

**SENAO NETWORKS, INC. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL
STATEMENTS AND REVIEW REPORT OF
INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2014 AND 2013**

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.



資誠

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

(14)PWCR14001480

To the Board of Directors and Stockholders of Senao Networks, Inc.

We have reviewed the accompanying consolidated balance sheets of Senao Networks, Inc. and its subsidiaries as of September 30, 2014 and 2013, and the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, 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 consolidated financial statements based on our reviews.

Except as explained in the following paragraph, our reviews were made in accordance with the Generally Accepted Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As explained in Note 4(3), we did not review the financial statements of certain insignificant consolidated subsidiaries, which statements reflect total assets of \$157,666 thousand and \$176,123 thousand, constituting 4% and 6% of the consolidated total assets, and total liabilities of \$69,981 thousand and \$45,089 thousand, constituting 3% and 2% of the consolidated total liabilities as of September 30, 2014 and 2013, respectively, and total comprehensive (loss) income of (\$4,808) thousand, (\$3,949) thousand, \$975 thousand and (\$10,635) thousand, constituting (3%), (3%), 0% and (3%) of the consolidated total comprehensive income for the three-month and nine-month periods then ended, respectively. These amounts and the information disclosed in Note 13 were based solely on the unreviewed financial statements of these companies as of September 30, 2014 and 2013.



資誠

Based on our reviews, except for the effect of such adjustments if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and the information disclosed in Note 13 been reviewed by independent accountants, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and IAS 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission (FSC).

PricewaterhouseCoopers, Taiwan

October 30, 2014

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

SENAO NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2014, DECEMBER 31, 2013 AND SEPTEMBER 30, 2013
(Expressed in thousands of New Taiwan dollars)
(The consolidated balance sheets as of September 30, 2014 and 2013 are unaudited)

Assets		Notes	September 30, 2014		December 31, 2013		September 30, 2013	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 2,289,772	54	\$ 2,180,742	59	\$ 1,442,278	45
1110	Financial assets at fair value	6(2)						
	through profit or loss - current		-	-	14,990	-	2,356	-
1150	Notes receivable, net		-	-	630	-	-	-
1170	Accounts receivable, net	6(3)	958,853	22	642,334	18	695,742	22
1200	Other receivables		60,531	1	30,218	1	55,614	1
1210	Other receivables - related parties	7	1,592	-	1,254	-	1,411	-
130X	Inventory	6(4)	586,821	14	490,574	13	694,395	22
1410	Prepayments		23,488	1	28,451	1	23,583	1
11XX	Total current assets		<u>3,921,057</u>	<u>92</u>	<u>3,389,193</u>	<u>92</u>	<u>2,915,379</u>	<u>91</u>
Non-current assets								
1600	Property, plant and equipment	6(5)	244,837	6	204,285	6	198,764	6
1780	Intangible assets	6(6)	9,968	-	12,222	-	17,856	1
1840	Deferred income tax assets		60,771	1	49,891	2	51,086	2
1900	Other non-current assets		39,829	1	10,238	-	11,077	-
15XX	Total non-current assets		<u>355,405</u>	<u>8</u>	<u>276,636</u>	<u>8</u>	<u>278,783</u>	<u>9</u>
1XXX	Total assets		<u>\$ 4,276,462</u>	<u>100</u>	<u>\$ 3,665,829</u>	<u>100</u>	<u>\$ 3,194,162</u>	<u>100</u>

(Continued)

SENAO NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
SEPTEMBER 30, 2014, DECEMBER 31, 2013 AND SEPTEMBER 30, 2013

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2014 and 2013 are unaudited)

Liabilities and Equity		Notes	September 30, 2014		December 31, 2013		September 30, 2013	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities								
2100	Short-term borrowings	6(7)	\$ 38,237	1	\$ 23,859	1	\$ 13,293	-
2120	Financial liabilities at fair value	6(2)						
	through profit or loss - current		7,603	-	4,243	-	-	-
2150	Notes payable		6,610	-	5,820	-	1,430	-
2170	Accounts payable		1,369,884	32	1,063,047	29	1,339,349	42
2200	Other payables	6(8)	512,038	12	498,541	13	453,630	14
2230	Current income tax liabilities	6(21)	46,786	1	22,827	1	6,267	-
2250	Provisions	6(11)	92,601	2	66,402	2	84,915	3
2300	Other current liabilities	6(12)	144,520	4	102,673	3	109,699	4
21XX	Total current liabilities		<u>2,218,279</u>	<u>52</u>	<u>1,787,412</u>	<u>49</u>	<u>2,008,583</u>	<u>63</u>
Non-current liabilities								
2600	Other non-current liabilities	6(9)	34,162	1	15,417	-	7,555	-
2XXX	Total liabilities		<u>2,252,441</u>	<u>53</u>	<u>1,802,829</u>	<u>49</u>	<u>2,016,138</u>	<u>63</u>
Equity								
Equity attributable to owners of parent								
Share capital		6(13)						
3110	Share capital - common stock		485,489	11	480,689	13	422,649	13
3140	Advance receipts for share capital		650	-	-	-	330	-
Capital surplus		6(10)(14)						
3200	Capital surplus		700,046	16	696,329	19	182,054	6
Retained earnings		6(15)						
3310	Legal reserve		136,812	3	94,620	3	94,620	3
3320	Special reserve		21,627	1	26,193	1	26,193	1
3350	Unappropriated retained earnings		697,127	16	586,797	16	475,334	15
Other equity interest								
3400	Other equity interest		(17,730)	-	(21,628)	(1)	(23,156)	(1)
3XXX	Total equity		<u>2,024,021</u>	<u>47</u>	<u>1,863,000</u>	<u>51</u>	<u>1,178,024</u>	<u>37</u>
Significant contingent liabilities and unrecognised contract commitments		7 and 9						
Significant events after the balance sheet date		11						
Total liabilities and equity			<u>\$ 4,276,462</u>	<u>100</u>	<u>\$ 3,665,829</u>	<u>100</u>	<u>\$ 3,194,162</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated October 30, 2014.

SENAO NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)
(Unaudited)

Items	Notes	Three months ended September 30				Nine months ended September 30			
		2014		2013		2014		2013	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000 Operating revenues	6(16) and 7	\$ 1,632,526	100	\$ 1,398,997	100	\$ 4,510,279	100	\$ 3,603,987	100
5000 Operating costs	6(4)(19)(20) and 7	(1,143,227)	(70)	(985,062)	(70)	(3,197,772)	(71)	(2,568,676)	(71)
5900 Net operating margin		<u>489,299</u>	<u>30</u>	<u>413,935</u>	<u>30</u>	<u>1,312,507</u>	<u>29</u>	<u>1,035,311</u>	<u>29</u>
Operating expenses	6(19)(20) and 7								
6100 Selling expenses		(127,825)	(8)	(126,563)	(9)	(359,403)	(8)	(325,840)	(9)
6200 General and administrative expenses		(78,593)	(5)	(58,399)	(4)	(186,543)	(4)	(155,140)	(4)
6300 Research and development expenses		(102,638)	(6)	(96,319)	(7)	(270,481)	(6)	(240,466)	(7)
6000 Total operating expenses		<u>(309,056)</u>	<u>(19)</u>	<u>(281,281)</u>	<u>(20)</u>	<u>(816,427)</u>	<u>(18)</u>	<u>(721,446)</u>	<u>(20)</u>
6900 Operating profit		<u>180,243</u>	<u>11</u>	<u>132,654</u>	<u>10</u>	<u>496,080</u>	<u>11</u>	<u>313,865</u>	<u>9</u>
Non-operating income and expenses									
7010 Other income	6(17)	7,378	1	5,353	-	32,232	1	31,346	1
7020 Other gains and losses	6(18)	2,028	-	569	-	(492)	-	4,561	-
7050 Finance costs		(122)	-	(59)	-	(241)	-	(191)	-
7000 Total non-operating income and expenses		<u>9,284</u>	<u>1</u>	<u>5,863</u>	<u>-</u>	<u>31,499</u>	<u>1</u>	<u>35,716</u>	<u>1</u>
7900 Profit before income tax		<u>189,527</u>	<u>12</u>	<u>138,517</u>	<u>10</u>	<u>527,579</u>	<u>12</u>	<u>349,581</u>	<u>10</u>
7950 Income tax expense	6(21)	(31,873)	(2)	(15,529)	(1)	(84,823)	(2)	(44,729)	(1)
8200 Profit for the period		<u>\$ 157,654</u>	<u>10</u>	<u>\$ 122,988</u>	<u>9</u>	<u>\$ 442,756</u>	<u>10</u>	<u>\$ 304,852</u>	<u>9</u>
Other comprehensive income									
8310 Financial statements translation differences of foreign operations		<u>\$ 3,619</u>	<u>-</u>	<u>(\$ 2,825)</u>	<u>-</u>	<u>\$ 3,898</u>	<u>-</u>	<u>\$ 3,037</u>	<u>-</u>
8500 Total comprehensive income for the period		<u>\$ 161,273</u>	<u>10</u>	<u>\$ 120,163</u>	<u>9</u>	<u>\$ 446,654</u>	<u>10</u>	<u>\$ 307,889</u>	<u>9</u>
Profit attributable to:									
8610 Owners of the parent		<u>\$ 157,654</u>	<u>10</u>	<u>\$ 122,988</u>	<u>9</u>	<u>\$ 442,756</u>	<u>10</u>	<u>\$ 304,852</u>	<u>9</u>
Comprehensive income attributable to:									
8710 Owners of the parent		<u>\$ 161,273</u>	<u>10</u>	<u>\$ 120,163</u>	<u>9</u>	<u>\$ 446,654</u>	<u>10</u>	<u>\$ 307,889</u>	<u>9</u>
Earnings per share (in dollars)	6(22)								
9750 Basic earnings per share		<u>\$ 3.25</u>		<u>\$ 2.93</u>		<u>\$ 9.16</u>		<u>\$ 7.28</u>	
9850 Diluted earnings per share		<u>\$ 3.21</u>		<u>\$ 2.86</u>		<u>\$ 8.98</u>		<u>\$ 7.03</u>	

