

Shihlin Electric & Engineering Corp.

**Financial Statements for the
Years Ended December 31, 2012 and 2011 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Shihlin Electric & Engineering Corp.

We have audited the accompanying balance sheets of Shihlin Electric & Engineering Corp. as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shihlin Electric & Engineering Corp. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

March 1, 2013

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

SHIHLIN ELECTRIC & ENGINEERING CORP.

BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 4)	\$ 310,298	1	\$ 285,598	1	Short-term loans (Notes 13 and 23)	\$ 1,850,000	7	\$ 1,957,991	7
Financial assets at fair value through profit or loss - current (Note 5)	301	-	2,233	-	Short-term bills payable (Note 13)	199,955	1	-	-
Notes receivable (Note 3)	892,097	3	976,489	3	Financial liabilities at fair value through profit or loss - current (Note 5)	12,565	-	17,834	-
Notes receivable from related parties (Notes 3 and 22)	1,298	-	1,932	-	Notes payable	69,494	-	62,027	-
Accounts receivable, net (Notes 3 and 6)	2,319,980	8	2,171,891	8	Accounts payable	1,550,761	6	1,963,626	7
Accounts receivable from related parties (Notes 3 and 22)	194,336	1	307,751	1	Accounts payable to related parties (Note 22)	497,089	2	433,659	2
Other receivables (Note 3)	24,733	-	3,471	-	Income tax payable, net of prepaid income tax	66,775	-	71,276	-
Other receivables from related parties (Notes 3 and 22)	5,815	-	7,715	-	Accrued expenses	659,167	2	695,220	3
Inventories (Note 7)	2,814,949	10	3,096,647	11	Other payables to related parties (Note 22)	19,137	-	30,378	-
Construction in progress, net of collections in advance for construction (Notes 14 and 18)	256,628	1	130,262	1	Other payables	71,989	-	80,894	-
Deferred income tax assets - current (Note 17)	33,926	-	33,775	-	Collections in advance	365,723	1	357,222	1
Restricted assets - current (Note 23)	35,081	-	55,714	-	Collections in advance for construction, net of construction in progress (Notes 14 and 18)	66	-	-	-
Other current assets (Note 22)	132,962	-	238,597	1	Other current liabilities	322,144	1	328,963	1
Total current assets	7,022,404	24	7,312,075	26	Total current liabilities	5,684,865	20	5,999,090	21
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Available-for-sale financial assets - noncurrent (Note 8)	2,803,733	10	2,528,706	9	Long-term debt (Notes 15 and 23)	850,000	3	850,000	3
Financial assets carried at cost - noncurrent (Note 9)	356,564	1	365,156	1	RESERVES				
Investments accounted for under equity method (Note 10)	5,602,742	20	5,079,345	18	Reserve for land value increment tax (Note 11)	1,175,718	4	1,175,718	4
Total long-term investments	8,763,039	31	7,973,207	28	OTHER LIABILITIES				
PROPERTIES AND PROPERTIES FOR LEASE					Accrued pension cost (Note 16)	1,007,413	4	996,545	4
Properties (Notes 11 and 23)					Deposits received	87,894	-	79,658	-
Cost					Credit balance of investments accounted for under equity method (Note 10)	15,857	-	-	-
Land	444,174	2	444,174	2	Deferred income tax liabilities - noncurrent (Note 17)	270,484	1	184,784	1
Buildings and equipment	2,691,698	10	2,684,591	9	Total other liabilities	1,381,648	5	1,260,987	5
Machinery and equipment	2,961,485	10	2,879,492	10	Total liabilities	9,092,231	32	9,285,795	33
Other equipment	1,523,493	5	1,476,902	5	STOCKHOLDERS' EQUITY (Note 19)				
Total cost	7,620,850	27	7,485,159	26	Common stock, \$10 par value, authorized - 580,000,000 shares; issued - 520,972,223 shares	5,209,722	18	5,209,722	18
Revaluation increment	2,006,549	7	2,006,549	7	Capital surplus				
Total cost and revaluation increment	9,627,399	34	9,491,708	33	Additional paid-in capital on issuance of common stock	1,441,424	5	1,441,424	5
Less: Accumulated depreciation	(5,397,631)	(19)	(5,221,880)	(18)	Additional paid-in capital on conversion of bonds	970,457	4	970,457	4
Less: Accumulated impairment losses	(3,889)	-	-	-	Treasury stock transactions	70,059	-	70,059	-
Prepayments	27,078	-	29,270	-	Long-term stock investments	81,809	-	74,783	-
Total properties, net	4,252,957	15	4,299,098	15	Total capital surplus	2,563,749	9	2,556,723	9
Properties for lease					Retained earnings				
Cost					Legal reserve	1,699,943	6	1,589,950	5
Land	24,651	-	24,651	-	Unappropriated earnings	4,995,679	17	4,771,524	17
Buildings and equipment	5,671,919	20	5,671,919	20	Total retained earnings	6,695,622	23	6,361,474	22
Total cost	5,696,570	20	5,696,570	20	Other equity items				
Revaluation increment	4,768,356	17	4,768,356	17	Cumulative translation adjustments	45,961	-	132,031	-
Total cost and revaluation increment	10,464,926	37	10,464,926	37	Net loss not recognized as pension cost	(206,981)	(1)	(150,230)	-
Less: Accumulated depreciation	(1,932,785)	(7)	(1,749,008)	(6)	Unrealized loss on available-for-sale financial assets	(170,683)	-	(427,435)	(1)
Total properties for lease, net	8,532,141	30	8,715,918	31	Unrealized revaluation increment (Note 11)	5,496,797	19	5,496,797	19
Total properties and properties for lease, net	12,785,098	45	13,015,016	46	Total other equity items	5,165,094	18	5,051,163	18
INTANGIBLE ASSETS					Total stockholders' equity	19,634,187	68	19,179,082	67
Deferred pension cost	41,855	-	55,625	-	TOTAL	\$ 28,726,418	100	\$ 28,464,877	100
OTHER ASSETS									
Restricted assets - noncurrent (Note 23)	16,181	-	5,453	-					
Miscellaneous assets (Note 12)	97,841	-	103,501	-					
Total other assets	114,022	-	108,954	-					
TOTAL	\$ 28,726,418	100	\$ 28,464,877	100					

