

**GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AND REVIEW REPORT OF
INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2014 AND 2013**

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR14000101

To the Board of Directors and Stockholders of GCS Holdings, Inc.

We have reviewed the accompanying consolidated balance sheets of GCS Holdings, Inc. and its subsidiary as of September 30, 2014 and 2013, the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, and the related consolidated statements of changes in equity and of cash flows for the nine-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and IAS 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission of the Republic of China.

Pricewaterhouse Coopers, Taiwan

November 6, 2014

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

GCS HOLDINGS INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

<u>ASSETS</u>	<u>Notes</u>	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
		(Unaudited)		(Unaudited)
Current assets				
Cash and cash equivalents	6(1)	\$ 459,722	\$ 291,914	\$ 200,154
Accounts receivable - net	6(2)	178,129	112,594	112,792
Accounts receivable - related parties	6(2) and 7	-	19,437	47,848
Other receivables		5,287	14,828	5,273
Current income tax assets		3,193	2,664	8,213
Inventories	6(3)	256,218	132,018	113,444
Prepayments		3,887	3,522	3,532
Other current assets		<u>10,767</u>	<u>1,077</u>	<u>3,716</u>
Total current assets		<u>917,203</u>	<u>578,054</u>	<u>494,972</u>
Non-current assets				
Property, plant and equipment	6(4)	173,068	159,957	123,355
Intangible assets		28,164	29,769	18,141
Deferred income tax assets		189,008	185,187	148,075
Other non-current assets	8	<u>11,302</u>	<u>12,472</u>	<u>30,715</u>
Total non-current assets		<u>401,542</u>	<u>387,385</u>	<u>320,286</u>
Total assets		<u>\$ 1,318,745</u>	<u>\$ 965,439</u>	<u>\$ 815,258</u>

(Continued)

GCS HOLDINGS INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
		(Unaudited)		(Unaudited)
Current liabilities				
Accounts payable		\$ 50,220	\$ 28,406	\$ 17,597
Other payables	6(5)	90,693	87,359	64,215
Current income tax liabilities		6,374	914	385
Other current liabilities	6(6)	<u>10,061</u>	<u>12,067</u>	<u>10,476</u>
Total current liabilities		<u>157,348</u>	<u>128,746</u>	<u>92,673</u>
Non-current liabilities				
Deferred income tax liabilities		50,064	45,860	26,574
Other non-current liabilities	6(6)	<u>19,616</u>	<u>23,684</u>	<u>8,351</u>
Total non-current liabilities		<u>69,680</u>	<u>69,544</u>	<u>34,925</u>
Total liabilities		<u>227,028</u>	<u>198,290</u>	<u>127,598</u>
Equity attributable to owners of parent				
Share capital	6(9)			
Common stock		419,766	369,736	368,676
Stock dividends to be distributed	6(11)	33,276	-	-
Capital surplus	6(10)	369,072	209,042	202,839
Retained earnings	6(11)			
Special reserve		6,821	6,821	6,821
Unappropriated retained earnings		238,878	180,684	113,851
Other equity items	6(12)	<u>23,904</u>	<u>866</u>	<u>(4,527)</u>
Equity attributable to owners of the parent		<u>1,091,717</u>	<u>767,149</u>	<u>687,660</u>
Total equity		<u>1,091,717</u>	<u>767,149</u>	<u>687,660</u>
Significant contingent liabilities and unrecognised contract commitments	9			
Significant events after the balance sheet date	11			
TOTAL LIABILITIES AND EQUITY		<u>\$ 1,318,745</u>	<u>\$ 965,439</u>	<u>\$ 815,258</u>

The accompanying notes are an integral part of these consolidated financial statements.

GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Equity attributable to owners of the parent						Other Equity	
	Common Stock	Stock Dividends to be Distributed	Capital Surplus	Reserve	Unappropriated Retained Earnings	Currency Translation Differences of Foreign Operations	Other equity - others	Total
<u>For the nine-month period ended</u>								
<u>September 30, 2013</u>								
Balance at January 1, 2013	\$ 364,906	-	\$ 196,174	\$ 6,821	\$ 69,167	(\$ 8,589)	\$ -	\$ 628,479
Compensation cost of employee stock options	-	-	2,286	-	-	-	1,006	3,292
Consolidated net income for the nine-month period ended September 30, 2013	-	-	-	-	44,684	11,205	-	44,684
Other comprehensive income	-	-	-	-	-	-	-	11,205
Issuance of restricted stocks to employees	3,770	-	4,379	-	-	-	(8,149)	-
Balance at September 30, 2013	<u>\$ 368,676</u>	<u>\$ -</u>	<u>\$ 202,839</u>	<u>\$ 6,821</u>	<u>\$ 113,851</u>	<u>\$ 2,616</u>	<u>(\$ 7,143)</u>	<u>\$ 687,660</u>
<u>For the nine-month period ended</u>								
<u>September 30, 2014</u>								
Balance at January 1, 2014	\$ 369,736	-	\$ 209,042	\$ 6,821	\$ 180,684	\$ 8,443	(\$ 7,577)	\$ 767,149
Appropriation of 2013 earnings	-	-	-	-	(3,697)	-	-	(3,697)
Cash dividends	-	33,276	-	-	(33,276)	-	-	-
Stock dividends	-	-	-	-	-	-	-	-
Compensation cost of stock-based compensations	-	-	5,177	-	-	-	4,500	9,677
Consolidated net income for the nine-month period ended September 30, 2014	-	-	-	-	95,167	-	-	95,167
Issuance of stock from exercise of employee stock options	200	-	499	-	-	-	-	699
Other comprehensive income	-	-	-	-	-	18,538	-	18,538
Issuance of common stock for cash	49,830	-	154,354	-	-	-	-	204,184
Balance at September 30, 2014	<u>\$ 419,766</u>	<u>\$ 33,276</u>	<u>\$ 369,072</u>	<u>\$ 6,821</u>	<u>\$ 238,878</u>	<u>\$ 26,981</u>	<u>(\$ 3,077)</u>	<u>\$ 1,091,717</u>

The accompanying notes are an integral part of these consolidated financial statements.

GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

For the nine-month periods ended September 30,

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Income before income tax		\$ 105,049	\$ 45,097
Adjustments to reconcile income before income tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Provision for allowance for doubtful accounts	6(2)	-	47,218
Depreciation	6(14)	26,921	18,134
Amortization	6(14)	5,803	3,744
Interest expense		873	176
Interest income	(	49)	(46)
Compensation cost of stock-based compensation	6(8)	9,677	3,292
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable	(	63,616)	(69,350)
Accounts receivable - related parties		19,647	(16,229)
Other receivables		9,752	11,791
Inventories	(	121,476)	4,436
Prepaid expenses	(	289)	(599)
Net changes in liabilities relating to operating activities			
Accounts payable		21,227	(2,914)
Other payables		29,822	14,538
Other current liabilities	(	6,747)	17,513
Cash provided by operations		36,594	76,801
Interest received		49	46
Interest paid	(	873)	(176)
Income tax paid	(	1,737)	2,618
Net cash provided by operating activities		<u>34,033</u>	<u>74,053</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(19)	(67,117)	(45,035)
Acquisition of intangible assets		(3,640)	(4,653)
Increase in refundable deposits		(9,575)	(2,910)
Net cash used in investing activities		(80,332)	(52,598)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from issuance of common stock		204,184	-
Proceeds from exercise of employee stock options		699	-
Net cash provided by financial activities		204,883	-
Effect of changes in exchange rates		9,224	(2,555)
Increase in cash and cash equivalents		167,808	18,900
Cash and cash equivalents at beginning of period	6(1)	291,914	181,254
Cash and cash equivalents at end of period	6(1)	<u>\$ 459,722</u>	<u>\$ 200,154</u>

The accompanying notes are an integral part of these consolidated financial statements.

GCS HOLDINGS, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

GCS Holdings Inc. (the “Company”) was incorporated in Cayman Islands on November 30, 2010, as a holding company for the purpose of registering its shares with the Taiwan GreTai Securities Market. The Company issued new shares in exchange for 100% of Global Communication Semiconductors, Inc.’s outstanding shares at the exchange ratio of 1:5 on December 28, 2010. After the reorganization, the Company became the parent company of Global Communication Semiconductors, LLC (GCS LLC). The name of Global Communication Semiconductors, Inc. was changed to Global Communication Semiconductors, LLC. in January 2011. The Company was approved by the Financial Supervisory Commission to be listed on the Taiwan GreTai Securities Market. The Company’s common shares have been traded on the Taiwan GreTai Securities Market since September 15, 2014.

The Company and its subsidiary (the “Group”) engage in the manufacturing of GaAs wafer and provide GaAs foundry related services.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on November 6, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’ but including the “Regulations Governing the Preparation of Financial Reports by Securities Issuers ” effective January 1, 2015) as endorsed by the FSC in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below :

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1)	July 1, 2010
Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1)	July 1, 2011
Government loans (amendment to IFRS 1)	January 1, 2013
Disclosures - transfers of financial assets (amendment to IFRS 7)	July 1, 2011
Disclosures - Offsetting financial assets and financial liabilities (amendment to IFRS 7)	January 1, 2013
IFRS 10, 'Consolidated financial statements'	January 1, 2013 (Investment entities: January 1, 2014)
IFRS 11, 'Joint arrangements'	January 1, 2013
IFRS 12, 'Disclosure of interests in other entities'	January 1, 2013
IFRS 13, 'Fair value measurement'	January 1, 2013
Presentation of items of other comprehensive income (amendment to IAS 1)	July 1, 2012
Deferred tax: recovery of underlying assets (amendment to IAS 12)	January 1, 2012
IAS 19 revised, 'Employee benefits'	January 1, 2013
IAS 27, 'Separate financial statements'	January 1, 2013
IAS 28, 'Investments in associates and joint ventures'	January 1, 2013
Offsetting financial assets and financial liabilities (amendment to IAS 32)	January 1, 2014
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	January 1, 2013
Improvements to IFRSs 2010	January 1, 2011
Improvements to IFRSs 2009-2011	January 1, 2013

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

A. IAS 1, 'Presentation of financial statements'

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

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

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

C. IFRS 13, 'Fair value measurement'

The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard sets out a framework for measuring fair value using the assumptions that market participants would use when pricing the asset or liability; for non-financial assets, fair value is determined based on the highest and best use of the asset. And, the standard requires disclosures about fair value measurements. Based on the Group's assessment, the adoption of the standard has no significant impact on its consolidated financial statements, and the Group will disclose additional information about fair value measurements accordingly.

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

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRS as endorsed by the FSC :

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRIC 14, 'Regulatory Deferral Accounts'	January 1, 2016
IFRS 15, 'Revenue from contracts with customers'	January 1, 2017
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The Group is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and IAS 34, “Interim Financial Reporting” as endorsed by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. In general, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The existence and effect of potential voting rights that are currently exercisable or convertible have been considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiary have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main Business Activities	Ownership (%)		
			September 30, 2014	December 31, 2013	September 30, 2013
The Company	Global Communication Semiconductors, LLC	GaAs wafer and foundry service	100%	100%	100%

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

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

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

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is United States dollars; however, the consolidated financial statements are presented in New Taiwan dollars under the regulations of the country where the consolidated financial statements are reported to the regulatory authorities.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;

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

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

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

(b) Liabilities arising mainly from trading activities;

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

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, since the short-term accounts receivable bear no interest, considering the discounting effects would not be significant, the Group subsequently measures those receivables at the invoice amount.

(8) Impairment of financial assets

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

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed

its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(9) Derecognition of financial assets

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

(10) Inventories

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

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each significant part of an item of property, plant and equipment is required to be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

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

Machinery and equipment	7 years
Computer and communication equipment	5 years
Research equipment	7 years
Office equipment	7 ~10 years
Leased asset	7 years
Leasehold improvements	6 years

(12) Leased assets/leases (lessee)

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.

- (a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
- (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

B. An operating lease is a lease other than a finance lease. Payments made under an operating lease are recognised in profit or loss on a straight-line basis over the lease term.

(13) Intangible assets

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 1 to 5 years.

(14) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognised in profit or loss.

(15) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method. However, since the short-term accounts payable bear no interest, considering the discounting effects would not be significant, the Group subsequently measures those payables at the invoice amount.

(16) Derecognition of financial liabilities

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

(17) Offsetting financial instruments

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

(18) Employee benefits

A. Short-term employee benefits

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

B. Pensions

Defined contribution plans

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

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes termination benefits when it is demonstrably committed to a termination, when it has a detailed formal plan to terminate the employment of current employees and when it can no longer withdraw the plan. In the case of an offer made by the Group to encourage voluntary termination of employment, the termination benefits are recognised as expenses only when it is probable that the employees are expected to accept the offer and the number of the employees taking the offer can be reliably estimated. Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

D. Employees' bonus and directors' remuneration

Employees' bonus and directors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognised based on the accounting for changes in estimates. The Group calculates the number of shares of employees' stock bonus based on the fair value per share estimated using a valuation technique specified in IFRS 2, 'Share-based Payment', and after taking into account the effects of ex-rights and ex-dividends.

