conversion of convertible bonds	66,466	(7,304)	264,049	-	-	-	-	-	-	253	
Changes in equity of associates accounted for using equity method	-	-	253	-	-	-	-	-	-	(253)	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(200)	-	
Balance on December 31, 2013	1,742,020	-	1,554,915	594,576	9,004	809,417	1,412,927	(85,194)	185,229	4,809,967	

Balance on January 1, 2012
Profit (loss) for the year ended December 31, 2012
Other comprehensive income for the year ended December 31, 2012
Comprehensive income for the year ended December 31, 2012
Appropriation and distribution of retained earnings:
Legal reserve appropriated
Special reserve appropriated
Cash dividends on ordinary shares
Conversion of convertible bonds
Changes in equity of associates accounted for using equity method
Changes in non-controlling interests
Balance on December 31, 2012
Profit for the year ended December 31, 2013
Other comprehensive income for the year ended December 31, 2013
Comprehensive income for the year ended December 31, 2013
Appropriation and distribution of retained earnings:
Legal reserve appropriated
Special reserve appropriated
Cash dividends on ordinary shares
Conversion of convertible bonds
Changes in equity of associates accounted for using equity method
Changes in non-controlling interests
Balance on December 31, 2013

See accompanying notes to financial statements.

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012
(expressed in thousands of New Taiwan dollars)

	<u>2013</u>	<u>2012</u>
Cash flows from (used in) operating activities:		
Profit before tax	\$ 727,406	1,213,849
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	201,541	230,616
Amortization expense	7,333	32,016
Net gain on financial assets or liabilities at fair value through profit or loss	(12,277)	(21,691)
Interest expense	10,988	31,316
Share of profit of associates accounted for using equity method	(85,954)	(120,451)
Loss (Gain) on disposal of property, plant and equipment	1,671	(1,706)
Loss on disposal of investments	12,134	-
Gain on disposal of investments accounted for using equity method	(24,911)	-
Impairment loss on financial assets	121,000	39,476
Insurance claim on inventories; property, plant and equipment; and others	(28,952)	(557,731)
Total adjustments to reconcile profit (loss)	<u>202,573</u>	<u>(368,155)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Notes and accounts receivable (including due from related parties)	49,540	(489,623)
Other receivable	26,380	78,768
Inventories	343,062	375,545
Other current assets	23,146	(6,382)
Other non-current assets	379	3,311
	<u>442,507</u>	<u>(38,381)</u>
Changes in operating liabilities:		
Accounts payable	231,736	(36,936)
Other financial liabilities	(27,776)	85,202
Other current liabilities	(73,472)	47,930
Other non-current liabilities	62	1,609
	<u>130,550</u>	<u>97,805</u>
Total changes in operating assets and liabilities	<u>573,057</u>	<u>59,424</u>
Total adjustments	<u>775,630</u>	<u>(308,731)</u>
Cash inflow generated from operations	1,503,036	905,118
Dividends received	4,741	86,335
Interest paid	(7,491)	(16,139)
Income taxes paid	(42,361)	(216,071)
Net cash flows from operating activities	<u>1,457,925</u>	<u>759,243</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets carried at cost	-	(125,590)
Acquisition of investments accounted for using equity method	(72,240)	-
Proceeds from disposal of investments accounted for using equity method	53,838	-
Proceeds from capital reduction of investments accounted for using equity method	53,237	309,768
Acquisition of property, plant and equipment	(182,262)	(618,523)
Proceeds from disposal of property, plant and equipment	13,830	56,645
Other receivables	(32,668)	795,819
Other investing activities	(4,204)	(2,486)
Net cash flows used in investing activities	<u>(170,469)</u>	<u>415,633</u>
Cash flows from (used in) financing activities:		
Short-term borrowings	(79,860)	(436,464)
Proceeds from long-term borrowings	55,000	164,104
Repayments of long-term borrowings	(15,117)	(40,854)
Cash dividends paid	(777,597)	(591,474)
Change in non-controlling interests	(200)	21,671
Other	-	(1)
Net cash flows used in financing activities	<u>(817,774)</u>	<u>(883,018)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(62,865)</u>	<u>(21,106)</u>
Net increase in cash and cash equivalents	406,817	270,752
Cash and cash equivalents at beginning of period	<u>2,042,305</u>	<u>1,771,553</u>
Cash and cash equivalents at end of period	<u>\$ 2,449,122</u>	<u>2,042,305</u>

See accompanying notes to financial statements.

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

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

(1) Organization and business

Min Aik Technology Co., Ltd. (the "Company") was incorporated on October 3, 1979, as a company limited by shares and registered under the Ministry of Economic Affairs, ROC. The address of the Company's registered office is 10F.-1, No. 492-1, Sec. 1, Wanshou Rd., Guishan Township, Taoyuan County. The Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") primarily is involved in the design, manufacture, and sale of hard disk drive components, plastic camera components, CD ROM drive components, and mechanical components for optical devices, the assembly of high-cleanliness products, precision plastic injection tooling, and injection molding tooling, and trading activities.

(2) Approval date and procedures of the financial statements

These consolidated financial statements were authorized for issuance by the board of directors on March 28, 2014.

(3) New standards and interpretations not yet adopted

(a) New standards and interpretations endorsed by the Financial Supervisory Commission, ROC ("FSC") but not yet in effect

The International Accounting Standards Board ("IASB") issued International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"), which was to be effective on January 1, 2013 (the IASB postponed the effective date to January 1, 2015, in December 2011, but in November postponed the effective date to ensure financial statement preparers have enough time to adopt the new standards). This standard has been endorsed by the FSC; however, the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and companies shall follow the guidance in the 2009 version of International Accounting Standard 39 *Financial Instruments* ("IAS 39"). Upon the adoption of this new standard, it is expected there will be significant impacts on the classification and measurement of financial instruments in the consolidated financial statements.

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

Summary of the new standards and amendments issued by the IASB, but not yet endorsed by the FSC, that may have an impact on the consolidated financial statements:

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description</u>	<u>Effective date per IASB</u>
May 12, 2011	<ul style="list-style-type: none"> • IFRS 10 Consolidated Financial Statements 	<ul style="list-style-type: none"> • On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments. 	January 1, 2013
June 28, 2012	<ul style="list-style-type: none"> • IFRS 11 Joint Arrangements • IFRS 12 Disclosure of Interests in Other Entities • Amended IAS 27 Separate Financial Statements 	<ul style="list-style-type: none"> • The new standards provide a single model for determining whether an entity has control over an investee (including special purpose entities) other than the consolidation process, for which the original guidance and method apply. In addition, joint arrangements are separated into joint operations (formerly known as jointly controlled assets and jointly controlled operations) and joint ventures (formerly known as jointly controlled entities), and the proportionate consolidation method is removed. 	
June 28, 2012	<ul style="list-style-type: none"> • Amended IAS 28 Investments in Associates and Joint Ventures 	<ul style="list-style-type: none"> • On June 28, 2012, amendments were issued clarifying the guidance over the transition period. • The Group expects the adoption of the standard will increase the information on related disclosures and change the way of determining whether an entity has control over an investee. 	January 1, 2013
May 12, 2011	<ul style="list-style-type: none"> • IFRS 13 Fair Value Measurement 	<ul style="list-style-type: none"> • Replaces fair value measurement guidance in other standards and consolidates as one single guidance. The Group is in the process of assessing the impact on the consolidated financial statements at the time of adoption. • The amendments will increase the information on fair value disclosures. 	January 1, 2013

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description</u>	<u>Effective date per IASB</u>
June 16, 2011	• Amended IAS 1 Presentation of Financial Statements	• Items presented in other comprehensive income shall be based on whether they are potentially reclassifiable to profit or loss subsequently. The Group expects the adoption of the standard will change the presentation of other comprehensive income in the statements of comprehensive income.	July 1, 2012
June 16, 2011	• Amended IAS 19 Employee Benefits	• Eliminates the corridor method and eliminates the option to recognize changes in the net defined benefit liability (asset) in profit or loss; in addition, requires the immediate recognition of past service cost. The adoption of the standard will change the measurement and presentation of accrued pension liability and actuarial gains (losses).	January 1, 2013
November 21 2013	• Amended IAS 19 Employee Benefits	• The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered.	June 30, 2015 An entity may apply the amendments earlier to any period.

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(4) Significant accounting policies**

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically mentioned, the following accounting policies were applied consistently to the periods presented in the financial statements and to the consolidated balance sheet as of January 1, 2012, prepared for the conversion to the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (the "IFRSs endorsed by the FSC").

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

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the IFRSs endorsed by the FSC.

These are the Group's first IFRS consolidated annual financial statements, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance, and cash flows of the Group is provided in note 14.

(b) Basis of preparation**1. Basis of measurement**

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

- (i) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;
- (ii) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less the present value of the defined benefit obligation.