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated October 30, 2014.

SENAO NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars)
(Unaudited)

		Equity attributable to owners of the parent								
		Capital		Capital Reserves		Retained Earnings			Financial statements translation differences of foreign operations	Total equity
Notes		Share capital - common stock	Advance receipts for share capital	Total capital surplus, additional paid-in capital	Employee stock warrants	Legal reserve	Special reserve	Unappropriated retained earnings		
<u>2013</u>										
		\$ 416,459	\$ -	\$ 159,500	\$ 14,640	\$ 65,024	\$ 18,483	\$ 375,572	(\$ 26,193)	\$1,023,485
	6(10)	6,190	330	13,347	(7,270)	-	-	-	-	12,597
	6(10)	-	-	-	1,837	-	-	-	-	1,837
Appropriations of 2012 earnings										
		-	-	-	-	29,596	-	(29,596)	-	-
		-	-	-	-	-	7,710	(7,710)	-	-
		-	-	-	-	-	-	(167,784)	-	(167,784)
		-	-	-	-	-	-	304,852	-	304,852
		-	-	-	-	-	-	-	3,037	3,037
		<u>\$ 422,649</u>	<u>\$ 330</u>	<u>\$ 172,847</u>	<u>\$ 9,207</u>	<u>\$ 94,620</u>	<u>\$ 26,193</u>	<u>\$ 475,334</u>	<u>(\$ 23,156)</u>	<u>\$1,178,024</u>
<u>2014</u>										
		\$ 480,689	\$ -	\$ 686,466	\$ 9,863	\$ 94,620	\$ 26,193	\$ 586,797	(\$ 21,628)	\$1,863,000
	6(10)	4,800	650	3,717	-	-	-	-	-	9,167
Appropriations of 2013 earnings										
		-	-	-	-	42,192	-	(42,192)	-	-
		-	-	-	-	-	(4,566)	4,566	-	-
		-	-	-	-	-	-	(294,800)	-	(294,800)
		-	-	-	-	-	-	442,756	-	442,756
		-	-	-	-	-	-	-	3,898	3,898
		<u>\$ 485,489</u>	<u>\$ 650</u>	<u>\$ 690,183</u>	<u>\$ 9,863</u>	<u>\$ 136,812</u>	<u>\$ 21,627</u>	<u>\$ 697,127</u>	<u>(\$ 17,730)</u>	<u>\$2,024,021</u>

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated October 30, 2014.

SENAO NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars)
(Unaudited)

	Notes	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Consolidated profit before tax for the period		\$ 527,579	\$ 349,581
Adjustments to reconcile net income to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Depreciation	6(5)(19)	46,618	42,393
Amortization	6(6)(19)	2,750	2,052
(Reversal of allowance) Bad debts expense	6(3)	(57)	3,609
Loss (gain) on financial assets/liabilities measured at fair value through profit or loss	6(2)	3,350	(1,404)
Interest expense		241	191
Interest income	6(17)	(11,073)	(5,660)
Share-based payment compensation cost	6(10)	-	1,837
Loss on disposal of property, plant and equipment	6(5)(18)	373	83
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss		15,000	100,000
Notes receivable, net		630	-
Accounts receivable		(316,421)	(115,110)
Other receivables		(30,843)	(22,288)
Other receivables - related parties		(338)	(206)
Inventory		(96,247)	(321,659)
Prepayments		13,282	765
Net changes in liabilities relating to operating activities			
Notes payable		790	(2,133)
Accounts payable		306,837	481,672
Other payables		(2,851)	6,344
Provisions		26,199	19,310
Other current liabilities		41,847	50,773
Other non-current liabilities		18,745	(584)
Cash generated from operations		546,411	589,566
Interest recieved		11,603	5,963
Interest paid		(241)	(191)
Income tax paid		(79,632)	(70,275)
Net cash provided by operating activities		478,141	525,063

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SENAO NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars)
(Unaudited)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(5)(23)	(\$ 72,216)	(\$ 32,999)
Proceeds from disposal of property, plant and equipment	6(5)	1,122	-
Increase in intangible assets	6(6)	(346)	(5,977)
Decrease (increase) in refundable deposits		501	(115)
Increase in other non-current assets		(30,092)	(1,866)
Net cash used in investing activities		(101,031)	(40,957)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in short-term borrowings	6(7)	14,378	(16,027)
Exercise of employees' stock options	6(10)	9,167	12,597
Payment of cash dividends		(294,800)	(167,784)
Net cash used in financing activities		(271,255)	(171,214)
Effect on foreign exchange difference		3,175	2,299
Increase in cash and cash equivalents		109,030	315,191
Cash and cash equivalents at beginning of period		2,180,742	1,127,087
Cash and cash equivalents at end of period		<u>\$ 2,289,772</u>	<u>\$ 1,442,278</u>

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated October 30, 2014.

SENAO NETWORKS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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

(Unaudited)

1. HISTORY AND ORGANIZATION

Senao Networks, Inc. (the “Company”) was established as a result of the spin-off of the wireless communication department of Senao International Co., Ltd. The Company assumed all the department’s business, assets and liabilities effective October 1, 2006. The Company’s registration was approved by the Ministry of Economic Affairs, R.O.C. on October 12, 2006. The Company started selling shares publicly at the Taiwan Over-The-Counter Exchange on December 30, 2013. The Company is mainly engaged in the sales of wireless communication products. As of September 30, 2014, the Company and its subsidiaries (together referred herein as the Group) had approximately 1,070 employees.

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

The consolidated financial statements were authorised for issuance by the Board of Directors on October 30, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’ 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' (as amended in 2011)	January 1, 2013
IAS 28, 'Investments in associates and joint ventures' (as amended in 2011)	January 1, 2013
Offsetting financial assets and financial liabilities (amendment to IAS 32)	January 1, 2014
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	January 1, 2013
Improvements to IFRSs 2010	January 1, 2011
Improvements to IFRSs 2009—2011	January 1, 2013

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

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

The guideline increases disclosure rules for defined benefit plans.

B. IAS 1, 'Presentation of financial statements'

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

statement of comprehensive income.

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

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

For the above items, the Group is assessing their impact on the consolidated financial statements and will disclose the affected amounts 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
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
IFRS 15, 'Revenue from contracts with customers'	January 1, 2017
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
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. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
 - (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
 - (b) Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised past service cost and unrecognised actuarial losses, and less unrecognised actuarial gains and present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

- A. Principles for consolidation of financial reports:
 - (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all 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.
 - (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Description
			September 30, 2014	December 31, 2013	September 30, 2013	
Senao Networks, Inc.	EnGenius Technologies, Inc.	Sales of communication products	100	100	100	
Senao Networks, Inc.	Senao International (Samoa) Ltd.	Investment holdings	100	100	100	
Senao Networks, Inc.	EnGenius Networks Malaysia Sdn. Bhd	Development of communication products	100	100	100	
Senao International (Samoa) Ltd.	EnGenius International (Samoa) Ltd.	Investment holdings	100	100	100	
EnGenius International (Samoa) Ltd.	EnGenius Networks Singapore Pte. Ltd.	Sales of communication products	100	100	100	
EnGenius Networks Singapore Pte. Ltd.	EnGenius Networks Europe B.V.	Sales of communication products	100	100	100	
EnGenius Technologies, Inc.	EnGenius Technologies, Miami, Inc.	Sales of communication products	100	100	100	
EnGenius Technologies, Inc.	SuperTel Technologies, Inc.	Development of communication products	100	100	100	

Except for EnGenius Technologies, Inc., the financial statements of certain consolidated subsidiaries for the nine-month periods ended September 30, 2014 and 2013 were not reviewed by independent accountants. The total assets of these unreviewed subsidiaries as of September 30, 2014 and 2013 were \$157,666 and \$176,123, respectively, and the total liabilities were \$69,981 and \$45,089, respectively, and total comprehensive (loss) income for the three-month and nine-month periods then ended were (\$4,808), (\$3,949), \$975 and (\$10,635), respectively.