(19) Employee share-based payment

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

B. Restricted stocks

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.

(b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.

(20) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(21) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(22) Dividends

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

(23) Revenue recognition

A. Sales of goods

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

B. Service revenue and royalty income

Service revenue and royalty income are recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The revenue is accounted for under the accrual basis.

(24) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

The preparation of these consolidated financial statements requires management to make critical judgments in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

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

None.

(2) Critical accounting estimates and assumptions

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

A. Realizability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realizability of deferred tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred tax assets.

As of September 30, 2014, the Group recognised deferred tax assets amounting to \$189,008.

B. Evaluation of inventories

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

As of September 30, 2014, the carrying amount of inventories was \$256,218.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Cash on hand and petty cash	\$ 61	\$ 59	\$ 59
Checking accounts and demand deposits	157,299	193,233	161,398
Cash equivalents – money market fund	<u>302,362</u>	<u>98,622</u>	<u>38,697</u>
Total	<u>\$ 459,722</u>	<u>\$ 291,914</u>	<u>\$ 200,154</u>

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

B. The Group has no cash and cash equivalents pledged to others.

(2) Accounts receivable, net

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Accounts receivable - third parties	\$ 179,457	\$ 162,133	\$ 163,812
Less: Allowance for doubtful accounts	- (	48,635) (	48,474)
Allowance for sales returns and discounts	(<u>1,328</u>)	(<u>904</u>)	(<u>2,546</u>)
	178,129	112,594	112,792
Accounts receivable - related parties	<u>-</u>	<u>19,437</u>	<u>47,848</u>
	<u>\$ 178,129</u>	<u>\$ 132,031</u>	<u>\$ 160,640</u>

A. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Group 1	\$ 75,892	\$ 67,703	\$ 48,986
Group 2	63,621	41,820	70,198
Group 3	<u>11,006</u>	<u>4,297</u>	<u>12,022</u>
	<u>\$ 150,519</u>	<u>\$ 113,820</u>	<u>\$ 131,206</u>

Group 1 : Annual sales transactions exceed US\$ 2.5 million.

Group 2 : Annual sales transactions exceed US\$ 100 thousand, but less than US\$ 2.5 million.

Group 3 : Annual sales transactions below US\$ 100 thousand.

B. The aging analysis of accounts receivable that were past due but not impaired is as follows:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Up to 30 days	\$ 20,518	\$ 15,965	\$ 24,479
31 to 60 days	1,919	2,138	3,980
61 to 90 days	4,419	108	565
Over 90 days	<u>754</u>	<u>-</u>	<u>410</u>
	<u>\$ 27,610</u>	<u>\$ 18,211</u>	<u>\$ 29,434</u>

C. Analysis of movement of impaired accounts receivable:

(a) As of September 30, 2014, December 31, 2013 and September 30, 2013, the Group's accounts receivable that were impaired amounted to \$0, \$48,635 and \$48,474, respectively.

(b) Movements on the Group provision for impairment of accounts receivable are as follows:

	<u>2014</u>	<u>2013</u>
At January 1,	\$ 48,635	\$ 1,490
Reversal of impairment	(49,161)	-
Provision for impairment	-	47,218
Exchange effects	<u>526</u>	<u>(234)</u>
At June 30,	<u>\$ -</u>	<u>\$ 48,474</u>

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

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

(3) Inventories

	<u>September 30, 2014</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book Value</u>
Raw materials	\$ 106,669	(\$ 14,966)	\$ 91,703
Work in process	163,327	(3,643)	159,684
Finished goods	<u>7,175</u>	<u>(2,344)</u>	<u>4,831</u>
	<u>\$ 277,171</u>	<u>(\$ 20,953)</u>	<u>\$ 256,218</u>

	<u>December 31, 2013</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book Value</u>
Raw materials	\$ 78,075	(\$ 13,857)	\$ 64,218
Work in process	77,562	(17,216)	60,346
Finished goods	7,454	-	7,454
	<u>\$ 163,091</u>	<u>(\$ 31,073)</u>	<u>\$ 132,018</u>

	<u>September 30, 2013</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book Value</u>
Raw materials	\$ 60,082	(\$ 14,698)	\$ 45,384
Work in process	69,781	(11,385)	58,396
Finished goods	9,664	-	9,664
	<u>\$ 139,527</u>	<u>(\$ 26,083)</u>	<u>\$ 113,444</u>

Expense and cost incurred on inventories for the nine-month periods ended September 30, 2014 and 2013 were as follows:

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Cost of inventories sold	\$ 221,067	\$ 174,417
Loss on (recovery of) market price decline	585	(2,333)
Revenue from sale of scraps	(9,363)	(3,868)
Loss on physical inventory count	-	17
	<u>\$ 212,289</u>	<u>\$ 168,233</u>
	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Cost of inventories sold	\$ 629,396	\$ 493,699
(Recovery of) loss on market price decline	(10,665)	3,439
Revenue from sale of scraps	(32,898)	(35,336)
(Gain) loss on physical inventory count	(21)	9
	<u>\$ 585,812</u>	<u>\$ 461,811</u>

The Group reversed a previous inventory write-down and accounted for as reduction of cost of goods sold for the nine-month period ended September 30, 2014 because part of the inventories were sold.

(4) Property, plant and equipment

	<u>Machinery and equipment</u>	<u>Computer and communication equipment</u>	<u>Research equipment</u>	<u>Office equipment</u>	<u>Leased assets</u>	<u>Leasehold improvements</u>	<u>Total</u>
At January 1, 2014							
Cost	\$ 572,384	\$ 7,113	\$ 24,720	\$ 5,838	\$ 30,904	\$ 199,023	\$ 839,982
Accumulated depreciation and impairment	(506,622)	(4,102)	(22,797)	(4,970)	(1,059)	(140,475)	(680,025)
	<u>\$ 65,762</u>	<u>\$ 3,011</u>	<u>\$ 1,923</u>	<u>\$ 868</u>	<u>\$ 29,845</u>	<u>\$ 58,548</u>	<u>\$ 159,957</u>
For the nine-month period ended <u>September 30, 2014</u>							
Opening net book amount	\$ 65,762	\$ 3,011	\$ 1,923	\$ 868	\$ 29,845	\$ 58,548	\$ 159,957
Additions	34,041	609	-	1,634	-	353	36,637
Depreciation charge	(12,544)	(787)	(282)	(248)	(3,346)	(9,714)	(26,921)
Net exchange differences	<u>1,532</u>	<u>61</u>	<u>38</u>	<u>30</u>	<u>257</u>	<u>1,477</u>	<u>3,395</u>
Closing net book amount	<u>\$ 88,791</u>	<u>\$ 2,894</u>	<u>\$ 1,679</u>	<u>\$ 2,284</u>	<u>\$ 26,756</u>	<u>\$ 50,664</u>	<u>\$ 173,068</u>
At September 30, 2014							
Cost	\$ 618,566	\$ 7,456	\$ 25,230	\$ 4,596	\$ 31,542	\$ 203,487	\$ 890,777
Accumulated depreciation and impairment	(529,743)	(4,562)	(23,551)	(2,312)	(4,465)	(153,176)	(717,809)
	<u>\$ 88,823</u>	<u>\$ 2,894</u>	<u>\$ 1,679</u>	<u>\$ 2,284</u>	<u>\$ 27,077</u>	<u>\$ 50,311</u>	<u>\$ 173,068</u>