2. Functional and presentation currency

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

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Basis of consolidation

1. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

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

2. List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		
			December 31, 2013	December 31, 2012	January 1, 2012
The Company	Min Aik Technology USA Inc. (MAUS)	Researching hard disk drive components	100%	100%	100%
"	Min Aik International Development Pte., Ltd. (MAS)	Investment holding, researching hard disk drive components, and providing sales and marketing support	100%	100%	100%
"	Synergy Technology Industrial Co., Ltd. (Synergy)	Holding company	100%	100%	100%
"	Min Aik Technology (Thailand) Co., Ltd. (MATH)	Manufacture and sale of hard disk drive components	100%	100%	100%
"	Good Master Holding Co., Ltd. (Good Master) (Note 1)	Holding company	100%	100%	-%
"	Green Far Company Ltd. (Green Far) (Note 2)	Sale of electricity produced by curvature module	100%	90%	-%
MAS	Min Aik Technology (M) Sdn. Bhd. (MAM)	Manufacture and sale of hard disk drive components	100%	100%	100%

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		
			December 31, 2013	December 31, 2012	January 1, 2012
Synergy	Min Aik Technology (Suzhou) Co., Ltd. (MAY)	Manufacture and sale of hard disk drive components	100%	100%	100%
"	Min Aik Industrial (Suzhou) Co., Ltd. (MAC) (Note 3)	Manufacture and sale of hard disk drive components	-%	-%	100%
"	MATC Technology (M) Sdn. Bhd. (MATC)	Manufacture and sale of hard disk drive components	80%	80%	80%
MATH	MU-Technology Pte. Ltd. (MUS)	Holding company	69.41%	69.41%	69.41%
MUS	MU Technology (M) Sdn. Bhd. (MUM)	Manufacture and sale of hard disk drive components	100%	100%	100%
"	MU Technology (Thailand) Co., Ltd. (MUTH) (Note 4)	Manufacture and sale of hard disk drive components	-%	99.99%	99.99%
Good Master	Good Master Material Technology (ChangShu) Co., Ltd. (MAH) (Note 1)	Manufacture and sale of rare earth products	-%	51%	-%

Note 1: Good Master was established in May 2011, but the Company remitted the investment amount to indirectly invest in MAH in March 2012. The Company had control over MAH by holding 51% of shares, and the other 49% were non-controlling interests, which totalled NT\$21,671 thousand. MAH was liquidated completely in December 2013.

Note 2: The Group acquired 10% of shares totaling NT\$200 thousand from non-controlling interests in May 2013, and the Group's holding of shares has increased from 90% to 100%.

Note 3: MAY and MAC were merged in the second quarter of 2012, and MAY is the surviving company.

Note 4: MUTH was liquidated completely in September 2013.

(d) Foreign currencies

1. Foreign currency transaction

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

(Continued)

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the translation of foreign currency financial statements into the Group's functional currency which are recognized in other comprehensive income.

2. Foreign operations

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

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

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

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

An entity shall classify an asset as current when:

1. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
2. It holds the asset primarily for the purpose of trading;

(Continued)

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

3. It expects to realize the asset 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.

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

An entity shall classify a liability as current when:

1. It expects to settle the liability in its normal operating cycle;
2. It holds the liability primarily for the purpose of trading;
3. The liability is due to be settled within twelve months after the reporting period; or
4. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

(f) Cash and cash equivalents

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

The time deposits with maturities of one year or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used for the purpose of meeting short-term commitments are classified as cash equivalents.

(g) Financial instruments

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

1. Financial assets

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

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(i) Financial assets at fair value through profit or loss**

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

- A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- B. Performance of the financial asset is evaluated on a fair value basis;
- C. A hybrid instrument contains one or more embedded derivatives.

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

(ii) Financial assets at cost

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

(iii) Loans and receivables

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

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(iv) Impairment of financial assets**

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

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

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

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

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

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

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

(Continued)

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

Impairment losses and recoveries of accounts receivable are recognized in profit or loss, and impairment losses and recoveries of other financial assets are recognized in non-operating income and expense.

(v) Derecognition of financial assets

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

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

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

2. Financial liabilities and equity instruments

(i) Classification of debt or equity

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

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

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

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

(Continued)

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

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, and it is included in non-operating income and expenses. On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

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

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. The Group designates all other financial liabilities as at fair value through profit or loss at initial recognition under one of the following situations:

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

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income and expenses.

(iii) Other financial liabilities

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

(iv) Derecognition of financial liabilities

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

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(v) Offsetting of financial assets and liabilities**

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

(h) Inventories

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

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

(i) Investment in associates

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

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

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases.

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

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

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(j) Property, plant and equipment****1. Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

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

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

2. Subsequent cost

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

3. Depreciation

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

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

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

(Continued)

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

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

- (i) Buildings: 8 ~ 50 years
- (ii) Machinery: 3 ~20 years
- (iii) Leasehold improvement: 3 ~15 years
- (iv) Office and other equipment: 2 ~ 10 years

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

(k) Lease

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

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

(l) Research & development

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

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- (i) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (ii) The intention to complete the intangible asset and use or sell it.
- (iii) The ability to use or sell the intangible asset.
- (iv) How the intangible asset will generate probable future economic benefits.

(Continued)

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

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

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

(m) Impairment – non-derivative financial assets

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

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

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

(n) Treasury stock

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

(Continued)

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

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

(o) Revenue

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For international shipments, transfer occurs upon loading the goods onto the relevant carrier at the client’s designated location. Generally for such products, the customer has no right of return.

(p) Employee benefits**1. Defined contribution plans**

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

2. Defined benefit plans

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

(Continued)

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

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

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

All actuarial gains and losses at January 1, 2012, the date of transition to the IFRSs endorsed by the FSC, were recognized in retained earnings. The Group recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, 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 as the related service is provided.

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

(q) Share-based payment

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

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(r) Income taxes**

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

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

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

1. Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on net income or taxable gains (losses) during the transaction.
2. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
3. Initial recognition of goodwill.

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

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

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and
2. The taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - i) levied by the same taxing authority; or
 - ii) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(s) Earnings per share

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

(t) Operating segments

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

(u) Changes in the estimated useful lives and residual values of depreciable assets

In 2013, the Group changed its estimated useful lives of the property, plant and equipment in accordance with their actual useful lives.

The following are the estimated increase (decrease) in the current and future net profit before tax (in thousands per year):

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>After 2017</u>
Increase (Decrease)	\$ <u>(40,692)</u>	<u>(24,464)</u>	<u>(2,449)</u>	<u>8,559</u>	<u>59,046</u>

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

Management continuously monitors the accounting assumptions, estimates, and judgments. Management recognizes any changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements is included in note 6(k), Operating lease.

There is no information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

(6) Explanation of significant accounts**(a) Cash and cash equivalents**

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Cash on hand, checking accounts, and demand deposits	\$ 2,348,299	2,002,879	1,711,202
Time deposits	<u>100,823</u>	<u>39,426</u>	<u>60,351</u>
	<u>\$ 2,449,122</u>	<u>2,042,305</u>	<u>1,771,553</u>

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

(b) Financial assets and liabilities

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Financial assets:			
Financial assets at fair value through profit or loss	\$ -	10,744	5,994
Non-current financial assets at cost	<u>187,771</u>	<u>371,400</u>	<u>285,286</u>
	<u>\$ 187,771</u>	<u>382,144</u>	<u>291,280</u>

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Current	\$ -	10,744	-
Non-current	<u>187,771</u>	<u>371,400</u>	<u>291,280</u>
	<u>\$ 187,771</u>	<u>382,144</u>	<u>291,280</u>
Financial liabilities:			
Financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>82</u>	<u>12,576</u>
Current	\$ -	82	-
Non-current	<u>-</u>	<u>-</u>	<u>12,576</u>
	<u>\$ -</u>	<u>82</u>	<u>12,576</u>

- (i) Please refer to note 6(r) for the fair value hierarchy of the financial assets and liabilities of the Group.
- (ii) Please refer to note 6(j) for the financial assets (liabilities) at fair value through profit or loss.
- (iii) The aforementioned investments held by the Group are measured at amortized cost at year-end given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably.

For the years ended December 31, 2013 and 2012, the Group recognized an impairment loss of \$121,000 and \$39,476, respectively.

- (iv) The above financial instruments were not used as collateral as of December 31, 2013, and December 31 and January 1, 2012.
- (c) Notes and accounts receivable and other receivables

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Accounts receivable (including related parties)	\$ 1,355,122	1,404,662	915,039
Other receivables	225,632	219,344	518,945
Less: allowance for uncollectible accounts	<u>(1,866)</u>	<u>(3,077)</u>	<u>(2,122)</u>
	<u>\$ 1,578,888</u>	<u>1,620,929</u>	<u>1,431,862</u>

As of December 31, 2013, and December 31 and January 1, 2012, the Group did not provide any of the aforementioned notes and accounts receivable and other receivables as collateral for its loans. Please refer to note 8.

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

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Past due 0-90 days	\$ 110,160	379,817	57,150
Past due 91-180 days	-	4,808	1,013
Past due 181-240 days	4,746	947	-
Past due 241-360 days	1,618	160	-
Past due over 361 days	571	-	-
	<u>\$ 117,095</u>	<u>385,732</u>	<u>58,163</u>

Based on the historical payment behavior, the Group believed that the overdue receivables, of which no allowances for uncollectible amounts were set against, are still collectible.