The accompanying notes are an integral part of the financial statements.

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES				
Gross sales	\$ 14,384,993	95	\$ 15,484,495	96
Less: Sales returns	70,899	-	68,350	1
Sales discounts	<u>330,759</u>	<u>2</u>	<u>377,282</u>	<u>2</u>
Net sales (Note 22)	13,983,335	93	15,038,863	93
Leasing revenue (Note 22)	476,534	3	475,938	3
Revenue of construction contract	<u>633,844</u>	<u>4</u>	<u>639,738</u>	<u>4</u>
Total operating revenues	<u>15,093,713</u>	<u>100</u>	<u>16,154,539</u>	<u>100</u>
OPERATING COSTS (Note 21)				
Cost of goods sold (Notes 7 and 22)	11,737,326	78	12,845,824	80
Cost of leasing revenue	255,700	1	245,155	2
Cost of construction contract	<u>560,156</u>	<u>4</u>	<u>556,248</u>	<u>3</u>
Total operating costs	<u>12,553,182</u>	<u>83</u>	<u>13,647,227</u>	<u>85</u>
GROSS PROFIT	<u>2,540,531</u>	<u>17</u>	<u>2,507,312</u>	<u>15</u>
OPERATING EXPENSES (Notes 21 and 22)				
Selling	831,863	5	797,075	5
Administrative	589,272	4	609,022	4
Research and development	<u>406,982</u>	<u>3</u>	<u>393,946</u>	<u>2</u>
Total operating expenses	<u>1,828,117</u>	<u>12</u>	<u>1,800,043</u>	<u>11</u>
INCOME FROM OPERATIONS	<u>712,414</u>	<u>5</u>	<u>707,269</u>	<u>4</u>
NON-OPERATING INCOME AND GAINS				
Interest income	1,710	-	4,751	-
Investment income recognized under equity method, net	423,532	3	480,172	3
Dividend income	39,785	-	33,038	-
Gain on disposal of properties	3,986	-	2,298	-
Gain on disposal of investments, net	-	-	253	-
Foreign exchange gain, net	-	-	6,265	-
Valuation gain on financial instruments, net (Note 5)	-	-	28,160	-
Miscellaneous (Note 22)	<u>68,349</u>	<u>-</u>	<u>57,843</u>	<u>1</u>
Total non-operating income and gains	<u>537,362</u>	<u>3</u>	<u>612,780</u>	<u>4</u>