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

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

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

(4) Foreign currency translation

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 consolidated financial statements are presented in New Taiwan Dollars.

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 realized or consumed, or are intended to be sold within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realized within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities arising from operating activities 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are:

- A. Readily convertible to known amounts of cash
- B. Subject to an insignificant risk of changes in value.

Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

- A. Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets (liabilities) held for trading.
- B. On a regular way purchase or sale basis, financial assets held for trading are recognised and derecognised using trade date accounting, and derivative instruments and financial assets (liabilities) recognised at fair value through profit or loss on initial recognition are recognised and derecognised using settlement date accounting.
- C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(8) 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 amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) 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) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties.

(10) Derecognition of financial assets

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

(11) Inventories

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

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. 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.
- B. 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 part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- C. 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	2 ~ 9 years
Molding equipment	2 ~ 7 years
Transportation equipment	5 ~ 7 years
Office equipment	3 ~ 8 years
Other equipment	4 ~ 8 years
Leasehold improvements	2 years

(13) Leased assets/leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(14) Intangible assets

A. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 3 years.

B. Other intangible assets

Intangible assets pertain to distribution rights and intellectual property, which are not amortized because of expected cash flows to be derived continually from the asset. This asset is subject to test of impairment on an annual basis.

(15) 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. Except for goodwill, when the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(16) 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 amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(17) 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.

(18) Provisions

Provisions (including warranties and sales discounts, etc.) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

(19) 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

(a) 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.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds at the balance sheet date.
- ii. Actuarial gains and losses arising on defined benefit plans are recognised in other comprehensive income.
- iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. The related information is disclosed accordingly.

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

Employees' bonus and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be 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 at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(20) Employee share-based payment

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. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(21) 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 subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred 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 utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognised for the carryforward of unused tax credits to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.
- 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.

(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.

(23) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells internet and wireless products. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be

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) The Group offers customers discounts and estimates such discounts based on historical experience. Provisions for such liabilities are recorded when the sales are recognised.

B. Sales of services

The Group provides repair and maintenance on communication services. Revenues are recognised once all the criteria below are met and costs are recognised when services are rendered.

- (a) revenue can be measured reliably;
- (b) it is probable that the future economic benefits associated with the transaction will flow to the company; and
- (c) costs incurred or expected to be incurred can be reliably measured.

(24) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief 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 JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies but no critical judgements were made. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The information is addressed below:

(1) Impairment assessment of other intangible assets

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.

As of September 30, 2014, the Group recognised other intangible assets, net of impairment loss, amounting to \$7,605.

(2) Evaluation of inventories

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

As of September 30, 2014, the carrying amount of inventories was \$586,821.

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 (revolving funds)	\$ 530	\$ 468	\$ 658
Checking deposits and demand deposits	108,484	113,703	112,450
Time deposits	<u>2,180,758</u>	<u>2,066,571</u>	<u>1,329,170</u>
	<u>\$ 2,289,772</u>	<u>\$ 2,180,742</u>	<u>\$ 1,442,278</u>

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

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

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

<u>Items</u>	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Financial assets:			
Financial assets held for trading			
Futures trust fund	\$ -	\$ 15,000	\$ -
Valuation adjustment	-	(10)	2,356
	<u>\$ -</u>	<u>\$ 14,990</u>	<u>\$ 2,356</u>
Financial liabilities:			
Financial liabilities held for trading			
Valuation adjustment	<u>(\$ 7,603)</u>	<u>(\$ 4,243)</u>	<u>\$ -</u>

- A. The Group recognised net (loss) gain of (\$11,141), \$4,376, (\$14,980) and (\$7,902) on financial assets (liabilities) held for trading for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively.
- B. The unsettled derivative financial assets (liabilities) transaction and contract information are as follows:

Derivative financial liabilities	September 30, 2014		December 31, 2013	
	Contract amount (value of return) (in thousands)	Contract period	Contract amount (value of return) (in thousands)	Contract period
Forward foreign exchange	USD 17,000	2014.8.5~	USD 16,000	2013.11.6
contracts-Sell in advance		2014.11.21		~2014.2.19

Derivative financial liabilities	September 30, 2013	
	Contract amount (value of return) (in thousands)	Contract period
Forward foreign exchange	USD 12,000	2013.8.5
contracts-Sell in advance		~2013.11.27

- C. The Company entered into forward exchange contracts to manage exposures to foreign exchange rate fluctuations of import or export sales. However, the forward exchange transactions did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting.

(3) Accounts receivable

	September 30, 2014	December 31, 2013	September 30, 2013
Accounts receivable	\$ 964,267	\$ 647,846	\$ 701,699
Less: Allowance for bad debts (	5,414)	5,512)	5,957)
	<u>\$ 958,853</u>	<u>\$ 642,334</u>	<u>\$ 695,742</u>

- A. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	September 30, 2014	December 31, 2013	September 30, 2013
Up to 30 days	\$ 68,584	\$ 84,710	\$ 31,087
31 to 90 days	12,846	7,298	1,302
91 days to 180 days	5,800	-	937
	<u>\$ 87,230</u>	<u>\$ 92,008</u>	<u>\$ 33,326</u>

The above ageing analysis was based on past due date.

- B. Movements of the allowance for bad debts of financial assets that were past due analysed based on individual and group provisions are provided below:

2014			
	Individual provision	Group provision	Total
At January 1	\$ 4,637	\$ 875	\$ 5,512
Reversal for impairment	-	(57)	(57)
Effect of exchange rate	-	(41)	(41)
At September 30	<u>\$ 4,637</u>	<u>\$ 777</u>	<u>\$ 5,414</u>

2013			
	Individual provision	Group provision	Total
At January 1	\$ -	\$ 2,217	\$ 2,217
Provision (reversal) for impairment loss	4,969	(1,360)	3,609
Effect of exchange rate	-	131	131
At September 30	<u>\$ 4,969</u>	<u>\$ 988</u>	<u>\$ 5,957</u>

- C. 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:

	September 30, 2014	December 31, 2013	September 30, 2013
Group 1	\$ 680,294	\$ 413,370	\$ 500,703
Group 2	191,329	136,956	161,713
	<u>\$ 871,623</u>	<u>\$ 550,326</u>	<u>\$ 662,416</u>

Group 1 : OEM customer

Group 2 : OBM customer

- 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.

(4) Inventories

September 30, 2014			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 283,293	(\$ 8,277)	\$ 275,016
Work in process	161,409	-	161,409
Finished goods	158,058	(7,662)	150,396
	<u>\$ 602,760</u>	<u>(\$ 15,939)</u>	<u>\$ 586,821</u>

December 31, 2013			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 153,698	(\$ 6,166)	\$ 147,532
Work in process	166,354	-	166,354
Finished goods	180,614	(3,926)	176,688
	<u>\$ 500,666</u>	<u>(\$ 10,092)</u>	<u>\$ 490,574</u>
September 30, 2013			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 363,204	(\$ 7,975)	\$ 355,229
Work in process	168,796	-	168,796
Finished goods	174,161	(3,791)	170,370
	<u>\$ 706,161</u>	<u>(\$ 11,766)</u>	<u>\$ 694,395</u>

The cost of inventories recognised as expense for the three-month and nine-month periods ended September 30, 2014 and 2013 was \$1,138,860, \$981,331, \$3,183,028 and \$2,556,560, respectively. The cost for the three-month and nine-month periods ended September 30, 2014 and 2013 includes the amount of \$2,374, \$359, \$8,095 and \$351, respectively, that the Group wrote down from cost to net realizable value which was accounted for as cost of goods sold.