The Group recognized impairment loss on notes and accounts receivable using individual and collective assessment methods. The movement in the allowance for notes and accounts receivable and other receivables was as follows:

	<u>2013</u>		
	<u>Individually</u> <u>assessed</u> <u>impairment</u>	<u>Collectively</u> <u>assessed</u> <u>impairment</u>	<u>Total</u>
Balance on January 1	\$ -	3,077	3,077
Reversal of impairment loss	-	(1,211)	(1,211)
Balance on December 31	<u>\$ -</u>	<u>1,866</u>	<u>1,866</u>
	<u>2012</u>		
	<u>Individually</u> <u>assessed</u> <u>impairment</u>	<u>Collectively</u> <u>assessed</u> <u>impairment</u>	<u>Total</u>
Balance on January 1	\$ 1,310	812	2,122
Impairment loss recognized	-	2,265	2,265
Reversal of impairment loss	(1,310)	-	(1,310)
Balance on December 31	<u>\$ -</u>	<u>3,077</u>	<u>3,077</u>

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(d) Inventories

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Raw materials	\$ 383,863	484,771	770,229
Work in progress	106,620	144,771	156,435
Finished goods	<u>164,550</u>	<u>352,464</u>	<u>451,353</u>
	<u>\$ 655,033</u>	<u>982,006</u>	<u>1,378,017</u>

- (i) For the years ended December 31, 2013 and 2012, the Group recognized the following items as cost of goods sold:

	Years ended	
	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Additional losses on inventory valuation and obsolescence	\$ 620	110,142
Unallocated fixed manufacturing overhead resulting from the actual production being lower than the normal capacity	182,232	235,542
Others	<u>(10,840)</u>	<u>4,728</u>
	<u>\$ 172,012</u>	<u>350,412</u>

- (ii) As of December 31, 2013, and December 31 and January 1, 2012, the Group did not provide any inventories as collateral for its loans.

(e) Investments accounted for using equity method

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

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Associates	<u>\$ 706,520</u>	<u>592,114</u>	<u>861,822</u>

- (i) Since the Group accounts for the investment using the equity method, there is no practical market value.

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (ii) MAP Technology Holdings Pte. Ltd. (MAP Tech.), an investee accounted for using the equity method, returned capital during the third quarter of 2012, so the Group received \$309,768. The Group still owned 46.60% of MAP Tech.
- (iii) During the third quarter of 2013, on a resolution approved by the board of directors, MAP Tech. offset accumulated deficit amounting to \$114,242 by decreasing its common stock. In addition, MAP Tech. returned capital, so the Group received \$53,237. The Group still owned 46.60% of MAP Tech.
- (iv) In 2010, the Group entered the smart meter industry and invested \$62,629 in Das Technology Co., Ltd., accounting for the investment at cost. In 2013, the Group invested \$72,240 and increased its ownership from 19.57% to 47.57%. However, the Group holds under 50% of the voting power of Das Technology Co., Ltd. and has no control over the financial and operating policies. Therefore, the investment in associates is accounted for using the equity method. The Group remeasured the investment and recognized a loss of \$12,134. Refer to note 6(q).
- (v) For the years ended December 31, 2013 and 2012, the Group received cash dividends from Min Aik Precision Industrial Co., Ltd. (MAP) amounting to \$4,741 and \$86,335, respectively. Also, MAP employees exercised employee stock options during September 2012; the Group's ownership of MAP decreased from 46.60% to 43.15%. The changes in percentage of ownership increased the capital surplus by \$30,495.
- (vi) During the second quarter of 2013, the Group sold shares of MAP. The Group's ownership of MAP decreased from 43.15% to 39.75%, and it recognized a gain on disposal of investments of \$24,911. Refer to note 6(q).
- (vii) In 2013 and 2012, the Group's share of the net income of associates was as follows:

	2013	2012
The Group's share of the net income of associates	\$ <u>85,953</u>	<u>120,451</u>

Summary financial information for investments in associates is as follows (before being adjusted to the Group's proportionate share):

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets	\$ <u>3,120,260</u>	<u>2,769,670</u>	<u>2,965,520</u>
Total liabilities	\$ <u>1,662,436</u>	<u>1,464,179</u>	<u>1,074,140</u>

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	<u>2013</u>	<u>2012</u>
Income	\$ <u>3,171,048</u>	<u>2,730,028</u>
Net income (loss) for the period	\$ <u>218,461</u>	<u>287,995</u>

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2013 and 2012, were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Other facilities</u>	<u>Prepayment for purchase of equipment</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2013	\$ 27,594	311,829	1,746,748	739,900	8,555	2,834,626
Additions	-	-	68,472	19,260	63,996	151,728
Disposal	(2,060)	(13,175)	(57,050)	(39,467)	(217)	(111,969)
Reclassification	-	148	55,888	3,901	(59,937)	-
Transfer from inventory	-	-	11,762	-	-	11,762
Transfer from prepaid expense	-	-	252	-	-	252
Transfer to patent or expense	-	-	-	-	(120)	(120)
Effect of movements in exchange rates	(1,034)	(12,255)	(34,488)	1,697	(90)	(46,170)
Balance on December 31, 2013	\$ <u>24,500</u>	<u>286,547</u>	<u>1,791,584</u>	<u>725,291</u>	<u>12,187</u>	<u>2,840,109</u>
Balance on January 1, 2012	\$ 27,918	402,090	2,050,208	844,212	121,900	3,446,328
Additions	-	3,353	235,604	43,766	357,388	640,111
Disposal	-	(176,531)	(791,952)	(218,941)	(16,208)	(1,203,632)
Reclassification	-	87,741	277,870	88,359	(453,970)	-
Transfer to expense	-	-	(755)	-	(1,015)	(1,770)
Transfer from inventory	-	-	4,166	-	-	4,166
Transfer from prepaid expense	-	-	1,406	-	-	1,406
Effect of movements in exchange rates	(324)	(4,824)	(29,799)	(17,496)	460	(51,983)
Balance on December 31, 2012	\$ <u>27,594</u>	<u>311,829</u>	<u>1,746,748</u>	<u>739,900</u>	<u>8,555</u>	<u>2,834,626</u>
Depreciation and impairments loss:						
Balance on January 1, 2013	\$ 2,021	35,193	929,028	518,163	-	1,484,405
Depreciation for the year	-	8,329	127,970	65,242	-	201,541
Disposal	(2,061)	(13,175)	(45,115)	(36,117)	-	(96,468)
Effect of movements in exchange rates	40	(972)	(14,724)	2,060	-	(13,596)
Balance on December 31, 2013	\$ <u>-</u>	<u>29,375</u>	<u>997,159</u>	<u>549,348</u>	<u>-</u>	<u>1,575,882</u>
Balance on January 1, 2012	\$ -	64,020	1,762,103	610,992	-	2,437,115
Depreciation for the year	-	8,094	157,943	64,579	-	230,616
Impairment loss (reversal)	2,027	-	(478,645)	(9)	-	(476,627)
Disposal	-	(36,322)	(490,877)	(144,861)	-	(672,060)
Effect of movements in exchange rates	(6)	(599)	(21,496)	(12,538)	-	(34,639)
Balance on December 31, 2012	\$ <u>2,021</u>	<u>35,193</u>	<u>929,028</u>	<u>518,163</u>	<u>-</u>	<u>1,484,405</u>
Carrying amounts:						
Balance on December 31, 2013	\$ <u>24,500</u>	<u>257,172</u>	<u>794,425</u>	<u>175,943</u>	<u>12,187</u>	<u>1,264,227</u>
Balance on December 31, 2012	\$ <u>25,573</u>	<u>276,636</u>	<u>817,720</u>	<u>221,737</u>	<u>8,555</u>	<u>1,350,221</u>
Balance on January 1, 2012	\$ <u>27,918</u>	<u>338,070</u>	<u>288,105</u>	<u>233,220</u>	<u>121,900</u>	<u>1,009,213</u>

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As of December 31, 2013, and December 31 and January 1, 2012, the property, plant and equipment of the Group had been pledged as collateral for long-term borrowings; please refer to note 8.

Furthermore, the Group evaluated the economic life of a portion of the machinery and equipment based on experience and extended it from 4~6 years to 5~10 years. It was adjusted as of the date it changed.

(g) Other non-current assets

The following are the other non-current assets of the Group.

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Long-term prepaid rent	\$ 53,940	56,910	57,883
Others	<u>28,099</u>	<u>31,013</u>	<u>62,881</u>
	<u>\$ 82,039</u>	<u>87,923</u>	<u>120,764</u>

The Group signed an agreement with an estate company in Malaysia to acquire the right to the use land for a factory and office from 2003 to 2096.

(h) Short-term borrowings

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Unsecured bank loans	\$ 56,015	123,519	543,537
Secured bank loans	-	-	32,351
Usance L/C payable	<u>3,549</u>	<u>15,905</u>	<u>-</u>
Total	<u>\$ 59,564</u>	<u>139,424</u>	<u>575,888</u>
Unused short-term credit lines	<u>\$ 2,440,494</u>	<u>2,231,758</u>	<u>3,509,755</u>
Annual interest rates	<u>1.2125%~2.00%</u>	<u>1.100%~1.795%</u>	<u>1.00654%~5.175%</u>

For information on the Group's credit risk, liquidity risk, and market risk, please see note 6(r).