	Machinery and equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2013							
Cost	\$ 574,332	\$ 5,453	\$ 23,953	\$ 5,688	\$ -	\$ 171,598	\$ 781,024
Accumulated depreciation and impairment	(509,409)	(3,182)	(21,795)	(4,628)	-	(128,205)	(667,219)
	<u>\$ 64,923</u>	<u>\$ 2,271</u>	<u>\$ 2,158</u>	<u>\$ 1,060</u>	<u>\$ -</u>	<u>\$ 43,393</u>	<u>\$ 113,805</u>
For the nine-month period ended September 30, 2013							
Opening net book amount	\$ 64,923	\$ 2,271	\$ 2,158	\$ 1,060	\$ -	\$ 42,069	\$ 113,805
Additions	12,432	604	-	-	11,143	2,807	26,986
Depreciation charge	(9,780)	(618)	(337)	(165)	(663)	(6,571)	(18,134)
Net exchange differences	1,170	63	41	20	(1,387)	791	698
Closing net book amount	<u>\$ 68,745</u>	<u>\$ 2,320</u>	<u>\$ 1,862</u>	<u>\$ 915</u>	<u>\$ 9,093</u>	<u>\$ 39,096</u>	<u>\$ 123,355</u>
At September 30, 2013							
Cost	\$ 597,145	\$ 6,180	\$ 24,390	\$ 5,792	\$ 11,079	\$ 176,175	\$ 820,761
Accumulated depreciation and impairment	(528,400)	(3,862)	(22,528)	(4,877)	(659)	(137,080)	(697,406)
	<u>\$ 68,745</u>	<u>\$ 2,318</u>	<u>\$ 1,862</u>	<u>\$ 915</u>	<u>\$ 10,420</u>	<u>\$ 39,095</u>	<u>\$ 123,355</u>

(5) Other payables

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Accrued salaries and bonuses	\$ 22,070	\$ 29,772	\$ 18,891
Accrued unused leave	13,150	10,281	10,816
Accrued service fee	4,690	5,549	5,861
Accrued rental expenses	6,407	6,698	6,107
Accrued miscellaneous expenses	4,850	6,153	3,328
Dividend payable	3,697	-	-
Accrued employees' bonuses and directors remuneration	4,031	4,064	2,070
Other accrued expenses	<u>31,798</u>	<u>24,842</u>	<u>17,142</u>
	<u>\$ 90,693</u>	<u>\$ 87,359</u>	<u>\$ 64,215</u>

(6) Finance lease liabilities

The Group leases machinery and equipment assets under finance lease. Based on the terms of the lease contracts, the Group has the option to purchase the leased machinery and equipment at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable when the leases expire. Future minimum lease payments are as follows:

	<u>September 30, 2014</u>		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u>	<u>Present value of finance lease liabilities</u>
<u>Current</u>			
Not later than one year (shown as 'other current liabilities')	\$ <u>7,002</u>	(\$ <u>958</u>)	\$ <u>6,043</u>
<u>Non-current</u>			
Later than one year but not later than five years (shown as 'other non-current liabilities')	<u>20,907</u>	(<u>1,291</u>)	<u>19,616</u>
	<u>\$ 27,909</u>	<u>(\$ 2,249)</u>	<u>\$ 25,659</u>

	December 31, 2013		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u>	<u>Present value of finance lease liabilities</u>
<u>Current</u>			
Not later than one year (shown as 'other current liabilities')	\$ 6,861	(\$ 1,122)	\$ 5,739
<u>Non-current</u>			
Later than one year but not later than five years (shown as 'other non-current liabilities')	25,630	(1,946)	23,684
	<u>\$ 32,491</u>	<u>(\$ 3,068)</u>	<u>\$ 29,423</u>

	September 30, 2013		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u>	<u>Present value of finance lease liabilities</u>
<u>Current</u>			
Not later than one year (shown as 'other current liabilities')	\$ 2,464	(\$ 403)	\$ 2,061
<u>Non-current</u>			
Later than one year but not later than five years (shown as 'other non-current liabilities')	9,033	(682)	8,351
	<u>\$ 11,497</u>	<u>(\$ 1,085)</u>	<u>\$ 10,412</u>

(7) Pension plan

The Company's US subsidiary has established a 401(K) pension plan ("the Plan") covering substantially all employees. The Plan provides voluntary salary reduction contributions by eligible participants in accordance with Section 401(K) of the Internal Revenue Code, as well as discretionary matching contributions below 15% of employees' salary determined annually by its Board of Directors from the Company's subsidiary to its employees' individual pension accounts. The Company's subsidiary started to adopt the Plan in accordance with IRC 401K from August 2010.

The pension costs under the defined contribution pension plan for the three-month periods and nine-month periods ended September 30, 2014 and 2013 were \$2,435, \$1,950, \$7,528 and \$6,191, respectively.

(8) Share-based payment-employee compensation plan

A. As of September 30, 2014, December 31, 2013 and September 30, 2013, the Company's share-based payment transactions are set forth below:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract Period</u>	<u>Vesting Condition</u>
Employee stock options	January to October 2011	2,463,498 shares	10 years	(Note 1)
Employee stock options	April 2013	1,538,000 shares	10 years	(Note 2)
Employee stock options	August 2013	7,830 shares	10 years	(Note 2)
Employee stock options	October 2013	538,000 shares	10 years	(Note 2)
Employee stock options	February 2014	60,000 shares	10 years	(Note 2)
Restricted stocks to employees (Note 4)	August 2013	377,000 shares	2 years	(Note 3)
Restricted stocks to employees (Note 4)	October 2013	106,000 shares	2 years	(Note 3)

Note 1: Some employee stock options shall be vested and become exercisable as to 50% of the shares immediately, and the remaining 50% of such shares to be vested in the following year. Some options shall be vested and become exercisable as to 25% of the shares covered on the first anniversary of the vesting commencement date, and the remaining 75% of such shares ratably in equal installments as of the last day of each of the succeeding 36 months.