(5) Property, plant and equipment

	Machinery	Molding equipment	Transportation equipment	Office equipment	Other equipment	Leasehold improvements	Total
<u>January 1, 2014</u>							
Cost	\$ 344,480	\$ 46,805	\$ 10,303	\$ 41,377	\$ 5,770	\$ 23,070	\$ 471,805
Accumulated depreciation and impairment	(175,402)	(34,253)	(5,400)	(30,571)	(3,764)	(18,130)	(267,520)
	<u>\$ 169,078</u>	<u>\$ 12,552</u>	<u>\$ 4,903</u>	<u>\$ 10,806</u>	<u>\$ 2,006</u>	<u>\$ 4,940</u>	<u>\$ 204,285</u>
<u>2014</u>							
Opening net book amount	\$ 169,078	\$ 12,552	\$ 4,903	\$ 10,806	\$ 2,006	\$ 4,940	\$ 204,285
Additions	8,414	734	160	1,071	-	460	10,839
Disposals	(12)	-	(690)	(518)	-	(275)	(1,495)
Other fixed assets-transferred in	65,691	8,223	1,740	-	461	1,610	77,725
Depreciation charge	(33,557)	(5,415)	(1,034)	(3,290)	(440)	(2,882)	(46,618)
Net exchange differences	<u>10</u>	<u>-</u>	<u>18</u>	<u>61</u>	<u>-</u>	<u>12</u>	<u>101</u>
Closing net book amount	<u>\$ 209,624</u>	<u>\$ 16,094</u>	<u>\$ 5,097</u>	<u>\$ 8,130</u>	<u>\$ 2,027</u>	<u>\$ 3,865</u>	<u>\$ 244,837</u>
<u>At September 30, 2014</u>							
Cost	\$ 418,583	\$ 55,762	\$ 10,514	\$ 40,843	\$ 5,479	\$ 25,618	\$ 556,799
Accumulated depreciation and impairment	(208,959)	(39,668)	(5,417)	(32,713)	(3,452)	(21,753)	(311,962)
	<u>\$ 209,624</u>	<u>\$ 16,094</u>	<u>\$ 5,097</u>	<u>\$ 8,130</u>	<u>\$ 2,027</u>	<u>\$ 3,865</u>	<u>\$ 244,837</u>

	<u>Machinery</u>	<u>Molding equipment</u>	<u>Transportation equipment</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>January 1, 2013</u>							
Cost	\$ 306,424	\$ 41,735	\$ 8,753	\$ 37,657	\$ 5,548	\$ 18,159	\$ 418,276
Accumulated depreciation and impairment	(136,805)	(27,187)	(4,079)	(25,889)	(3,465)	(13,440)	(210,865)
	<u>\$ 169,619</u>	<u>\$ 14,548</u>	<u>\$ 4,674</u>	<u>\$ 11,768</u>	<u>\$ 2,083</u>	<u>\$ 4,719</u>	<u>\$ 207,411</u>
<u>2013</u>							
Opening net book amount	\$ 169,619	\$ 14,548	\$ 4,674	\$ 11,768	\$ 2,083	\$ 4,719	\$ 207,411
Additions	25	-	-	1,637	-	62	1,724
Disposals	(3)	-	-	(80)	-	-	(83)
Other fixed assets-transferred in	23,852	4,317	-	2,109	865	886	32,029
Depreciation charge	(28,700)	(5,241)	(983)	(3,780)	(810)	(2,879)	(42,393)
Net exchange differences	13	-	11	47	19	(14)	76
Closing net book amount	<u>\$ 164,806</u>	<u>\$ 13,624</u>	<u>\$ 3,702</u>	<u>\$ 11,701</u>	<u>\$ 2,157</u>	<u>\$ 2,774</u>	<u>\$ 198,764</u>
<u>At September 30, 2013</u>							
Cost	\$ 330,244	\$ 46,052	\$ 8,812	\$ 41,319	\$ 5,383	\$ 20,169	\$ 451,979
Accumulated depreciation and impairment	(165,438)	(32,428)	(5,110)	(29,618)	(3,226)	(17,395)	(253,215)
	<u>\$ 164,806</u>	<u>\$ 13,624</u>	<u>\$ 3,702</u>	<u>\$ 11,701</u>	<u>\$ 2,157</u>	<u>\$ 2,774</u>	<u>\$ 198,764</u>

(6) Intangible assets

A. Changes to intangible assets are as follows:

	Other intangible assets	Computer software	Total
<u>At January 1, 2014</u>			
Cost	\$ 22,652	\$ 13,721	\$ 36,373
Accumulated amortisation and impairment	(15,201)	(8,950)	(24,151)
	<u>\$ 7,451</u>	<u>\$ 4,771</u>	<u>\$ 12,222</u>
<u>2014</u>			
Opening net book amount	\$ 7,451	\$ 4,771	\$ 12,222
Additions	-	346	346
Disposal	-	(8)	(8)
Amortisation charge	-	(2,750)	(2,750)
Net exchange differences	154	4	158
Closing net book amount	<u>\$ 7,605</u>	<u>\$ 2,363</u>	<u>\$ 9,968</u>
<u>At September 30, 2014</u>			
Cost	\$ 23,119	\$ 14,093	\$ 37,212
Accumulated amortisation and impairment	(15,514)	(11,730)	(27,244)
	<u>\$ 7,605</u>	<u>\$ 2,363</u>	<u>\$ 9,968</u>
	Other intangible assets	Computer software	Total
<u>January 1, 2013</u>			
Cost	\$ 22,070	\$ 7,655	\$ 29,725
Accumulated amortisation and impairment	(10,164)	(5,859)	(16,023)
	<u>\$ 11,906</u>	<u>\$ 1,796</u>	<u>\$ 13,702</u>
<u>2013</u>			
Opening net book amount	\$ 11,906	\$ 1,796	\$ 13,702
Additions	-	5,977	5,977
Amortisation charge	-	(2,052)	(2,052)
Net exchange differences	217	12	229
Closing net book amount	<u>\$ 12,123</u>	<u>\$ 5,733</u>	<u>\$ 17,856</u>
<u>At September 30, 2013</u>			
Cost	\$ 22,473	\$ 13,658	\$ 36,131
Accumulated amortisation and impairment	(10,350)	(7,925)	(18,275)
	<u>\$ 12,123</u>	<u>\$ 5,733</u>	<u>\$ 17,856</u>

B. Details of amortisation on intangible assets are as follows:

	For the three-month periods ended September 30,	
	2014	2013
Manufacturing expenses	\$ -	\$ 3
General and administrative expenses	351	494
Research and development expenses	490	551
	<u>\$ 841</u>	<u>\$ 1,048</u>

	For the nine-month periods ended September 30,	
	2014	2013
Manufacturing expenses	\$ -	\$ 23
General and administrative expenses	1,245	1,056
Research and development expenses	1,505	973
	<u>\$ 2,750</u>	<u>\$ 2,052</u>

(7) Short-term borrowings

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Unsecured bank borrowings	\$ 38,237	\$ 23,859	\$ 13,293
Interest rate range	<u>1.35%~1.85%</u>	<u>1.15%~1.85%</u>	<u>1.15%</u>

(8) Other payables

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Accrued salary expenses and bonuses	\$ 280,246	\$ 291,690	\$ 231,274
Accrued employees' bonuses and directors' and supervisors' remuneration	50,349	49,362	35,671
Accrued commission expenses	29,304	33,145	27,551
Payable on equipment	26,278	9,930	16,092
Others	125,861	114,414	143,042
	<u>\$ 512,038</u>	<u>\$ 498,541</u>	<u>\$ 453,630</u>

(9) Pensions

A. Defined benefit plan

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

amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

- (b) For the aforementioned pension plan, the Group recognised pension costs of \$138, \$66, \$414 and \$197 for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively.

Details of cost and expenses recognised in statements of comprehensive income are as follows:

	For the three-month periods ended September 30,	
	2014	2013
Cost of goods sold	\$ 119	\$ 127
Selling expenses	(3)	3
General and administrative expenses	(11)	(83)
Research and development expenses	33	19
	<u>\$ 138</u>	<u>\$ 66</u>

	For the nine-month periods ended September 30,	
	2014	2013
Cost of goods sold	\$ 365	\$ 382
Selling expenses	(6)	8
General and administrative expenses	(37)	(251)
Research and development expenses	92	58
	<u>\$ 414</u>	<u>\$ 197</u>

- (c) Expected contributions to the defined benefit pension plans of the Company within one year from September 30, 2014 are \$1,011.

B. Defined contribution plan

- (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the three-month and nine-month periods ended September 30, 2014 and 2013 were \$6,799, \$5,970, \$19,599 and \$17,602, respectively.
- (b) Senao International (Samoa) Ltd., EnGenius International (Samoa) Ltd. and EnGenius Networks Europe B.V. have yet to establish an employee pension plan. EnGenius Technologies, Inc., SuperTel Technologies, Inc., EnGenius Networks Singapore Pte. Ltd.,

EnGenius Technologies, Miami, Inc. and EnGenius Networks Malaysia Sdn. Bhd follow the established pension regulations of their respective local governments. These subsidiaries pay monthly pension contributions and have no further obligations. The pension costs under the defined contribution pension plans of the above companies for the three-month and nine-month periods ended September 30, 2014 and 2013 were \$901, \$1,058, \$3,002 and \$2,954, respectively.