For collateral for short-term borrowings as of December 31, 2013 and 2012, please refer to note 8.

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(i) Long-term borrowings

The details were as follows:

December 31, 2013			
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	NTD	2.375%	\$ 242,271
Secured bank loans	USD	1.93%	605
			\$ 242,876
Less: current portion			(5,816)
Total			<u>\$ 237,060</u>
Unused credit line for long-term borrowings			<u>\$ 57,730</u>

December 31, 2012			
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	NTD	2.575%	\$ 187,271
Secured bank loans	USD	1.21%~1.93%	15,722
			\$ 202,993
Less: current portion			(15,133)
Total			<u>\$ 187,860</u>
Unused credit line for long-term borrowings			<u>\$ 112,730</u>

January 1, 2012			
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity year</u>	<u>Amount</u>
Secured bank loans	THB	4.4375%~ 6.250%	\$ 32,564
Secured bank loans	USD	1.21%~1.93%	47,179
			\$ 79,743
Less: current portion			(55,987)
Total			<u>\$ 23,756</u>
Unused credit line for long-term borrowings			<u>\$ -</u>

For collateral for long-term borrowings as of December 31, 2013 and 2012, please refer to note 8.

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(j) Convertible bonds payable

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Aggregate principal amount	\$ 647,000	647,000	1,397,000
Unamortized discount	-	(42,774)	(80,381)
Accumulated converted amount	<u>(647,000)</u>	<u>(261,500)</u>	<u>(750,000)</u>
Ending balance of bonds payable	<u>\$ -</u>	<u>342,726</u>	<u>566,619</u>
Embedded derivative component - the value of redemption at the option of the Company (recorded as current financial assets at fair value through profit or loss)	<u>\$ -</u>	<u>10,744</u>	<u>-</u>
Embedded derivative component - the value of redemption at the option of the Company (recorded as non-current financial assets at fair value through profit or loss)	<u>\$ -</u>	<u>-</u>	<u>5,994</u>
Embedded derivative component - the value of redemption at the option of the bondholders (recorded as current financial liabilities at fair value through profit or loss)	<u>\$ -</u>	<u>82</u>	<u>-</u>
Embedded derivative component - the value of redemption at the option of the bondholders (recorded as non-current financial liabilities at fair value through profit or loss)	<u>\$ -</u>	<u>-</u>	<u>12,576</u>
Equity component (recorded as capital surplus – stock option)	<u>\$ -</u>	<u>55,385</u>	<u>82,681</u>
	<u>2013</u>	<u>2012</u>	
Embedded derivative component - revaluation loss or profit on redemption at the option of the Company and the bondholders (recorded as other gains and losses)	\$ <u>12,277</u>	<u>21,691</u>	
Interest expense	\$ <u>3,424</u>	<u>15,385</u>	

The Group issued unsecured domestic convertible bonds at par value in 2011. The effective rate was 2.812566%. The price at which shares would be issued upon conversion of the bonds was initially \$69.03 per share. Since the Group distributed cash dividends based on the stockholders' meeting resolution, the conversion price was adjusted to \$65.58 per share on July 10, 2012. Since the Group distributed cash dividends based on the stockholders' meeting resolution, the conversion price was adjusted to \$62.10 per share on June 12, 2013.

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Within the period between three months after the issue date and 40 days before the maturity date, (i) if the closing price of the Company's common shares on the Taiwan Stock Exchange for a period of 30 consecutive trading days has been 30% higher than the conversion price in effect on each such trading day, or (ii) in the event that the outstanding balance of the convertible bonds has been lower than 10% of the principal amount of the bonds, the Company may redeem all bonds at par value in cash.

The bondholders have the right to request the Company to redeem the bonds at the principal amount two years after the issue date.

Bondholders have the right to convert any bond into common stock of the Company from October 22, 2011, to September 11, 2016. The Company will deliver the relevant shares to the bondholders within five trading days after the conversion date.

(k) Operating lease

Non-cancellable operating lease rentals payable were as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Less than one year	\$ 55,857	61,391	69,099
Between one and five years	16,606	49,269	101,691
Over five years	<u>36,540</u>	<u>24,450</u>	<u>-</u>
	<u>\$ 109,003</u>	<u>135,110</u>	<u>170,790</u>

The Group leased office space, warehouses, and equipment under operating leases with lease terms of 1 to 20 years and had an option to renew the leases. During the years 2013 and 2012, an amount of \$68,245 and \$70,462, respectively, was recognized as an expense in profit or loss in respect of operating leases. There was no contingent rent recognized as an expense.

The Group does not participate in the residual value of the land and buildings.

(l) Employee benefits

1. Defined benefit plans

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

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Present value of defined benefit obligations	\$ (61,357)	(71,836)	(66,288)
Fair value of plan assets	<u>61,896</u>	<u>72,749</u>	<u>72,596</u>
Surplus in the plan	539	913	6,308
Unamortized past service cost	-	146	291
Unamortized actuarial losses	<u>4,569</u>	<u>4,715</u>	<u>-</u>
Recognized liabilities for defined benefit obligations	<u>\$ 5,108</u>	<u>5,774</u>	<u>6,599</u>

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

(i) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$61,896 as of December 31, 2013. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

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

	<u>For the years ended December 31</u>	
	<u>2013</u>	<u>2012</u>
Defined benefit obligation at January 1	\$ 71,836	66,288
Benefits paid by plan assets	(11,887)	(545)
Current service costs and interest	2,050	2,132
Actuarial (losses) gains	<u>(642)</u>	<u>3,961</u>
Defined benefit obligation at December 31	<u>\$ 61,357</u>	<u>71,836</u>

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(iii) Movements of defined benefit plan assets

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

	<u>2013</u>	<u>2012</u>
Fair value of plan assets at January 1	\$ 72,749	72,596
Benefits paid from the plan assets	(11,716)	(545)
Expected return on plan assets	1,359	1,452
Losses on plan assets	(496)	(754)
Fair value of plan assets at December 31	<u>\$ 61,896</u>	<u>72,749</u>

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	<u>2013</u>	<u>2012</u>
Service cost	\$ 887	972
Interest cost	1,163	1,160
Past service cost	146	146
Expected rate of return on plan assets	(1,359)	(1,452)
	<u>\$ 837</u>	<u>826</u>
Administrative expenses	<u>\$ 837</u>	<u>826</u>
Actual return on assets	<u>\$ 863</u>	<u>698</u>

(v) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	<u>2013</u>	<u>2012</u>
Discount rate	2.00%	1.625%
Expected rate of return on plan assets	2.00%	1.875%
Future salary increase rate	1.50%	1.50%

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.

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- (vi) Experience adjustments based on historical information

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Present value of defined benefit plans	\$ (61,357)	(71,836)	(66,288)
Fair value of plan assets	<u>61,896</u>	<u>72,749</u>	<u>72,596</u>
Net liabilities of defined benefit obligations	<u>\$ 539</u>	<u>913</u>	<u>6,308</u>
Experience adjustments arising on the present value of defined benefit plans	<u>\$ (1,452)</u>	<u>(3,416)</u>	<u>-</u>
Experience adjustments arising on the fair value of plan assets	<u>\$ (71)</u>	<u>(1,299)</u>	<u>-</u>

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$0.

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

As of December 31, 2013, the Company's prepaid pension costs were \$5,108. If the discount rate had been increased or decreased by 0.25%, the Group's prepaid pension costs would have been increased by \$1,525 or decreased by \$1,582, respectively. If the salary increase rate had increased or decreased by 0.25%, the Group's prepaid pension costs would have decreased by \$1,546 or increased by \$1,498, respectively.

2. Defined contribution plans

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

The Group recognized pension costs under the defined contribution method amounting to \$37,559 and \$41,293 for the years ended December 31, 2013 and 2012, respectively.

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(m) Income taxes

1. The components of income tax in the years 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Current tax expense	\$ 145,676	27,081
Deferred tax expense	<u>54,411</u>	<u>187,192</u>
Income tax expense	<u>\$ 200,087</u>	<u>214,273</u>

2. The amount of income tax recognized in other comprehensive income for 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Foreign currency translation differences for foreign operations	\$ <u>(14,945)</u>	<u>(7,211)</u>

3. Reconciliation of income tax and profit before tax for 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Profit excluding income tax	\$ <u>727,406</u>	<u>1,213,849</u>
Income tax using the Company's domestic tax rate	174,942	266,730
Effect of tax rates in foreign jurisdiction	32,604	29,013
10% surtax on unappropriated earnings	13,023	-
Tax exemption	(8,227)	(121,868)
Others	<u>(12,255)</u>	<u>40,398</u>
	<u>\$ 200,087</u>	<u>214,273</u>

4. Deferred tax assets and liabilities

- (i) Unrecognized deferred tax assets

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Tax losses	\$ 151,353	139,383	125,576
Deductible temporary differences	<u>14,620</u>	<u>26,766</u>	<u>8,361</u>
	<u>\$ 165,973</u>	<u>166,149</u>	<u>133,937</u>

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Deferred tax assets have not been recognized in respect of these items because future taxable profit will not be available against which the unused tax credits and deductible temporary differences can be utilized.