Note 2: Some employee stock options shall be vested and become exercisable as to 50% of the shares after fulfilling two years of service, and in accordance with the agreement, the remaining 50% of such options will be ratably in equal installments as of the last day of each of the succeeding 24 months.

Note 3: Some restricted stocks to employees shall be vested and become exercisable as to 50% of the shares after one year of service, and the remaining 50% of such shares to be vested after fulfilling two years of service.

Note 4: The restricted stocks to employees are restricted from transferring within vesting period, but are allowed for voting rights and rights to receive dividends. The Company will recover limited new employee stock options at no consideration and cancel registration if employees resign or die not due to occupational hazards. However, employees do not need to return dividends already received.

B. Details of the employee stock options are set forth below:

	For the nine-month period ended September 30, 2014		
	No. of options	Currency	Weighted average exercise price (in dollars)
Options outstanding at beginning of the period	2,436,800	NTD/USD	\$ 23.16
Options granted	60,000	NTD	28.37
Options exercised	(20,000)	USD	1.17
Options forfeited	(78,000)	NTD/USD	23.66
Options outstanding at end of the period	<u>2,398,800</u>	NTD/USD	21.76
Options exercisable at end of the period	<u>350,970</u>	USD	1.17

	For the nine-month period ended September 30, 2013		
	No. of options	Currency	Weighted average exercise price (in dollars)
Options outstanding at beginning of the period	2,207,498	USD	\$ 1.17
Options granted	1,545,830	NTD	20.10
Options forfeited	(1,774,528)	USD	1.17
Options outstanding at end of the period	<u>1,978,800</u>	NTD/USD	22.82
Options exercisable at end of the period	<u>432,970</u>	USD	1.17

C. As of September 30, 2014, December 31, 2013 and September 30, 2013, the range of exercise prices of stock options outstanding are as follows:

Grant date	Expiration	September 30, 2014		
		No. of Shares	Currency	Stock options exercise price (in dollars)
From January 2011 to October 2011	From January 2021 to October 2021	\$ 350,970	USD	\$ 1.17
April 2013	April 2023	1,457,000	NTD	16.77
August 2013	August 2023	7,830	NTD	25.67
October 2013	October 2023	523,000	NTD	26.05
February 2014	February 2024	<u>60,000</u>	NTD	28.37
		<u>\$ 2,398,800</u>		

		December 31, 2013		
<u>Grant date</u>	<u>Expiration</u>	<u>No. of Shares</u>	<u>Currency</u>	<u>Stock options exercise price</u> (in dollars)
From January 2011 to October 2011	From January 2021 to October 2021	\$ 392,970	USD	\$ 1.17
April 2013	April 2023	1,498,000	NTD	18.10
August 2013	August 2023	7,830	NTD	27.71
October 2013	October 2023	<u>538,000</u>	NTD	28.11
		<u>\$ 2,436,800</u>		

		September 30, 2013		
<u>Grant date</u>	<u>Expiration</u>	<u>No. of Shares</u>	<u>Currency</u>	<u>Stock options exercise price</u> (in dollars)
From January 2011 to October 2011	From January 2021 to October 2021	\$ 432,970	USD	\$ 1.17
April 2013	April 2023	1,538,000	NTD	18.10
August 2013	August 2023	<u>7,830</u>	NTD	27.71
		<u>1,978,800</u>		

D. Details of the restricted stocks options to employees are set forth below:

<u>Employee restricted stocks options</u>	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
	<u>No. of Shares</u>	<u>No. of Shares</u>
Options outstanding at beginning of the period	483,000	-
Options granted	-	377,000
Options vested	(188,500)	-
Options outstanding at end of the period	<u>294,500</u>	<u>377,000</u>

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

Type of arrangement	Grant day	Currency	Fair value (in dollars)	Exercise price (in dollars)	Expected price Volatility	Expected option period (Years)	Expected dividend yield rate	Risk-free interest rate	Fair value (in dollars)
Employee stock options	January 2011	USD	\$1.31	\$ 1.17	76.33%	1.48~ 6.05	-	4.83%	\$ 0.52~ 0.90
Employee stock options	January 2011	USD	1.31	1.17	76.33%	5.75~ 6.25	-	4.83%	0.89~ 0.92
Employee stock options	May 2011	USD	1.22	1.17	63.00%	6.08	-	2.51%	0.74
Employee stock options	July 2011	USD	1.22	1.17	63.00%	6.08	-	1.94%	0.73
Employee stock options	October 2011	USD	1.22	1.17	64.00%	6.08	-	1.16%	0.72
Employee stock options	April 2013	NTD	18.28	16.77	51.47%	6.26	1.16%	1.07%	8.18
Employee stock options	August 2013	NTD	27.40	25.67	51.47%	6.26	1.16%	1.47%	12.29
Employee stock options	October 2013	NTD	27.94	26.05	51.47%	6.26	1.16%	1.44%	12.55
Employee stock options	February 2014	NTD	35.97	28.37	51.47%	6.26	1.16%	1.20%	17.48
Restricted stocks to employees	August 2013	NTD	27.55	-	43.40%	1.00	1.16%	0.82%	22.82
Restricted stocks to employees	August 2013	NTD	27.55	-	47.49%	2.00	1.16%	0.99%	20.41
Restricted stocks to employees	October 2013	NTD	28.10	-	43.40%	1.00	1.16%	0.78%	23.27
Restricted stocks to employees	October 2013	NTD	28.10	-	47.49%	2.00	1.16%	0.95%	20.81

F. Expenses incurred on share-based payment transactions are shown below:

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Equity-settled	<u>\$ 3,227</u>	<u>\$ 1,772</u>
	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Equity-settled	<u>\$ 9,677</u>	<u>\$ 3,292</u>

(9) Common stock

- A. As of September 30, 2014, the Company's paid-in capital was \$419,766, consisting of 41,976,587 shares with a par value of \$10 per share.