(10) Share capital

- A. As of September 30, 2014 and 2013, the Company's share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	Quantity granted (in thousands of shares)	<u>Contract period</u>	<u>Vesting conditions</u>
Employee stock options	2009.12.30	3,600	6 years	Note
Cash capital increase reserved for employee preemption	2013.12.23	865	NA	Vested immediately

Note: Employees with 2 service years are entitled to 30%; employees with 3 service years are entitled to 60%; employees with 4 service years are entitled to 100%.

- B. Details of the share-based payment arrangements are as follows:

	For the nine-month periods ended September 30,			
	2014		2013	
	<u>No. of options</u>	Weighted-average exercise price (in dollars)	<u>No. of options</u>	Weighted-average exercise price (in dollars)
Options outstanding at the beginning of the period	1,016	\$ 16.89	1,688	\$ 20.13
Options exercised	(545)	16.82	(652)	19.32
Options revoked	(24)	16.89	(20)	20.13
Options outstanding at the end of the period	<u>447</u>		<u>1,016</u>	
Options exercisable at the end of the period	<u>447</u>	16.31	<u>176</u>	16.89

- C. The weighted-average stock price of stock options at exercise dates for the nine-month periods ended September 30, 2014 and 2013 was \$162.85 and \$62.48, respectively.

D. As of September 30, 2014, December 31, 2013 and September 30, 2012, the exercise prices of stock options outstanding was \$16.31, \$16.89 and \$16.89, respectively; and the weighted-average remaining contractual periods were 1.25 years, 2 years and 2.25 years, respectively.

E. The fair value of stock options granted on the grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Weighted-average stock price/ exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Employee stock options plan	2009.12.30	\$31.06/\$32.57	44%	4.8 years	0%	1%	\$ 11.74

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

	For the three-month periods ended September 30,	
	2014	2013
Employee stock option plan	\$ -	\$ 631

	For the nine-month periods ended September 30,	
	2014	2013
Employee stock option plan	\$ -	\$ 1,837

(11) Provisions

	2014		
	Warranty provision	Discount provision	Total
At January 1, 2014	\$ 48,028	\$ 18,374	\$ 66,402
Additional provisions	33,680	35,432	69,112
Used during the period	(17,579)	(26,013)	(43,592)
Exchange difference	209	470	679
At September 30, 2014	\$ 64,338	\$ 28,263	\$ 92,601
	2013		
	Warranty provision	Discount provision	Total
At January 1, 2013	\$ 49,444	\$ 16,161	\$ 65,605
Additional provisions	35,302	32,058	67,360
Used during the period	(19,741)	(29,432)	(49,173)
Exchange difference	569	554	1,123
At September 30, 2013	\$ 65,574	\$ 19,341	\$ 84,915

The Group's liability provisions are related to the products sold. Provision for warranty is estimated based on past experience of the use of warranties on the product; allowance provision is estimated based on past experience and the sale of the product. It is expected that the provision will start to be used within the next year.

(12) Other current liabilities

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Sales revenue received in advance	\$ 54,819	\$ 48,130	\$ 65,976
Other advance receipts	79,577	45,752	35,428
Others	10,124	8,791	8,295
	<u>\$ 144,520</u>	<u>\$ 102,673</u>	<u>\$ 109,699</u>

(13) Share capital

A. As of September 30, 2014, the Company's authorised capital was \$1.2 billion (including 18 million shares reserved for employee stock options), 48,614 thousand shares of common stock (including 65 thousand shares reserved for employee stock options converted into common stock still pending authorization as of September 30, 2014 under capital collected in advance) are outstanding, with a par value of \$10 (in dollars) per share. Movements in the number of the Company's ordinary shares outstanding (in thousands) for the nine-month periods ended September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
At January 1	48,069	41,646
Employee stock options exercised	480	619
At September 30	<u>48,549</u>	<u>42,265</u>

B. The Board of Directors during its meeting on November 25, 2013 adopted a resolution to increase capital by \$57,710 through cash. The capital increase was approved by the Financial Supervisory Commission according to the Jin-Guan-Zheng-Fa-Zi Letter No. 10200050123 on December 5, 2013. The Company has completed registration on February 5, 2014.

(14) Capital surplus

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

	<u>Share premium</u>	<u>Employee stock options</u>
At January 1, 2014	\$ 686,466	\$ 9,863
Employee stock options	3,717	-
At September 30, 2014	<u>\$ 690,183</u>	<u>\$ 9,863</u>
	<u>Share premium</u>	<u>Employee stock options</u>
At January 1, 2013	\$ 159,500	\$ 14,640
Employee stock options	13,347	(7,270)
Compensation cost recognised for share-based payment obligation	-	1,837
At September 30, 2013	<u>\$ 172,847</u>	<u>\$ 9,207</u>

(15) Retained earnings

	<u>2014</u>	<u>2013</u>
At January 1	\$ 586,797	\$ 375,572
Appropriation of earnings	(332,426)	(205,090)
Profit for the period	442,756	304,852
At September 30	<u>\$ 697,127</u>	<u>\$ 475,334</u>

A. The Company is currently in the growth stage. Based on capital expenditures and needs for branching out and completing financial plans to pursue sustainable development, the Company's dividend policy is in accordance with the future budget of capital expenditure and capital needs. Cash dividends and stock dividends are to be distributed to the shareholders. Cash dividends shall account for at least 5% of the total dividends distributed.

B. Under the Company's Articles of Incorporation amended on May 31, 2013, the current year's retained earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. However, there is no need to appropriate for legal reserve if the legal reserve has reached the Company's total capital. Bonus distributed to the employees should not be lower than 3% of the remainder while bonus distributed as directors' compensation should not be higher than 3%. The remaining surplus shall be combined with the remaining surplus at the beginning of the year and counted as unappropriated retained earnings. The method of distribution shall be proposed by the board of directors and presented to the shareholders for approval.

The qualifications of employees who are entitled to receive dividends are to be set by the Board of Directors.

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

D. The Company's regulations on the appropriation and reversal of special reserve are as follows:

- (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. The appropriations of 2013 and 2012 earnings had been approved during the stockholders' meeting on June 25, 2014 and May 31, 2013, respectively. Details are summarized below:

	2013		2012	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 42,192	\$ -	\$ 29,596	\$ -
Special reserve	(4,566)	-	7,710	-
Cash dividends	294,800	6.1	167,784	4.0
	<u>\$ 332,426</u>	<u>\$ 6.1</u>	<u>\$ 205,090</u>	<u>\$ 4.0</u>

Furthermore, as approved at the stockholders' meeting, employees' bonuses amounting to \$37,971 and \$26,520, and directors' and supervisors' remuneration amounting to \$11,385 and \$8,107 for the years ended December 31, 2013 and 2012, respectively, were the same with the amounts proposed at the Board of Directors' meetings on March 10, 2014 and March 8, 2013, respectively. The employees' bonuses and directors' and supervisors' remuneration as approved by the shareholders were \$6 and \$3 less than the amounts recognised in the financial statements for the years ended December 31, 2013 and 2012, respectively. The difference had been adjusted in the second quarter of 2014 and 2013. Retained earnings as of December 31, 2013 were distributed on September 3, 2014. Information on the appropriation of the Company's earnings 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.

F. The estimated amounts for employees' bonuses for the three-month and nine-month periods ended September 30, 2014 and 2013 was accrued at \$13,277, \$11,007, \$38,389 and \$27,437, respectively; directors' and supervisors' remuneration was accrued at \$4,276, \$3,245, \$11,960 and \$8,234, respectively. The estimation was based on a certain percentage stated in the Company's Articles of Incorporation, and the Company uses the post-tax profit and considers the appropriation of legal reserve and other factors to estimate and recognize the amount as operating expenses for the year. If the estimated amount is different from the amount approved by the stockholders, the difference shall be recognised as gain or loss in the year the bonus was

approved.