As of December 31, 2013, the tax losses carried forward of MAY, MATH and MUM amounted to \$621,040. Based on their respective effective tax rates, the maximum deductible tax amount was \$151,353.

(ii) Recognized deferred tax assets and liabilities

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

	<u>Loss on outward investment</u>	<u>Investment income recognized under the equity method</u>	<u>Investment income recognized in other comprehensive income</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:					
Balance on January 1, 2013	\$ 11,124	284,304	2,815	9,308	307,551
Recognized in profit or loss	(11,124)	(13,247)	-	28,334	3,963
Recognized in other comprehensive income	-	-	(2,815)	-	(2,815)
Foreign currency translation adjustment	-	-	-	(1,563)	(1,563)
Balance on December 31, 2013	<u>\$ -</u>	<u>271,057</u>	<u>-</u>	<u>36,079</u>	<u>307,136</u>
Balance on January 1, 2012	34,600	216,168	13,351	18,837	282,956
Recognized in profit or loss	(23,476)	68,136	-	(9,318)	35,342
Recognized in other comprehensive income	-	-	(10,536)	-	(10,536)
Foreign currency translation adjustment	-	-	-	(211)	(211)
Balance on December 31, 2012	<u>\$ 11,124</u>	<u>284,304</u>	<u>2,815</u>	<u>9,308</u>	<u>307,551</u>

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>Additional loss on inventory valuation</u>	<u>Investment income recognized under the equity method</u>	<u>Investment income recognized in other comprehensive income</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:					
Balance on January 1, 2013	\$ (3,453)	(81,278)	-	(3,420)	(88,151)
Recognized in profit or loss	264	61,709	-	(11,525)	50,448
Recognized in other comprehensive income	-	-	(12,130)	-	(12,130)
Balance on December 31, 2013	<u>\$ (3,189)</u>	<u>(19,569)</u>	<u>(12,130)</u>	<u>(14,945)</u>	<u>(49,833)</u>
Balance on January 1, 2012	\$ (2,276)	(228,113)	-	(9,612)	(240,001)
Recognized in profit or loss	(1,177)	146,835	-	6,192	151,850
Balance on December 31, 2012	<u>\$ (3,453)</u>	<u>(81,278)</u>	<u>-</u>	<u>(3,420)</u>	<u>(88,151)</u>

5. Examination and approval

The ROC tax authorities have examined the Company's income tax returns through 2010.

6. Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Unappropriated earnings of 1998 and after	\$ <u>809,417</u>	<u>1,181,691</u>	<u>581,537</u>
Balance of imputation credit account	\$ <u>41,223</u>	<u>135,622</u>	<u>111,845</u>

	<u>2013 (Estimated)</u>	<u>2012 (Actual)</u>
Creditable ratio for earnings distribution to ROC residents	\$ <u>13.92%</u>	<u>11.48%</u>

The abovestated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the ROC on October 17, 2013.

(n) Capital and other equity

As of December 31, 2013, and December 31 and January 1, 2012, the authorized common stock was \$4,000,000 (including employee stock options for 7.5 million shares).

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The total common stock outstanding amounted to \$1,742,020, \$1,675,554 and \$1,642,984, respectively. The par value of the Company's common stock is \$10 (NT dollars) per share.

1. Ordinary shares

In the years ended December 31, 2013 and 2012, convertible bonds issued in 2010 were converted into the Company's common stock with an aggregate par value of \$66,466 and \$32,570, respectively. The carrying value of these convertible bonds amounted to \$323,211 and \$186,930, respectively, which exceeded the par value of the issued common stock by \$264,049 and \$154,360 respectively. The excess amount was recognized as capital surplus. The registration procedures related to this increase in common stock were completed. In addition, the capital collected in advance was \$7,304 and the capital surplus was \$40,596 at December 31, 2012. The convertible bonds payable were converted to capital in advance after the date set for dividends.

2. Capital surplus

The balances of capital surplus as of December 31, 2013, and December 31 and January 1, 2012, were as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Additional paid-in capital	\$ 1,443,485	1,124,051	1,066,097
Treasury share transactions	80,675	80,675	80,675
Gain on disposal of assets	7	7	7
Change of equity of associates accounted for using equity method	30,748	30,495	-
Stock options	-	55,385	82,681
	<u>\$ 1,554,915</u>	<u>1,290,613</u>	<u>1,229,460</u>

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase common stock or be distributed as dividends in cash. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock, and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases by transferring paid-in capital in excess of par value can only commence in the following year.

3. Retained earnings

Pursuant to the Company's articles of incorporation, the Company's earnings are to be appropriated as follows:

(Continued)

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

- a. pay taxes;
- b. offset prior years' deficits, if any;
- c. of the remainder, if any, 10% is to be set aside as legal reserve;
- d. appropriate 1% of the remainder, if any, as employees' bonus, and not more than 3% of the remainder as directors' and supervisors' remuneration;
- e. the remaining balance, if any, is to be distributed as dividends based on the proposal provided by a board of directors' meeting and approved at a stockholders' meeting.

(i) Legal reserve

According to the amendment of ROC Company Act amended in January 2012, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of the total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of the capital may be distributed.

(ii) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (and is not qualified for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(iii) Earnings distribution

The Company estimated the amounts of employees' bonus and directors' and supervisors' remuneration equal to a certain percentage determined by the management of the Company based on the net income after tax for the years ended December 31, 2013 and 2012, less 10% legal reserve. The Company recognized employees' bonus of \$32,515 and \$64,121, and directors' and supervisors' remuneration of \$9,290 and \$18,320 for the years ended December 31, 2013 and 2012, respectively. Differences between the amount approved in the stockholders' meeting and that recognized in the financial statements, if any, will be accounted for as changes in accounting estimates and recognized as profit or loss in the year in which the stockholders' meeting is held.

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The above distributions of retained earnings did not differ from the resolutions made by the meetings of the board of directors and the estimated amount that had been recognized as salaries in the Company's 2012 and 2011 financial statements. The related information can be accessed in the Market Observation Post System (MOPS) after the above meetings are held by the Company.

Based on the resolution of the stockholders' meetings held on May 7, 2013, and June 6, 2012, the information on dividends, employees' bonus, and directors' and supervisors' remuneration appropriated from the distributable retained earnings of 2012 and 2011 was as follows:

	2012	2011
Dividends per share (NT dollars)		
Cash from unappropriated retained earnings	\$ 4.50	2.60
Cash from capital surplus	-	1.00
	\$ 4.50	3.60

(o) Earnings per share

1. Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2013 and 2012, was based on the profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding, calculated as follows:

	2013	2012
Profit attributable to ordinary shareholders of the Company	\$ <u>516,107</u>	<u>1,018,359</u>
Weighted-average number of ordinary shares	<u>172,264</u>	<u>165,531</u>

2. Diluted earnings per share

The calculation of diluted earnings per share for the years ended December 31, 2013 and 2012, was based on profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Profit attributable to ordinary shareholders of the Company (diluted)

	<u>2013</u>	<u>2012</u>
Profit attributable to ordinary shareholders of the Company (diluted)	\$ 516,107	1,018,359
Effects of potential common stock	<u>2,842</u>	<u>12,769</u>
	<u>\$ 518,949</u>	<u>1,031,128</u>

(ii) Weighted-average number of ordinary shares (diluted)

	<u>2013</u>	<u>2012</u>
Weighted-average number of ordinary shares (basic)	172,264	165,531
Effect of convertible bonds payable	1,938	8,633
Effect of employee stock bonuses not yet authorized by the shareholders' meeting	<u>978</u>	<u>934</u>
Weighted-average number of ordinary shares (diluted) at December 31	<u>175,180</u>	<u>175,098</u>

(p) Revenue

The revenue for the years ended December 31, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Sales of goods	\$ 6,359,368	6,430,961
Sales of molds	146,121	329,560
Others	<u>71,055</u>	<u>44,792</u>
	<u>\$ 6,576,544</u>	<u>6,805,313</u>

(q) Non-operating income and expenses

1. Other income

The other income for the years ended December 31, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Insurance claim for inventories and fixed assets	\$ -	715,188
Interest income	6,595	9,007
Others	<u>53,751</u>	<u>69,836</u>
	<u>\$ 60,346</u>	<u>794,031</u>

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Other gains and losses

The other gains and losses for the years ended December 31, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Foreign currency exchange gains (losses), net	\$ 182,889	(36,947)
Impairment loss on financial assets	(121,000)	(39,476)
Gain on disposal of investment	24,911	-
Remeasurement of impairment loss for non-current financial assets at cost	(12,134)	-
Gain on valuation of financial assets (liabilities)	12,277	21,691
Others	<u>(8,352)</u>	<u>(1,876)</u>
	<u>\$ 78,591</u>	<u>(56,608)</u>

(r) Financial instruments

1. Credit risk

(i) Exposure to credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2013, and December 31 and January 1, 2012, the maximum amount exposed to credit risk was \$4,215,781, \$4,034,634 and \$3,488,701, respectively. The Group controls its exposure to each individual financial institution and anticipates no significant concentration of risk related to cash accounts.