Movements in the number of the Company's ordinary shares outstanding are as follows:

Unit: Numbers of shares

	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
At January 1,	36,973,587	36,490,587
Issuance of common stock	4,983,000	-
Exercise of employee stock options	<u>20,000</u>	<u>-</u>
At September 30,	<u><u>41,976,587</u></u>	<u><u>36,490,587</u></u>

- B. On June 18, 2014, the Board of Directors adopted a resolution to issue 4,983,000 ordinary shares with par value of \$10 (in dollars) per share at an issuance price of \$42 per share, with the effective date on September 11, 2014. The total value of shares issued was \$209,286.
- C. On June 5, 2014, the stockholders adopted a resolution to appropriate \$33,276 of Year 2013 retained earnings as stock dividends by issuing 3,327,622 shares. Pursuant to the resolution adopted at the Board of Directors on September 15, 2014, the Record date for stock dividend distribution was set on October 19, 2014. As of November 6, 2014, the capital increase has not been filed with GreTai Securities Market.
- D. On June 28, 2013, the stockholders adopted a resolution to issue 1,824,529 employee restricted ordinary shares with par value of \$10 (in dollars) per share, with the effective date set on July 24, 2013. The subscription price is \$0 (in dollars) per share. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.
- E. On August 2, 2013, the Board of Directors adopted a resolution to issue employee restricted ordinary shares (see Note 4(8)) with the effective date set on August 2, 2013. The subscription price is \$0 (in dollars) per share. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.
- F. On October 24, 2013, the Board of Directors adopted a resolution to issue employee restricted ordinary shares (see Note 4(8)) with the effective date set on October 24, 2013. The subscription price is \$0 (in dollars) per share. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.

(10) Capital surplus

Capital surplus can be used to cover accumulated deficit or distributed as dividend as proposed by the Board of Directors and resolved by the stockholders.

	2014				
	<u>Share Premium</u>	<u>Employee stock options</u>	<u>Employee Restricted shares</u>	<u>Others</u>	<u>Total</u>
At January 1,	\$ 143,814	\$ 34,652	\$ 5,655	\$ 24,921	\$ 209,042
Issuance of common stock	154,354	-	-	-	154,354
Compensation cost of share-based payment	-	5,177	-	-	5,177
Exercise of employee stock options	499	-	-	-	499
Cancellation of employee stock options	-	(1,668)	-	1,668	-
At September 30,	<u>\$ 298,667</u>	<u>\$ 38,161</u>	<u>\$ 5,655</u>	<u>\$ 26,589</u>	<u>\$ 369,072</u>

	2013				
	<u>Share Premium</u>	<u>Employee stock options</u>	<u>Employee Restricted shares</u>	<u>Others</u>	<u>Total</u>
At January 1,	\$ 143,814	\$ 52,360	\$ -	\$ -	\$ 196,174
Employee restricted shares	-	-	4,379	-	4,379
Compensation cost of share-based payment	-	2,286	-	-	2,286
Cancellation of employee stock options	-	(24,921)	-	24,921	-
At September 30,	<u>\$ 143,814</u>	<u>\$ 29,725</u>	<u>\$ 4,379</u>	<u>\$ 24,921</u>	<u>\$ 202,839</u>

(11) Retained earnings

	2014	2013
At January 1,	\$ 180,684	\$ 69,167
Net income for the period	95,167	44,684
Profit distribution	(36,973)	-
At September 30,	<u>\$ 238,878</u>	<u>\$ 113,851</u>

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset losses incurred in previous years and then a special surplus reserve as required by the applicable securities authority under the applicable public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting aside a certain amount of remaining profits of such financial year as a reserve or reserves for development purposes as the Board of Directors may from time to time think fit, subject to the compliance with the Law,

the Company shall distribute no less than 10% of the remaining profit in the following sequence:

- (a) no more than 15% and no less than 5% as employees' bonus;
- (b) no more than 2% as directors' remuneration; and
- (c) the balance as dividends to the stockholders.

- B. The Company's dividends policy is as follow: As the Company operates in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's operation scale, cash flow demand and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed. Dividends are distributed by stock and by cash. The individuals who are entitled to employee stock dividends may include the employees of the Company's affiliates who meet certain criteria.
- C. On June 5, 2014, the Board of Directors in the annual meeting has resolved the appropriations of 2013 earnings. Details are summarized below:

	<u>For the year ended December 31, 2013</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Cash dividends	\$ 3,697	\$ 0.10
Stock dividends	<u>33,276</u>	<u>0.90</u>
	<u>\$ 36,973</u>	<u>\$ 1.00</u>

The amount of employees' bonus and directors' remuneration recognised by the Company for 2013 were \$1,679 and \$0, respectively. The amount of employees' bonus and directors' remuneration of 2013 resolved by the Board of Directors were \$1,946 and \$0, respectively. The difference of employees' bonus and directors' remuneration resolved by the Board of Directors and recognised by the Company for 2013 was \$267 which had been adjusted on the statement of comprehensive income for the nine-month period ended September 30, 2014.

- D. The Company accrued employees' bonus amounting to \$633 and \$1,428, respectively, for the three-month and the nine-month periods ended September 30, 2014 and directors' remuneration amounting to \$0 and \$0, respectively, for the three-month and the nine-month periods ended September 30, 2014, which was based on 30% of net income to be distributed and 5% and 0% of the distributed amount as employees' bonus and directors' remuneration. The Company did not accrue employees' bonus and directors' remuneration for the three-month and the nine-month periods ended September 30, 2013 due to the amount considered to be distributed is immaterial. The estimated employees' bonus and directors' remuneration have been recognised as operating cost or operating expense of the period. If there is a difference between the estimated and actual amounts resolved by the shareholders, the difference shall be recognised as cost or expense in the subsequent year.

E. Information on the appropriation of the Company's employees' bonus and directors' remuneration as resolved by the Board of directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(12) Other equity items

	<u>2014</u>		
	<u>Unearned employee compensation</u>	<u>Currency translation</u>	<u>Total</u>
At January 1,	(\$ 7,577)	\$ 8,443	\$ 866
Currency translation differences	-	18,538	18,538
Compensation cost of share-based payment	<u>4,500</u>	<u>-</u>	<u>4,500</u>
At September 30,	<u>(\$ 3,077)</u>	<u>\$ 26,981</u>	<u>\$ 23,904</u>

	<u>2013</u>		
	<u>Unearned employee compensation</u>	<u>Currency translation</u>	<u>Total</u>
At January 1,	\$ -	(\$ 8,589)	(\$ 8,589)
Currency translation differences	-	11,205	11,205
Compensation cost of share-based payment	1,006	-	1,006
Employee restricted shares	<u>(8,149)</u>	<u>-</u>	<u>(8,149)</u>
At September 30,	<u>(\$ 7,143)</u>	<u>\$ 2,616</u>	<u>(\$ 4,527)</u>