(16) Operating income

	For the three-month periods ended September 30,	
	2014	2013
Sales revenue	\$ 1,621,836	\$ 1,395,402
Services revenue	10,690	3,595
	<u>\$ 1,632,526</u>	<u>\$ 1,398,997</u>

	For the nine-month periods ended September 30,	
	2014	2013
Sales revenue	\$ 4,486,829	\$ 3,592,172
Services revenue	23,450	11,815
	<u>\$ 4,510,279</u>	<u>\$ 3,603,987</u>

(17) Other income

	For the three-month periods ended September 30,	
	2014	2013
Interest income	\$ 3,349	\$ 1,769
Other income	4,029	3,584
	<u>\$ 7,378</u>	<u>\$ 5,353</u>

	For the nine-month periods ended September 30,	
	2014	2013
Interest income	\$ 11,073	\$ 5,660
Other income	21,159	25,686
	<u>\$ 32,232</u>	<u>\$ 31,346</u>

(18) Other gains and losses

	For the three-month periods ended September 30,	
	2014	2013
Net (loss) gain on financial assets (liabilities)		
at fair value through profit or loss	(\$ 11,141)	\$ 4,376
Net currency exchange gain (loss)	13,436	(3,290)
Gain on disposal of property, plant and equipment	222	-
Other losses	(489)	(517)
	<u>\$ 2,028</u>	<u>\$ 569</u>

	For the nine-month periods ended September 30,	
	2014	2013
Net loss on financial assets (liabilities) at fair value through profit or loss	(\$ 14,980)	(\$ 7,902)
Net currency exchange gain	17,402	13,732
Loss on disposal of property, plant and equipment	(373)	(83)
Other losses	(2,541)	(1,186)
	<u>(\$ 492)</u>	<u>\$ 4,561</u>

(19) Expenses by nature

	For the three-month periods ended September 30,	
	2014	2013
Change in inventory of finished goods and work in process	(\$ 4,625)	(\$ 91,745)
Raw materials and supplies used	983,820	975,273
Labor cost	4,367	3,731
Employee benefit expense	303,878	244,455
Depreciation charges on property, plant and equipment	16,732	14,106
Amortisation charges on intangible assets	841	1,048
Commission expense	27,158	15,997
Rent expense	19,702	17,814
Advertising expenses	13,867	12,614
Travel expenses	6,901	6,576
Utilities expenses	8,004	6,839
Other expenses	71,638	59,635
	<u>\$ 1,452,283</u>	<u>\$ 1,266,343</u>

	For the nine-month periods ended September 30,	
	2014	2013
Change in inventory of finished goods and work in process	\$ 27,501	(\$ 83,610)
Raw materials and supplies used	2,689,138	2,228,394
Labor cost	14,744	12,116
Employee benefit expense	790,656	664,842
Depreciation charges on property, plant and equipment	46,618	42,393
Amortisation charges on intangible assets	2,750	2,052
Commission expense	69,504	52,816
Rent expense	60,145	54,373
Advertising expenses	47,345	42,149
Travel expenses	19,315	20,876
Utilities expenses	19,606	16,275
Other expenses	226,877	237,446
	<u>\$ 4,014,199</u>	<u>\$ 3,290,122</u>

(20) Employee benefit expense

	For the three-month periods ended September 30,	
	2014	2013
Wages and salaries	\$ 268,860	\$ 215,025
Employee stock options	-	631
Labor and health insurance fees	16,503	13,893
Pension costs	7,838	7,094
Other personnel expenses	10,677	7,812
	<u>\$ 303,878</u>	<u>\$ 244,455</u>

	For the nine-month periods ended September 30,	
	2014	2013
Wages and salaries	\$ 690,354	\$ 578,643
Employee stock options	-	1,837
Labor and health insurance fees	46,278	40,450
Pension costs	23,015	20,753
Other personnel expenses	31,009	23,159
	<u>\$ 790,656</u>	<u>\$ 664,842</u>

(21) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the three-month periods ended September 30,	
	2014	2013
Current tax:		
Current tax on profits for the period	\$ 24,706	\$ 19,206
Adjustments in respect of prior years	(732)	210
Total current tax	23,974	19,416
Deferred tax:		
Origination and reversal of temporary differences	7,899	(3,887)
Income tax expense	\$ 31,873	\$ 15,529

	For the nine-month periods ended September 30,	
	2014	2013
Current tax:		
Current tax on profits for the period	\$ 71,903	\$ 45,132
Adjustments in respect of prior years	15,691	13,426
Total current tax	87,594	58,558
Deferred tax:		
Origination and reversal of temporary differences	(2,771)	(13,829)
Income tax expense	\$ 84,823	\$ 44,729

- B. The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.
- C. The capital increase plan satisfied the requirements stated in Article 9-2 Item 1, Statute for Upgrading Industries (before its abolishment) and Article 2-1, "The Guidelines for the Calculation of Exempt Income for the Five-year Profit-seeking Enterprise Income Tax Exemption by Manufacturing Industries and their Related Technical Services Industries Increasing New Investment". Accordingly, the Company received approval on August 25, 2011 and was entitled to the profit-seeking enterprise income tax exemption for five consecutive years since January 1, 2011. The estimated tax exempt income for the nine-month periods ended September 30, 2014 and 2013 was \$81,373 and \$46,600, respectively.

D. Unappropriated retained earnings:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Earnings generated in and before 1997	\$ -	\$ -	\$ -
Earnings generated in and after 1998	<u>697,127</u>	<u>586,797</u>	<u>475,334</u>
	<u>\$ 697,127</u>	<u>\$ 586,797</u>	<u>\$ 475,334</u>

E. Details related to the imputation tax system are as follows:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Imputation tax credit account balance	<u>\$ 34,681</u>	<u>\$ 45,213</u>	<u>\$ 11,007</u>
		<u>2013 (Actual)</u>	<u>2012 (Actual)</u>
Creditable tax rate		<u>13.89%</u>	<u>14.17%</u>

(22) Earnings per share (EPS)

A. Basic earnings per share

The amount of basic earnings per share is calculated by dividing the profit or loss attributable to the ordinary shareholders of the parent by the number of the weighted average shares outstanding for the reporting period.

B. Diluted earnings per share

The calculation of diluted earnings per share is based on the effect of assumed conversion of all dilutive potential ordinary shares and adjusts the profit or loss attributable to the ordinary shareholders of the parent and number of the weighted average shares outstanding.

For the three-month period ended September 30, 2014

	<u>Amount</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 157,654	48,497	<u>\$ 3.25</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	75	
Employees' bonus	<u>-</u>	<u>496</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 157,654</u>	<u>49,068</u>	<u>\$ 3.21</u>

For the three-month period ended September 30, 2013

	<u>Amount</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 122,988	42,036	<u>\$ 2.93</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	791	
Employees' bonus	<u>-</u>	<u>142</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 122,988</u>	<u>42,969</u>	<u>\$ 2.86</u>

For the nine-month period ended September 30, 2014

	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 442,756	48,359	\$ <u>9.16</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	582	
Employees' bonus	-	361	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 442,756</u>	<u>49,302</u>	<u>\$ 8.98</u>

For the nine-month period ended September 30, 2013

	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 304,852	41,870	\$ <u>7.28</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	895	
Employees' bonus	-	577	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 304,852</u>	<u>43,342</u>	<u>\$ 7.03</u>

(23) Non-cash transaction

Investing activities with partial cash payments:

	For the nine-month periods ended September 30,	
	2014	2013
Purchase of fixed assets	\$ 88,564	\$ 33,753
Less: ending balance of payable on equipment (	26,278) (	16,092)
Add: opening balance of payable on equipment	9,930	15,338
Cash paid during the period	<u>\$ 72,216</u>	<u>\$ 32,999</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

As of September 30, 2014 and 2013, the Group does not have a parent company. Senao International Co., Ltd. (SIC) holds 34.10% and 39.81% of the Group's shares as of September 30, 2014 and 2013, respectively, and is the most influential entity to the Group.

(2) Significant related party transactions

A. Sales of goods and services

	For the three-month periods ended September 30,	
	2014	2013
Sales of goods:		
- Entities with joint control or significant influence over the Company	<u>\$ 279</u>	<u>\$ 60</u>
	For the nine-month periods ended September 30,	
	2014	2013
Sales of goods:		
- Entities with joint control or significant influence over the Company	<u>\$ 279</u>	<u>\$ 209</u>

Different discounts on the sales prices to related parties are given based on the sales volume. The collection term for sales to related parties is the same with third parties, which is 60 days from the first day of the month following the month of sales.

B. Other receivables

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Payment on behalf of others			
-Entities with joint control or significant influence over the Company	<u>\$ 1,592</u>	<u>\$ 1,254</u>	<u>\$ 1,411</u>

C. Rent expense

Details of office buildings leased from SIC for the nine-month periods ended September 30, 2014 and 2013 are as follows:

Item	Lease period	Guarantee	For the three-month periods ended September 30,	
			2014	2013
Office in Hua-Ya Science Park	2012.4.1~ 2015.3.31 (Note)	\$ -	\$ 7,803	\$ 7,802

Item	Lease period	Guarantee	For the nine-month periods ended September 30,	
			2014	2013
Office in Hua-Ya Science Park	2012.4.1~ 2015.3.31 (Note)	\$ -	\$ 23,409	\$ 23,409

Note: In March 2010, the Company renewed the agreement with the new expiration date set on March 31, 2011. The rental agreement had an automatic extension after expiration date.

The lease terms and prices were determined in accordance with mutual agreement, and rent is paid monthly.

(3) Key management compensation

	For the three-month periods ended September 30,	
	2014	2013
Salaries and other short-term employee benefits	\$ 15,141	\$ 15,328

	For the nine-month periods ended September 30,	
	2014	2013
Salaries and other short-term employee benefits	\$ 47,277	\$ 44,298

(4) Commitments

The Company entered into a rental agreement with SIC for the lease of its office. As of September 30, 2014, the outstanding amount due within one year is \$13,000.