(ii) Impairment loss

As of December 31, 2013, and December 31 and January 1, 2012, 89%, 84% and 67%, respectively, of the ending balance of trade notes and accounts receivable arose from sales to individual customers constituting the top five for the years ended December 31, 2013, and December 31 and January 1, 2012. Therefore, the concentration of credit risk related to accounts receivable was significant.

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1 ~ 2 years</u>	<u>2 ~ 5 years</u>	<u>Over 5 years</u>
December 31, 2013						
Non-derivative financial liabilities:						
Short-term and long-term borrowings	\$ 302,440	331,992	72,244	33,096	102,637	124,015
Accounts payable	981,996	981,996	981,996	-	-	-
Accounts payable-related parties	145,384	145,384	145,384	-	-	-
Other financial liabilities	<u>168,537</u>	<u>168,537</u>	<u>168,537</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,598,357</u>	<u>1,627,909</u>	<u>1,368,161</u>	<u>33,096</u>	<u>102,637</u>	<u>124,015</u>
December 31, 2012						
Non-derivative financial liabilities:						
Short-term and long-term borrowings	\$ 342,417	370,827	161,571	10,248	81,070	117,938
Accounts payable	832,267	832,267	832,267	-	-	-
Accounts payable-related parties	63,377	63,377	63,377	-	-	-
Convertible bonds payable	342,726	342,726	342,726	-	-	-
Other financial liabilities	<u>214,135</u>	<u>214,135</u>	<u>214,135</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,794,922</u>	<u>1,823,332</u>	<u>1,614,076</u>	<u>10,248</u>	<u>81,070</u>	<u>117,938</u>
January 1, 2012						
Non-derivative financial liabilities:						
Short-term and long-term borrowings	\$ 655,631	683,740	659,384	23,729	627	-
Accounts payable	809,413	809,413	809,413	-	-	-
Accounts payable-related parties	123,167	123,167	123,167	-	-	-
Convertible bonds payable	566,619	566,619	-	566,619	-	-
Other financial liabilities	<u>152,591</u>	<u>152,591</u>	<u>152,591</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,307,421</u>	<u>2,335,530</u>	<u>1,744,555</u>	<u>590,348</u>	<u>627</u>	<u>-</u>

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

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Market risk

(i) Exposure to foreign currency risk

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

	December 31, 2013			December 31, 2012			January 1, 2012		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets									
Monetary items									
USD	97,869	29.8050	2,916,996	113,230	29.0400	3,288,203	60,200	30.2750	1,822,547
SGD	6,510	23.5800	153,513	3,287	23.7714	78,134	4,122	23.2884	95,966
Financial liabilities									
Monetary items									
USD	32,886	29.8050	980,171	27,582	29.0400	800,980	16,720	30.2750	506,208
SGD	156	23.5800	3,687	198	29.0400	4,695	60	23.2884	1,405

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables that are denominated in foreign currency.

A weakening (strengthening) of 10% of the TWD against the USD and SGD as of December 31, 2013 and 2012, would have increased or decreased the net profit before tax by \$208,665 and \$256,066, respectively. The analysis is performed on the same basis for both periods.

(iii) Interest rate analysis

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

	Carrying amount		
	December 31, 2013	December 31, 2012	January 1, 2012
Fixed-rate instruments:			
Financial assets	\$ 228,421	134,356	392,882
Financial liabilities	-	(342,726)	(566,619)
	<u>\$ 228,421</u>	<u>(208,370)</u>	<u>(173,737)</u>
Variable-rate instruments:			
Financial assets	\$ 2,348,299	2,002,879	1,711,202
Financial liabilities	(302,439)	(342,417)	(655,631)
	<u>\$ 2,045,860</u>	<u>1,660,462</u>	<u>1,055,571</u>

(Continued)

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

The following sensitivity analysis is based on the exposure to interest rate risk of the derivative and non-derivative financial instruments on the reporting date. Regarding the assets with variable interest rates, the analysis is on the basis of the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The Group reported the increases/decreases in the interest rates and the exposure to changes in interest rates to the Group's key management so as to allow key management to assess the reasonableness of the changes in the interest rates.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by \$5,115 and \$4,151 for the years ended December 31, 2013 and 2012, respectively, which would have mainly resulted from bank savings with variable interest rates. Since the interest rate on time deposits, bond investment without active market, and short-term borrowings was fixed, changes in market interest rates of the aforementioned financial assets would have had no effect on the financial statements.

4. Fair value**(i) Fair value and carrying amount**

The management of the Group believes that the carrying amounts of the financial assets and liabilities in the financial statement measured at amortized cost are a reasonable approximation of fair value.

(ii) Fair value hierarchy

The table below analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

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

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2013				
Financial assets at fair value through profit or loss	\$ -	-	-	-
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2012				
Financial assets at fair value through profit or loss	\$ -	-	10,744	10,744
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>-</u>	<u>(82)</u>	<u>(82)</u>
	<u>\$ -</u>	<u>-</u>	<u>10,662</u>	<u>10,662</u>
January 1, 2012				
Financial assets at fair value through profit or loss	\$ -	-	5,994	5,994
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>-</u>	<u>(12,576)</u>	<u>(12,576)</u>
	<u>\$ -</u>	<u>-</u>	<u>(6,582)</u>	<u>(6,582)</u>

There were no transfers from one level to another in the years ended December 31, 2013 and 2012.

The following table shows a reconciliation of the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	<u>2013</u>	<u>2012</u>
Balance on January 1	\$ 10,662	(6,582)
Total gains and losses recognized in profit or loss	12,277	21,691
Disposal/Redemption	<u>(22,939)</u>	<u>(4,447)</u>
Balance on December 31	<u>\$ -</u>	<u>10,662</u>

(s) Financial risk management

1. Structure of risk management

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

(Continued)

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

The Group minimizes the risk exposure through derivative financial instruments. The board of directors regulates the use of derivative and non-derivative financial instruments in accordance with the Group's policy about risks arising from financial instruments such as currency risk, interest rate risk, and credit risk; the use of derivative and non-derivative financial instruments; and investment of excess liquidity. The internal auditors of the Group continuously review of the amount of risk exposure in accordance with the Group's risk management policies and procedures. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation. The finance department reports to the board of directors periodically.

2. Briefings

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

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

This note presents information on exposure to each of the above risks and on the objectives, policies, and processes as for measuring and managing risk. For detailed information, please refer to the related notes on each risk.

(t) Capital management

The Group manages capital to safeguard the capacity to continue to operate. The management uses the asset-liability ratio to manage capital. This ratio is debt divided by assets. Debt is derived from the total liabilities, except for bonds payable. As of December 31, 2013, and December 31 and January 1, 2012, the Group's asset-liability ratio was 31%, 28%, and 33%, respectively.

As of December 31, 2013, there were no changes in the Group's approach to capital management.

(u) Investing and financing activities not affecting current cash flow

During the years 2013 and 2012, the conversion of the Group's convertible bonds to ordinary shares did not affect current cash flow.

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Related-party transactions

(a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Group and its subsidiaries.

(b) Sales

1. Sale of goods to related parties

The amounts of significant sales by the Group to related parties and the resulting accounts receivable were as follows:

	Sales		Accounts receivable – related party		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Associates	\$ 61,201	13,596	5,136	-	11,760
Other related parties	1,868	9,381	-	1,170	307
	\$ 63,069	22,977	5,136	1,170	12,067

The credit terms were 120 days for related parties, but they may be adjusted depending on the demand for funds of the related party. The general credit terms for counterparties other than related parties are about 2 to 3 months after delivery. The sales prices were not significantly different from those for third-party customers.

2. Purchases

The amounts of purchases by the Group from related parties were as follows:

	Purchase		Accounts payable – related party		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Associates	\$ 438,777	434,592	144,783	63,377	123,167
Other related parties	-	-	601	-	-
	\$ 438,777	434,592	145,384	63,377	123,167

The credit terms were 30 to 120 days for related parties, but they may be adjusted depending on the demand for funds of the related party. The general credit terms for counterparties other than related parties are L/C, T/T, or 60~120 days after goods are received. The purchase price is negotiated by the parties.

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Service revenue

	Service revenue		Other accounts receivable – related party		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Associates	\$ <u>47,351</u>	<u>26,499</u>	<u>5,961</u>	<u>3,461</u>	<u>1,578</u>

4. Property transactions

(i) The sales of property, plant and equipment to related parties were as follows:

	Amount		Other accounts receivable – related parties		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Sales price	\$ 746	12,609	-	21	11,859
Gain on sale of equipment	201	3,061	-	-	-

(ii) The purchases of property, plant and equipment from related parties were as follows:

	Amount		Other accounts payable – related parties		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Purchase price	\$ <u>43,552</u>	<u>223,670</u>	<u>234</u>	<u>26,434</u>	<u>-</u>

5. Related-party financing

Financing to related parties was as follows:

	Amount		Other accounts receivable – related parties		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Associates	\$ <u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Interest on the above financing was calculated based on the contract. Since such loans were secured by the Group, they did not require provisions for bad debt expenses.