(13) Operating revenue

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Sale revenue	\$ 315,718	\$ 205,734
Royalty revenue	4,816	2,791
Service revenue	<u>27,110</u>	<u>69,459</u>
Total	<u>\$ 347,644</u>	<u>\$ 277,984</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Sale revenue	\$ 912,360	\$ 665,471
Royalty revenue	11,622	6,611
Service revenue	<u>37,676</u>	<u>81,919</u>
Total	<u>\$ 961,658</u>	<u>\$ 754,001</u>

(14) Expenses by nature

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Employee benefit expense	\$ 120,465	\$ 99,576
Depreciation charges on property, plant and equipment	9,444	6,384
Amortization charges on intangible assets (recognised as cost of goods sold)	<u>2,035</u>	<u>1,348</u>
	<u>\$ 131,944</u>	<u>\$ 107,308</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Employee benefit expense	\$ 344,264	\$ 300,666
Depreciation charges on property, plant and equipment	26,921	18,134
Amortization charges on intangible assets (recognised as cost of goods sold)	<u>5,803</u>	<u>3,744</u>
	<u>\$ 376,988</u>	<u>\$ 322,544</u>

(15) Employee benefit expense

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Wages and salaries	\$ 104,490	\$ 88,367
Compensation cost of share-based payment	3,227	1,772
Insurance expense	10,300	7,396
Pension costs	2,435	1,950
Other personnel expenses	<u>13</u>	<u>91</u>
	<u>\$ 120,465</u>	<u>\$ 99,576</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Wages and salaries	\$ 298,077	\$ 265,980
Compensation cost of share-based payment	9,677	3,292
Insurance expense	28,801	24,891
Pension costs	7,528	6,191
Other personnel expenses	<u>181</u>	<u>312</u>
	<u>\$ 344,264</u>	<u>\$ 300,666</u>

(16) Income tax

Income tax expense

Income tax expense (benefit) calculated at the statutory rate (the federal tax rate is 34%; the state tax rate is 8.84%) and income tax (refundable) payable is reconciled as follows:

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Current tax:		
Current tax on profits for the period	\$ 328	(\$ 4,250)
Tax effect of minimum tax	935	367
Adjustments in respect of prior years' over estimation	-	17
Total current tax	<u>1,263</u>	<u>(3,866)</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>3,246</u>	<u>3,892</u>
Total deferred tax	<u>3,246</u>	<u>3,892</u>
Income tax benefit	<u>\$ 4,509</u>	<u>\$ 26</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Current tax:		
Current tax on profits for the period	\$ 1,720	(\$ 3,054)
Tax effect of minimum tax	1,999	754
Adjustments in respect of prior years' over estimation	-	(1,179)
Total current tax	<u>3,719</u>	<u>(3,479)</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>6,163</u>	<u>3,892</u>
Total deferred tax	<u>6,163</u>	<u>3,892</u>
Income tax benefit	<u>\$ 9,882</u>	<u>\$ 413</u>

(17) Earnings per share

1. Earnings per share

	<u>For the three-month period ended September 30, 2014</u>		
	<u>Amount after tax</u>	<u>Weighted average outstanding common shares</u>	<u>Earnings per Share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 41,591</u>	<u>41,105</u>	<u>\$ 1.01</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 41,591	41,105	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	51	
Employee stock options	-	1,264	
Employee restricted shares	<u>-</u>	<u>398</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 41,591</u>	<u>42,818</u>	<u>\$ 0.97</u>

For the three-month period ended September 30, 2013

	<u>Amount after tax</u>	<u>Weighted average outstanding common shares</u>	<u>Earnings per Share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 4,519	39,669	\$ 0.11
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ -	39,669	
Assumed conversion of all dilutive potential ordinary shares			
Employee stock options	-	48	
Employee restricted shares	-	156	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 4,519	39,873	\$ 0.11

For the nine-month period ended September 30, 2014

	<u>Amount after tax</u>	<u>Weighted average outstanding common shares</u>	<u>Earnings per Share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 95,167	40,359	\$ 2.36
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 95,167	40,359	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	87	
Employee stock options	-	1,089	
Employee restricted shares	-	387	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 95,167	41,922	\$ 2.27

For the nine-month period ended September 30, 2013

	<u>Amount after tax</u>	<u>Weighted average outstanding common shares</u>	<u>Earnings per Share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 44,684	39,669	\$ 1.13
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 44,684	39,669	
Assumed conversion of all dilutive potential ordinary shares			
Employee restricted shares	-	37	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 44,684	39,706	\$ 1.13

(18) Operating lease commitments

The Company's subsidiary, GCS LLC, entered into operating lease contracts with Hamazawa Investment Company for its office and plant located in Los Angeles, California, USA. The lease period was from January 1, 2013 to April 2022. As of each balance sheet date, the future minimum rental payments based on the above lease agreements are as follows:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Not later than one year	\$ 14,836	\$ 13,096	\$ 14,642
Later than one year but not later than five years	51,604	52,384	63,660
Later than five years	31,392	43,653	30,981
	<u>\$ 97,832</u>	<u>\$ 109,133</u>	<u>\$ 109,283</u>

(19) Non-cash transaction

Investing activities with partial cash payments:

	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Purchase of property, plant and equipment	\$ 36,637	\$ 26,986
Add: Ending balance of prepayments for equipment	4,028	23,644
Less: Opening balance of prepayments for equipment	(5,345)	(5,868)
Add: Opening balance of payable on equipment	31,797	273
Cash paid during the period	<u>\$ 67,117</u>	<u>\$ 45,035</u>

Financing activities without affecting on cash flows:

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
Cash dividends	\$ 3,697	\$ -
Less: 「Other payables」	(3,697)	-
	<u>\$ -</u>	<u>\$ -</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

None.

(2) Significant transactions and balances with related party

A. Sales of goods and services:

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Sales of goods:		
Other related party	\$ <u>16,427</u>	\$ <u>65,914</u>
	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Sales of goods:		
Other related party	\$ <u>130,987</u>	\$ <u>163,214</u>

There are no significant differences in sale prices between related party and third parties. The collection term was within 45 days from the monthly closing for sales to related party and 30 to 60 days for sales to third parties.

B. Period-end balances arising from sales of goods/services:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Receivables from other related party	\$ -	\$ 19,437	\$ 47,848

The receivables from related party arise mainly from sale transactions. The receivables are due 45 days from the monthly closing. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related party.