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Excluding those mentioned in Note 7, the other commitments of the Group are as follows:

As of September 30, 2014, the Group's minimum future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 6,506
2015	25,660
2016	6,110
2017	1,052
	<u>\$ 39,328</u>

(2) The Company and its subsidiaries, EnGenius Networks Singapore Pte. Ltd., EnGenius Technologies, Inc., EnGenius Networks Europe B.V. and EnGenius Technologies, Miami, Inc., signed a comprehensive financial contract for a \$250,000 credit limit with the Land Bank of Taiwan. The drawdown period is from March 24, 2014 to March 24, 2015. The Company is required to maintain an average balance for the most recent three months of the demand deposit at the Land Bank of Taiwan to a minimum of 10 percent of the amount of loans taken out and the total balance of deposits should be at least 30 percent of the loans.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company's subsidiary, EnGenius Networks Malaysia SDN. BHD, has transferred the primary software technology to Taiwan. However, the research was not as efficient as expected. Accordingly, the Board of Directors approved to dissolve the subsidiary and the dissolution will be carried out after approval by the Taiwan Over-The-Counter Securities Exchange.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to maintain an optimal capital ratio to support the Group's operations and to maximise the shareholders' equity. The Group builds a suitable capital structure based on the future growths and gearing ratios of the industry and the consideration of costs and risks that may result from different capital structures. The Group normally utilises a meticulous risk management policy.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables

(including related parties), short-term loans, notes payable, accounts payable and other payables (including related parties)) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

The Group adopts overall risk management and control systems to identify, measure and control all kinds of risk (including market risk, credit risk and liquidity risk and cash flow risk), so that the management of the Group can effectively control and evaluate market risk, credit risk, liquidity risk and cash flow risk.

The Group maintains an optimal level of liquidity and centralises risk management operations in order to effectively monitor and control the various kinds of market risks and to achieve management objectives. This decision is made with consideration of the economic environment, competitive status and market value risk.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- ii. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD and EUR). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	September 30, 2014				
(Foreign currency: functional currency)	Foreign currency		Exchange rate	Book value	
	amount			(NTD)	
	(in thousands)				
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	USD	40,530	30.420	NTD	1,232,923
USD:EUR (Note)	USD	810	0.788	NTD	24,640
<u>Non-monetary items</u>					
USD:NTD	USD	5,639	30.420	NTD	171,528
MYR:NTD	MYR	65	8.932	NTD	585
EUR:USD (Note)	EUR	51	1.268	NTD	1,965
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	USD	21,766	30.420	NTD	662,122
USD:EUR (Note)	USD	677	0.788	NTD	20,594

Note: The functional currencies of certain subsidiaries belonging to the Group are not NTD, thus, this information has to be considered when reporting. For example, when a subsidiary's functional currency is USD, the subsidiary's segments that are involved with EUR have to be taken into consideration.

	December 31, 2013				
(Foreign currency: functional currency)	Foreign currency		Exchange rate	Book value	
	amount (in thousands)			(NTD)	
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	USD	35,108	29.805	NTD	1,046,394
USD:EUR (Note)	USD	666	0.730	NTD	19,850
<u>Non-monetary items</u>					
USD:NTD	USD	4,928	29.805	NTD	146,891
MYR:NTD	MYR	239	8.732	NTD	2,088
EUR:USD (Note)	(EUR	35)	1.376	(NTD	1,414)
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	USD	19,288	29.805	NTD	574,879
USD:EUR (Note)	USD	904	0.730	NTD	26,944

Note: The functional currencies of certain subsidiaries belonging to the Group are not NTD, thus, this information has to be considered when reporting. For example,

when a subsidiary's functional currency is USD, the subsidiary's segments that are involved with EUR have to be taken into consideration.

	September 30, 2013				
(Foreign currency: functional currency)	Foreign currency amount (in thousands)		Exchange rate	Book value (NTD)	
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	USD	34,391	29.570	NTD	1,016,942
USD:EUR (Note)	USD	232	0.741	NTD	6,857
<u>Non-monetary items</u>					
USD:NTD	USD	6,206	29.570	NTD	183,524
MYR:NTD	MYR	268	9.181	NTD	2,462
EUR:USD (Note)	EUR	33	1.350	NTD	1,305
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	USD	22,507	29.570	NTD	665,532
USD:EUR (Note)	USD	1,313	0.741	NTD	38,795

Note: The functional currencies of certain subsidiaries belonging to the Group are not NTD, thus, this information has to be considered when reporting. For example, when a subsidiary's functional currency is USD, the subsidiary's segments that are involved with EUR have to be taken into consideration.

- iii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	For the nine-month period ended September 30, 2014				
(Foreign currency: functional currency)	Sensitivity analysis degree of variation		Effect on profit or loss	Effect on other comprehensive income	
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	1%	NTD	12,329	NTD	-
USD:EUR	1%	NTD	246	NTD	-
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	1%	NTD	6,621	NTD	-
USD:EUR	1%	NTD	206	NTD	-

For the nine-month period ended September 30, 2013					
(Foreign currency: functional currency)	<u>Sensitivity analysis degree of variation</u>		<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>	
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	1%	NTD	10,169	NTD	-
USD:EUR	1%	NTD	69	NTD	-
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	1%	NTD	6,655	NTD	-
USD:EUR	1%	NTD	388	NTD	-

Price risk

Except for derivative financial instruments, the Group's financial assets measured at fair value through profit or loss were disposed as of September 30, 2014. Thus, the Group did not have price risk from investment in equity instruments.

Interest rate risk

The Group's interest rate risk arises from short-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

(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, the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents, derivative financial instruments, notes payable and other receivables as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only the parties with excellent credit ratings are accepted.
- ii. No credit limits were exceeded during the reporting periods for September 30, 2014 and 2013, and management does not expect any significant losses from non-performance by these counterparties.
- iii. For credit quality information of financial assets that are neither past due nor impaired, please refer to Note 6(3).
- iv. For details on the ageing analysis of financial assets that were past due but not impaired, please refer to Note 6(3).

- v. The group analysis of financial assets that had been impaired is provided in the statement for each type of financial assets in Note 6(3).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. Surplus cash held by the operating entities over and above the balance required for working capital management are invested in interest bearing current accounts, time deposits, and marketable securities. The Group chooses instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-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.

Non-derivative financial liabilities:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>September 30, 2014</u>				
Short-term borrowings	\$ 38,256	\$ -	\$ -	\$ -
Notes payable	6,610	-	-	-
Accounts payable	1,369,884	-	-	-
Other payables	512,038	-	-	-

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>December 31, 2013</u>				
Short-term borrowings	\$ 24,258	\$ -	\$ -	\$ -
Notes payable	5,820	-	-	-
Accounts payable	1,063,047	-	-	-
Other payables	498,541	-	-	-

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>September 30, 2013</u>				
Short-term borrowings	\$ 13,309	\$ -	\$ -	\$ -
Notes payable	1,430	-	-	-
Accounts payable	1,339,349	-	-	-
Other payables	453,630	-	-	-

Derivative financial liabilities:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>September 30, 2014</u>				
Forward exchange contracts	\$ 7,603	\$ -	\$ -	\$ -
<u>December 31, 2013</u>				
Forward exchange contracts	\$ 4,243	\$ -	\$ -	\$ -
<u>September 30, 2013</u>				
Forward exchange contracts	\$ -	\$ -	\$ -	\$ -

(3) Fair value estimation

- A. The table below analyses financial instruments measured at fair value, by valuation method. 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 (that is, as prices) or indirectly (that is, derived from prices).

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

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

<u>September 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	\$ -	(\$ 7,603)	\$ -	(\$ 7,603)

<u>December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Futures Trust Fund	\$ 14,990	\$ -	\$ -	\$ 14,990
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	-	(4,243)	-	(4,243)
	<u>\$ 14,990</u>	<u>(\$ 4,243)</u>	<u>\$ -</u>	<u>\$ 10,747</u>
 <u>September 30, 2013</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 2,356	\$ -	\$ 2,356

- B. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the net worth of the open-end mutual fund. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments classified as financial assets at fair value through profit or loss.
- C. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- D. Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
 - The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

13. SUPPLEMENTARY DISCLOSURES

(For the disclosure of investees, except for EnGenius Technologies, Inc., as other investees do not meet the definition of significant subsidiaries, the financial statements of other investees for the nine-month periods ended September 30, 2014 and 2013 were not reviewed by independent accountants.)

(1) Significant transactions information:

A: Loan to others: None.