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Endorsement/guarantee provided

As of December 31, 2013, and December 31 and January 1, 2012, the Group had provided bank loan guarantees to related parties for operating requirements of \$719,151, \$797,111 and \$1,120,175, respectively.

(c) Key management personnel compensation

	<u>2013</u>	<u>2012</u>
Short-term employee benefits	\$ 33,352	49,415
Post-employment benefits	300	240
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
	<u>\$ 33,652</u>	<u>49,655</u>

(8) Pledged assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Time deposit (classified under other accounts receivable)	Bank loans and guarantee for credit line	\$ 127,598	94,930	332,531
Machinery and equipment	Bank loans	595	862	37,886
Land and buildings	Bank guarantee	-	-	66,969
		<u>\$ 128,193</u>	<u>95,792</u>	<u>437,386</u>

(9) Commitments and contingencies

Significant commitments unrecognized:

1. Unrecognized commitments of the Group were as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Acquisition of property, plant and equipment	\$ <u>16,452</u>	<u>45,555</u>	<u>132,219</u>

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Guarantee notes issued as collateral for applying for a credit line were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Guarantee notes issued	\$ <u>2,003,108</u>	<u>1,986,660</u>	<u>2,163,213</u>

For endorsements, please refer to note 7.

3. For the compensation for disaster losses for the Group, please refer to note 10.

(10) Losses due to significant disasters

In October 2011, the Group's subsidiaries Min Aik Technology (Thailand) Co., Ltd. (MATH) and MU-Technology (Thailand) Co., Ltd. (MUTH) located in Rojana Industrial Park, Thailand, suffered floods. Assets with original cost of \$1,282,915 were damaged. For the fourth quarter of 2011, MATH and MUTH recognized the total loss of \$605,856 according to the book value of inventories, machinery, and furniture, and the loss was presented as other loss. In addition, MATH and MUTH filed for insurance compensation amounting to \$1,027,020 based on the replacement cost of inventories, machinery, and furniture. The insurance company and the Company reached an agreement on the insurance claim. MATH and MUTH recognized claim revenue of \$715,188.

(11) Subsequent events: none**(12) Other**

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By item	By function	2013			2012		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits							
Salary		585,489	258,026	843,515	508,866	308,493	817,359
Labor and health insurance		20,453	15,576	36,029	19,249	13,411	32,660
Pension		24,666	13,730	38,396	25,775	16,344	42,119
Others		38,882	14,188	53,070	49,428	33,241	82,669
Depreciation		166,790	34,752	201,542	184,493	46,123	230,616
Amortization		6,301	1,032	7,333	1,014	31,002	32,016

(Continued)

MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Segment information

(a) General information

The Group identifies its operating segments based on the decision of the chief operating decision maker (CODM). The Group's operating segments are EMS (Electronics Manufacturing Service), Automatic Equipment Service, and Commerce Service. Except for EMS, the operating segments did not meet the quantitative threshold for individually reportable segments nor are they aggregated with other operating segments.

EMS's main operating activities are designing and manufacturing consumer electronics end products. Those of Automatic Equipment Service are designing and manufacturing automatic machinery for industrial use. The main operating activity of Commerce Service is trading business. Since the strategy of each segment is different, it is necessary to separate them for management.

(b) Reportable segments and operating segment information

The Consolidated Company assessed performance of the segments based on the segments' profit, and the accounting policy of the segments is the same as that described in the summary of significant accounting policies.

The Group's segment financial information was as follows:

	For the year ended December 31, 2013			
	EMS	Others	Adjustments and eliminations	Total
External revenue	\$ 6,172,336	404,208	-	6,576,544
Intra-group revenue	-	-	-	-
Total segment revenue	<u>\$ 6,172,336</u>	<u>404,208</u>	<u>-</u>	<u>6,576,544</u>
Segment profit	<u>\$ 486,358</u>	<u>27,146</u>	<u>-</u>	<u>513,504</u>
Segment total assets	<u>\$ -</u>	<u>-</u>	<u>7,020,633</u>	<u>7,020,633</u>
	For the year ended December 31, 2012			
	EMS	Others	Adjustments and eliminations	Total
External revenue	\$ 6,264,998	540,315	-	6,805,313
Intra-group revenue	-	-	-	-
Total segment revenue	<u>\$ 6,264,998</u>	<u>540,315</u>	<u>-</u>	<u>6,805,313</u>
Segment profit	<u>\$ 310,753</u>	<u>76,538</u>	<u>-</u>	<u>387,291</u>
Segment total assets	<u>\$ -</u>	<u>-</u>	<u>7,216,391</u>	<u>7,216,391</u>

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Product and service information

The Group's product revenues from exterior clients were as follows:

Product	<u>2013</u>	<u>2012</u>
VCM	\$ 2,009,491	3,334,258
APFA	1,592,820	560,731
COVER	858,071	684,793
CSA/RAMP	669,404	691,367
EHD	552,389	535,883
HDD	261,299	288,950
Others	<u>633,070</u>	<u>709,331</u>
	\$ <u>6,576,544</u>	<u>6,805,313</u>

(d) Geographic information

The Group's non-current assets are located in Asia, and its revenue from external clients by geographical location was as follows:

Geographic area	<u>2013</u>	<u>2012</u>
Asia	\$ 5,874,735	6,149,796
Americas	627,975	598,193
Europe	73,683	56,815
Oceania	<u>151</u>	<u>509</u>
	\$ <u>6,576,544</u>	<u>6,805,313</u>

(e) Major customers

Sales to individual clients constituting over 10% of total revenue in 2013 and 2012 are summarized as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Revenue</u>	<u>Percentage of net sales</u>	<u>Revenue</u>	<u>Percentage of net sales</u>
Western Digital (M) Sdn. Bhd.	\$ 2,865,813	44	2,826,879	42
Western Digital (Thailand) Company	<u>2,161,814</u>	<u>33</u>	<u>2,590,896</u>	<u>38</u>
	\$ <u>5,027,627</u>	<u>77</u>	<u>5,417,775</u>	<u>80</u>

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) First-time adoption of IFRSs

The consolidated financial statements for the year ended December 31, 2012, were originally prepared in accordance with ROC GAAP. As stated in note 4(a), these consolidated financial statements are the first annual consolidated financial statements prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs and IAS 1 endorsed by the FSC.

The accounting policies stated in note 4 have been adopted when preparing the comparative consolidated financial statements for the year ended December 31, 2012, the consolidated balance sheet as of December 31, 2012, and the first IFRS consolidated balance sheet as of January 1, 2012 (the conversion date of the Group).

When preparing financial statements for fiscal year 2012, the Group set the amounts in the financial statements prepared in accordance with the ROC GAAP as the beginning point for adjustments. The impact on and explanations for the financial status, financial performance, and cash flows for each point or period of time arising from the conversion from ROC GAAP to the IFRSs endorsed by the FSC were as shown in the following tables and notes.

(a) Reconciliation of consolidated balance sheet

	December 31, 2012			January 1, 2012		
	ROC GAAP	Effect of transition to IFRSs	IFRSs	ROC GAAP	Effect of transition to IFRSs	IFRSs
Assets						
Cash and cash equivalents	\$ 2,042,305	-	2,042,305	1,771,553	-	1,771,553
Current financial assets at fair value through profit or loss	10,744	-	10,744	-	-	-
Notes and accounts receivable, net (including related parties)	1,401,585	-	1,401,585	912,917	-	912,917
Other financial assets – current	124,414	-	124,414	186,414	-	186,414
Inventories	982,006	-	982,006	1,378,017	-	1,378,017
Prepayment and other current assets	70,598	-	70,598	65,622	-	65,622
Other receivables	94,930	-	94,930	332,531	-	332,531
	<u>4,726,582</u>	<u>-</u>	<u>4,726,582</u>	<u>4,647,054</u>	<u>-</u>	<u>4,647,054</u>
Investments accounted for using equity method	596,678	(4,564)	592,114	866,386	(4,564)	861,822
Non-current financial assets at fair value through profit or loss	-	-	-	5,994	-	5,994
Non-current financial assets at cost	371,400	-	371,400	285,286	-	285,286
Property, plant and equipment	1,340,998	9,223	1,350,221	1,003,212	6,001	1,009,213
Intangible assets	56,910	(56,910)	-	57,883	(57,883)	-
Long-term prepaid rents	-	56,910	56,910	-	57,883	57,883
Deferred tax assets	-	88,151	88,151	-	240,001	240,001
Other non-current assets	42,423	(11,410)	31,013	71,895	(9,014)	62,881
	<u>2,408,409</u>	<u>81,400</u>	<u>2,489,809</u>	<u>2,290,656</u>	<u>232,424</u>	<u>2,523,080</u>
Total assets	\$ <u>7,134,991</u>	<u>81,400</u>	<u>7,216,391</u>	<u>6,937,710</u>	<u>232,424</u>	<u>7,170,134</u>