(3) Key management compensation

	<u>For the three-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Salaries and other short-term employee benefits	\$ 13,035	\$ 14,530
Post-employment benefits	441	498
Share-based payments	<u>1,470</u>	<u>55</u>
	<u>\$ 14,946</u>	<u>\$ 15,083</u>

	<u>For the nine-month periods ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Salaries and other short-term employee benefits	\$ 48,630	\$ 47,451
Post-employment benefits	1,863	1,720
Share-based payments	<u>3,954</u>	<u>970</u>
	<u>\$ 54,447</u>	<u>\$ 50,141</u>

8. PLEDGED ASSETS

As of September 30, 2014, December 31, 2013 and September 30, 2013, the Group's assets pledged as collateral were as follows:

<u>Assets</u>	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>	<u>Purpose</u>
Other financial assets, non-current	\$ <u>7,274</u>	\$ <u>7,128</u>	\$ <u>7,071</u>	Deposit for office rental and deposit for waste water treatment

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED COMMITMENTS

(1) Please refer to Note 6(18) for the operating lease commitments.

(2) Capital commitments

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Property, plant and equipment	\$ <u>26,578</u>	\$ <u>-</u>	\$ <u>26,329</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

In order to safeguard the Group's ability to adapt to the changes in the industry and to accelerate the new product development, the Group's objectives when managing capital are to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities and dividend paid to shareholders, etc.

(2) Financial instruments

A. The carrying amounts measured at amortized cost approximate to the fair values of the Group's financial instruments, including cash and cash equivalents, accounts receivable, other receivables, other current assets, accounts payable, other payables and accrued rent expense (accounted for under 'Other current liabilities' and 'Other non-current liabilities').

B. Financial risk management policies

a) The Group's activities expose it to a variety of financial risks: market risk (including interest risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to

minimize potential adverse effects on the Group's financial position and financial performance.

- b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

- The Group's businesses are mainly conducted in its functional currency. Therefore, the foreign exchange risk is deemed minimal.

Price risk

- The Group does not hold any equity securities and therefore, no equity price risk is expected. The Group is also not exposed to commodity price risk.

Interest rate risk

- The Group is not exposed to interest rate risk since it has no borrowings issued at variable rates.

b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.
- ii. As of September 30, 2014 and 2013, the management does not expect any significant losses from non-performance by these counterparties.
- iii. The financial assets that are neither past due nor impaired are accounts receivable. Please refer to Note 6(2).
- iv. The financial assets that were past due but not impaired are accounts receivable. Please refer to Note 6(2).
- v. The financial assets with impairment are accounts receivable. Please refer to Note 6(2).

c) Liquidity risk

- i. Cash flow forecasting is performed by the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure the Group has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal balance sheet ratio targets and, if applicable external

regulatory or legal requirements.

- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury chooses instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above mentioned forecasts.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
September 30, 2014		
Accounts payable	\$ 50,220	\$ -
Other payables	90,693	-
Other current liabilities	7,002	-
Other non-current liabilities	-	20,907
	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
December 31, 2013		
Accounts payable	\$ 28,406	\$ -
Other payables	87,359	-
Other current liabilities	6,861	-
Other non-current liabilities	-	25,630
	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
September 30, 2013		
Accounts payable	\$ 17,597	\$ -
Other payables	64,215	-
Other current liabilities	2,464	-
Other non-current liabilities	-	9,033

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- (a) Loans to others: None.
- (b) Provision of endorsements and guarantees to others: None.
- (c) Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- (d) Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- (e) Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- (f) Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- (g) Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more:
For the nine-month period ended September 30, 2014:

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		Footnote
			Purchases (Sales)	Amount	Percentage of total purchases (sales)	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)		
Global Communication Semiconductors LLC	RF Micro Devices, Inc. (Note)	Substantial related party	Sales	\$ 130,987	14%	Not applicable	45 days	Not applicable	-	-	-

Note: As of September 30, 2014, RF Micro Devices, Inc. was no longer the Group's substantial related party.

- (h) Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- (i) Derivative financial instruments undertaken during the year ended September 30, 2014: None.
- (j) Significant inter-company transactions during the year ended September 30, 2014: None

(2) Information on investees

The information about investees, location, etc. was as follow (not including investees in Mainland China):

For the nine-month period ended September 30, 2014:

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at June 30, 2014		Net profit (loss) of the investee for the nine months ended September 30, 2014	Investment income (loss) recognised by the Company for the nine months ended September 30, 2014	Footnote
				Balance as at September 30, 2014	Balance as at January 1, 2014	Number of shares	Ownership (%)				Book value
GCS Holdings Inc.	Global Communication Semiconductors LLC	Los Angeles, USA	GaAs wafer and foundry service	\$ 403,975	\$ 403,975	-	100	\$ 112,215	\$ 112,215	-

(3) Information on investments in Mainland China

None.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Segment information

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

	<u>For the nine-month period ended September 30, 2014</u>			
	<u>Cayman Islands</u>	<u>America</u>	<u>Adjustments and elimination</u>	<u>Consolidated amount</u>
Revenue from external customers	\$ -	\$ 961,658	\$ -	\$ 961,658
Inter-segment revenue	-	-	-	-
Total segment revenue	<u>\$ -</u>	<u>\$ 961,658</u>	<u>(\$ -)</u>	<u>\$ 961,658</u>
Segment profit (loss) (Note)	<u>\$ 95,168</u>	<u>\$ 122,096</u>	<u>(\$ 112,215)</u>	<u>\$ 105,049</u>
Total assets	<u>\$ 1,101,101</u>	<u>\$ 1,023,877</u>	<u>(\$ 806,233)</u>	<u>\$ 1,318,745</u>

	<u>For the nine-month period ended September 30, 2013</u>			
	<u>Cayman Islands</u>	<u>America</u>	<u>Adjustments and elimination</u>	<u>Consolidated amount</u>
Revenue from external customers	\$ -	\$ 754,001	\$ -	\$ 754,001
Inter-segment revenue	-	-	-	-
Total segment revenue	<u>\$ -</u>	<u>\$ 754,001</u>	<u>\$ -</u>	<u>\$ 754,001</u>
Segment profit (loss) (Note)	<u>\$ 44,709</u>	<u>\$ 53,460</u>	<u>(\$ 53,072)</u>	<u>\$ 45,097</u>
Total assets	<u>\$ 687,779</u>	<u>\$ 714,816</u>	<u>(\$ 582,337)</u>	<u>\$ 815,258</u>

Note: Profit (loss) before tax

(3) Reconciliation for segment income (loss)

The Company and its subsidiary engage in a single industry. The chief operating decision-maker assesses performance and allocates resources of the whole group. The Company is regarded as a single operating segment. Therefore, there is no inter-segment revenue. The revenue from external parties reported to the chief operating decision-maker is measured in a manner consistent with that in the income statement. The amount provided to the chief operating decision-maker with respect to total assets is measured in a manner consistent with that in the balance sheet.