B: Provisions 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 \$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more:

Purchaser/ seller	Counterparty	Relationship with the company	Transaction				Differences in transaction term compared to third party transactions		Notes/accounts (payable) receivable		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit terms	Unit price	Credit terms	Balance	Percentage of total notes/accounts receivable (payable)	
Senao Networks, Inc.	EnGenius Technologies, Inc.	A wholly-owned subsidiary	Sales	\$ 651,743	16%	Note 1	Note 1	Note 1	\$ 185,780	20%	None 2
Senao Networks, Inc.	EnGenius Networks Singapore Pte. Ltd.	An indirectly-owned subsidiary	Sales	266,075	6%	Note 1	Note 1	Note 1	45,857	5%	None 2
EnGenius Technologies, Inc.	Senao Networks, Inc.	Parent company	Purchases	651,743	100%	Note 1	Note 1	Note 1	(185,780)	100%	None 2
EnGenius Networks Singapore Pte. Ltd.	Senao Networks, Inc.	Ultimate parent company	Purchases	266,075	97%	Note 1	Note 1	Note 1	(45,857)	97%	None 2

Note 1: Sales prices to EnGenius Technologies, Inc. and EnGenius Networks and Singapore Pte. Ltd. are based on the sales volume. The payment term is 60 days from the first day of the month following the month of purchase.

Note 2: The transactions were eliminated when preparing the consolidated financial statements.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more:

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2014		Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 2)	Allowance for doubtful accounts
				(Note 1)		Amount	Action taken		
Senao Networks, Inc.	EnGenius Technologies, Inc.	A wholly-owned subsidiary	Accounts receivable	\$ 185,780	5.49	\$ -	-	\$ 84,289	\$ -
Senao Networks, Inc.	EnGenius Technologies, Inc.	A wholly-owned subsidiary	Other receivables	1,788	-	-	-	-	-

Note 1: The transactions were eliminated when preparing the consolidated financial statements.

Note 2: The amount refers to receivables recovered as of the reporting date.

I. Derivative financial instruments undertaken during the nine-month period ended September 30, 2014: Notes 6(2), 12(2) and (3).

J. Relationship and significant transactions between the Company and its subsidiaries:

Number (Note 1)	Name	Name of transaction parties	Relationship with the Company (Note 2)	Transaction situation		Transaction terms	Percentage of total combined revenue or total assets (Note 3)
				General ledger account	Amount		
0	Senao Networks, Inc.	EnGenius Technologies, Inc.	1	Sales	\$ 651,743	Note 4	14
0	Senao Networks, Inc.	EnGenius Technologies, Inc.	1	Accounts receivable	185,780	Note 4	4
0	Senao Networks, Inc.	EnGenius Networks Singapore Pte. Ltd.	1	Sales	266,075	Note 4	6
0	Senao Networks, Inc.	EnGenius Networks Singapore Pte. Ltd.	1	Accounts receivable	45,857	Note 4	1
0	Senao Networks, Inc.	EnGenius Networks Europe B.V.	1	Sales	95,803	Note 4	2
0	Senao Networks, Inc.	EnGenius Networks Europe B.V.	1	Accounts receivable	17,435	Note 4	0

Note 1: The transaction information of the Company and the consolidated subsidiaries should be noted in column "Number". The number means:

1. Number 0 represents the Company.
2. The consolidated subsidiaries are in order from number 1.

Note 2: The relationship with the transaction parties are as follows:

1. The Company to the consolidated subsidiary.
2. The consolidated subsidiary to the Company.
3. The consolidated subsidiary to another consolidated subsidiary.

Note 3: Ratios of asset/liability are divided by consolidated total assets, and ratios of profit/loss accounts are divided by consolidated sales revenue.

Note 4: Sales prices are based on sales volume. The credit terms were approximately the same with third parties, which is 60 days from the first day of the month following the month of sales.

Note 5: Only amounts in excess of \$10 million of related party transactions are disclosed, and the opposite side of the transaction is not disclosed.

(2) Information on investments

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2014			Net profit (loss) of the investee for the nine-month period ended	Investment income (loss) recognised by the Company for the nine-month period ended	Footnote
				Balance as at September 30, 2014	Balance as at December 31, 2013	Number of shares	Ownership (%)	Book value	September 30, 2014	September 30, 2014	
									(Note 1)		
Senao Networks, Inc.	EnGenius Technologies, Inc.	California	Sales of communication products	\$ 60,840	\$ 60,840	60,000	100	\$ 125,327	\$ 14,213	\$ 13,669	None 2
Senao Networks, Inc.	Senao International (Samoa) Ltd.	Samoa	Investment holdings	60,049	60,049	1,974,000	100	15,828	5,162	5,526	None 2
Senao Networks, Inc.	EnGenius Networks Malaysia Sdn. Bhd	Malaysia	Development of communication products	2,788	2,788	312,197	100	585 (	1,551) (	1,551)	None 2
Senao International (Samoa) Ltd.	EnGenius International (Samoa) Ltd.	Samoa	Investment holdings	45,326	45,326	1,490,000	100	46,368	5,181	-	None 2
EnGenius International (Samoa) Ltd.	EnGenius Networks Singapore Pte. Ltd.	Singapore	Sales of communication products	44,717	44,717	1,470,000	100	46,201	5,208	-	None 2
EnGenius Technologies, Inc.	EnGenius Technologies Miami, Inc.	Miami	Sales of communication products	10,647	10,647	100	100	4,287 (	2,629)	-	None 2
EnGenius Technologies, Inc.	SuperTel Technologies, Inc.	Seattle	Development of communication products	12,168	12,168	10,000	100	2,280 (	6)	-	None 2
EnGenius Networks Singapore Pte. Ltd.	EnGenius Networks Europe B.V.	Netherlands	Sales of communication products	8,104	8,104	210,000	100	1,965	3,505	-	None 2

Note 1: The column “Investment income (loss) recognised by the Company” represents the income (loss), including the amount of investment income or loss from reinvestment, of directly invested subsidiaries and subsidiaries under equity method.

Note 2: The transactions were eliminated when preparing the consolidated financial statements.

(3) Information on investments in Mainland China

None.

14. SEGMENT INFORMATION

(1) General information

The information about geographical areas is provided to the chief operating decision-maker to make decisions. The sales orders will be divided into three main areas, namely Taiwan, America and Others (including Europe, Asia and Africa). Because the nature of the product and the model of sales of the three areas are different, and the chief operating decision-maker also uses the information on the three areas in financial management and operational performance evaluation, therefore, the reportable segments are Taiwan, America and Others.

(2) Assessment of segment information

The operational performance evaluation of each segment is based on operating revenue and income (not including administrative expense). All the operating segments consistently apply uniform accounting policies as described in Note 4 of the summary of significant accounting policies. The interdepartmental sales are in accordance with the fair value principle. Revenues from external customers provided to the chief operating decision-maker are measured in a manner consistent with that used for the income statement. The segment information for the nine-month periods ended September 30, 2014 and 2013 is provided as follows:

For the nine-month period ended September 30, 2014					
	<u>Taiwan</u>	<u>America</u>	<u>Others</u>	Eliminated transactions during the consolidation	<u>Total</u>
Revenue from external customers	\$ 3,167,746	\$ 900,068	\$ 442,465	\$ -	\$ 4,510,279
Inter-segment revenue	<u>1,017,542</u>	<u>199</u>	<u>3,107</u>	(<u>1,020,848</u>)	<u>-</u>
Total segment revenue	<u>\$ 4,185,288</u>	<u>\$ 900,267</u>	<u>\$ 445,572</u>	<u>(\$ 1,020,848)</u>	<u>\$ 4,510,279</u>
Segment income	<u>\$ 574,109</u>	<u>\$ 75,341</u>	<u>\$ 33,173</u>	<u>\$ -</u>	<u>\$ 682,623</u>

For the nine-month period ended September 30, 2013					
	Taiwan	America	Others	Eliminated transactions during the consolidation	Total
Revenue from external customers	\$ 2,405,256	\$ 785,033	\$ 413,698	\$ -	\$ 3,603,987
Inter-segment revenue	882,022	840	7,811	(890,673)	-
Total segment revenue	<u>\$ 3,287,278</u>	<u>\$ 785,873</u>	<u>\$ 421,509</u>	<u>(\$ 890,673)</u>	<u>\$ 3,603,987</u>
Segment income	<u>\$ 393,029</u>	<u>\$ 52,196</u>	<u>\$ 23,780</u>	<u>\$ -</u>	<u>\$ 469,005</u>

(3) Reconciliation for segment income (loss)

The Group's segments' operating income reported to the chief operating decision-maker is measured in a manner consistent with the revenue and expenses in the statement of comprehensive income. The Group did not provide the chief operating decision-maker with the amount of total assets and liabilities for decision making purposes. A reconciliation of reportable segment's profit or loss and continuing operations' income before tax is provided as follows:

	For the nine-month periods ended September 30,	
	2014	2013
Reportable segments profit	\$ 682,623	\$ 469,005
Undistributed amount		
General administrative expenses	(186,543)	(155,140)
Non-operating income	31,499	35,716
Income from continuing operations before income tax	<u>\$ 527,579</u>	<u>\$ 349,581</u>