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2012			January 1, 2012		
	ROC GAAP	Effect of transition to IFRSs		ROC GAAP	Effect of transition to IFRSs	
		IFRSs	IFRSs		IFRSs	IFRSs
Liabilities						
Short-term borrowings	\$ 139,424	-	139,424	575,888	-	575,888
Current financial liabilities at fair value through profit or loss	82	-	82	-	-	-
Notes and accounts payable (including related parties)	887,862	7,782	895,644	927,365	5,215	932,580
Other current financial liabilities	385,667	374	386,041	276,836	2,623	279,459
Bonds payable – current portion	342,726	-	342,726	-	-	-
Long-term borrowings – current portion	15,133	-	15,133	55,987	-	55,987
Other current liabilities	91,851	(8,871)	82,980	226,378	(4,595)	221,783
	<u>1,862,745</u>	<u>(715)</u>	<u>1,862,030</u>	<u>2,062,454</u>	<u>3,243</u>	<u>2,065,697</u>
Non-current financial liabilities at fair value through profit or loss	-	-	-	12,576	-	12,576
Bonds payable	-	-	-	566,619	-	566,619
Long-term borrowings	187,860	-	187,860	23,756	-	23,756
Deferred tax liabilities and other non-current liabilities	228,429	95,635	324,064	56,366	243,264	299,630
	<u>416,289</u>	<u>95,635</u>	<u>511,924</u>	<u>659,317</u>	<u>243,264</u>	<u>902,581</u>
Total liabilities	<u>2,279,034</u>	<u>94,920</u>	<u>2,373,954</u>	<u>2,721,771</u>	<u>246,507</u>	<u>2,968,278</u>
Equity attributable to owners of parent						
Ordinary shares	1,675,554	-	1,675,554	1,642,984	-	1,642,984
Advance receipts for share capital	7,304	-	7,304	-	-	-
Capital surplus	1,409,403	(118,790)	1,290,613	1,348,250	(118,790)	1,229,460
Retained earnings	1,569,217	105,270	1,674,487	978,597	104,707	1,083,304
Exchange differences on translation of foreign financial statements	(9,004)	-	(9,004)	44,481	-	44,481
Total equity attributable to owners of parent	<u>4,652,474</u>	<u>(13,520)</u>	<u>4,638,954</u>	<u>4,014,312</u>	<u>(14,083)</u>	<u>4,000,229</u>
Non-controlling interests	203,483	-	203,483	201,627	-	201,627
Total equity	<u>4,855,957</u>	<u>(13,520)</u>	<u>4,842,437</u>	<u>4,215,939</u>	<u>(14,083)</u>	<u>4,201,856</u>
Total liabilities and equity	<u>\$ 7,134,991</u>	<u>81,400</u>	<u>7,216,391</u>	<u>6,937,710</u>	<u>232,424</u>	<u>7,170,134</u>

(b) Reconciliation of consolidated statement of comprehensive income

	The year ended December 31, 2012		
	ROC GAAP	Effect of transition to IFRSs	
		IFRSs	IFRSs
Sales revenue	\$ 6,805,313	-	6,805,313
Cost of sales	<u>(5,625,565)</u>	<u>-</u>	<u>(5,625,565)</u>
Gross profit	<u>1,179,748</u>	<u>-</u>	<u>1,179,748</u>
Operating expenses:			
Selling expenses	(197,126)	-	(197,126)
Administrative expenses	(409,697)	508	(409,189)
Research and development expenses	<u>(186,142)</u>	<u>-</u>	<u>(186,142)</u>
Total operating expenses	<u>(792,965)</u>	<u>508</u>	<u>(792,457)</u>
Net operating income	<u>386,783</u>	<u>508</u>	<u>387,291</u>

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	The year ended December 31, 2012		
	ROC GAAP	Effect of transition to IFRSs	IFRSs
Non-operating income and expenses:			
Other income	794,031	-	794,031
Other gains and losses	(56,608)	-	(56,608)
Finance costs	(31,316)	-	(31,316)
Share of profit (loss) of associates accounted for using equity method	<u>120,451</u>	<u>-</u>	<u>120,451</u>
Profit before tax	1,213,341	508	1,213,849
Tax expense	<u>(214,328)</u>	<u>55</u>	<u>(214,273)</u>
Profit	<u>\$ 999,013</u>	<u>563</u>	<u>\$ 999,576</u>
Other comprehensive income:			
Foreign currency translation differences for foreign operations			(61,728)
Less: income tax relating to components of other comprehensive income			<u>7,211</u>
Other comprehensive income, net			<u>(54,517)</u>
Comprehensive income			<u>\$ 945,059</u>
Profit attributable to:			
Owners of parent	\$ 1,017,796	563	\$ 1,018,359
Non-controlling interests	<u>(18,783)</u>	<u>-</u>	<u>(18,783)</u>
	<u>\$ 999,013</u>	<u>563</u>	<u>\$ 999,576</u>
Comprehensive income attributable to:			
Owners of parent			\$ 964,874
Non-controlling interests			<u>(19,815)</u>
			<u>\$ 945,059</u>
Basic earnings per share	<u>\$ 6.15</u>	<u>-</u>	<u>\$ 6.15</u>
Diluted earnings per share	<u>\$ 5.89</u>	<u>-</u>	<u>\$ 5.89</u>

(c) Significant adjustments in consolidated statements of cash flows

As of December 31 and January 1, 2012, there were no significant differences between the consolidated statement of cash flows prepared in accordance with ROC GAAP and with the IFRSs endorsed by the FSC.

- The Group has a present legal or constructive obligation to record accumulating compensated absences as a result of employees' past service. The Group recognized the expected cost of accumulating compensated absences as accrued liabilities (recorded as other current liabilities). They are summarized as follows:

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>2012</u>	
Consolidated statements of income		
Increase in administrative expense	\$ 318	
Decrease in tax expense	<u>(55)</u>	
	<u>\$ 263</u>	
	<u>December 31,</u>	<u>January 1,</u>
	<u>2012</u>	<u>2012</u>
Consolidated balance sheet		
Increase in other current liabilities	\$ 8,156	7,838
Decrease in deferred tax assets	<u>(1,387)</u>	<u>(1,332)</u>
Decrease in retained earnings	<u>\$ 6,769</u>	<u>6,506</u>

2. The Group has a defined benefit plan which measures the retirement benefit obligation using actuarial techniques. Originally, the actuarial gains or losses resulting from experience adjustments and changes in actuarial assumptions were amortized by the average remaining service period of employees and were recognized in profit or loss in accordance with ROC GAAP. The Group elected the exemption in accordance with IFRS 1 and recognized the actuarial gains or losses directly in equity at the date of transition to IFRSs. As of January 1 2012, the adjusted accounts and the increased (decreased) amount were as follows:

	<u>2012</u>	
Consolidated statement of income		
Decrease in operating expense	\$ <u>(826)</u>	
	<u>December 31,</u>	<u>January 1,</u>
	<u>2012</u>	<u>2012</u>
Consolidated balance sheet		
Increase in prepaid pension cost	\$ <u>2,187</u>	<u>3,013</u>
Decrease in retained earnings	<u>\$ 2,187</u>	<u>3,013</u>

3. As of January 1, 2012, the capital surplus resulting from the change in percentage of ownership of investees and asset revaluation increment recognized under the equity method was \$118,790, and increased retained earnings. The effects of this GAAP difference were as follows:

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MIN AIK TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Consolidated balance sheet		
Decrease in capital surplus	\$ <u>118,790</u>	<u>118,790</u>
Increase in retained earnings	\$ <u>(118,790)</u>	<u>(118,790)</u>

4. Investment accounted for under the equity method should follow the same accounting policies as the Group. The investee companies recognized the accrued pension liability under the defined benefit plans in profit or loss, and the Group adjusted the percentage of ownership accounted for using the equity method. The effects of these GAAP differences were as follows:

	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Consolidated balance sheet		
Investments accounted for using equity method	\$ <u>4,564</u>	<u>4,564</u>
Decrease in retained earnings	\$ <u>4,564</u>	<u>4,564</u>

5. When the Group estimates the income tax, it should consider the investment tax credits, temporary differences, and other factors for estimating the deferred income tax assets and liabilities. According to IFRSs, the deferred income tax assets and liabilities should be classified as non-current assets and liabilities, while the right to statutory tax offsets and other related conditions are considered. Under ROC GAAP, the deferred income tax assets and liabilities were offset against each other and presented as a net amount. Therefore, the income tax liabilities – current amounting to \$8,871 and \$4,595 were reclassified as income tax liabilities – non-current as of December 31 and January 1, 2012, respectively, and the deferred income tax assets (liabilities) which were offset by the deferred income tax assets, amounting to \$86,764 and \$238,669, were reclassified and the deferred income tax liabilities amounting to \$307,551 and \$282,956 were reclassified as of December 31 and January 1, 2012, respectively.
6. The effect of all GAAP differences mentioned above on retained earnings was as follows:

	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Other current liabilities	\$ 6,769	6,506
Prepaid pension cost	2,187	3,013
Capital surplus	(118,790)	(118,790)
Investments accounted for using equity method	<u>4,564</u>	<u>4,564</u>
Increase in retained earnings	\$ <u>(105,270)</u>	<u>(104,707)</u>