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SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	\$ 30,465	-	\$ 28,006	-
Loss on disposal of properties	4,590	-	3,889	-
Loss on disposal of investments, net (Note 22)	1,878	-	-	-
Foreign exchange loss, net	25,776	-	-	-
Impairment loss	3,889	-	-	-
Valuation loss on financial instruments, net (Note 5)	31,689	1	-	-
Miscellaneous	69	-	3	-
Total non-operating expenses and losses	<u>98,356</u>	<u>1</u>	<u>31,898</u>	<u>-</u>
INCOME BEFORE INCOME TAX	1,151,420	7	1,288,151	8
INCOME TAX EXPENSE (Note 17)	<u>192,049</u>	<u>1</u>	<u>188,217</u>	<u>1</u>
NET INCOME	<u>\$ 959,371</u>	<u>6</u>	<u>\$ 1,099,934</u>	<u>7</u>
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 20)				
Basic earnings per share	<u>\$ 2.21</u>	<u>\$ 1.84</u>	<u>\$ 2.47</u>	<u>\$ 2.11</u>
Diluted earnings per share	<u>\$ 2.20</u>	<u>\$ 1.83</u>	<u>\$ 2.46</u>	<u>\$ 2.10</u>

The accompanying notes are an integral part of the financial statements.

(Concluded)

SHIHLIN ELECTRIC & ENGINEERING CORP.
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)**

	Capital Surplus (Note 19)						Other Equity Items								
	Common Stock (Note 19)	Additional Paid-in Capital on Issuance of Common Stock	Additional Paid-in Capital on Conversion of Bonds	Treasury Stock Transactions	Long-term Stock Investments	Total	Retained Earnings (Note 19)			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Available- for-sale Financial Assets	Unrealized Revaluation Increment (Note 11)	Total	Total Stockholders' Equity
							Legal Reserve	Unappropriated Earnings	Total						
BALANCE, JANUARY 1, 2011	\$ 5,209,722	\$ 1,441,424	\$ 970,457	\$ 70,059	\$ 74,783	\$ 2,556,723	\$ 1,504,944	\$ 4,381,763	\$ 5,886,707	\$ (57,696)	\$ (127,944)	\$ 1,129,567	\$ 1,943,442	\$ 2,887,369	\$ 16,540,521
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	85,006	(85,006)	-	-	-	-	-	-	-
Cash dividends - \$1.2 per share	-	-	-	-	-	-	-	(625,167)	(625,167)	-	-	-	-	-	(625,167)
Adjustment to long-term stock investments accounted for under equity method	-	-	-	-	-	-	-	-	-	(12,179)	-	(529,990)	-	(542,169)	(542,169)
Revaluation increment of land	-	-	-	-	-	-	-	-	-	-	-	-	3,553,355	3,553,355	3,553,355
Net income for the year ended December 31, 2011	-	-	-	-	-	-	-	1,099,934	1,099,934	-	-	-	-	-	1,099,934
Change in translation adjustments	-	-	-	-	-	-	-	-	-	201,906	-	-	-	201,906	201,906
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(22,286)	-	-	(22,286)	(22,286)
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(1,027,012)	-	(1,027,012)	(1,027,012)
BALANCE, DECEMBER 31, 2011	5,209,722	1,441,424	970,457	70,059	74,783	2,556,723	1,589,950	4,771,524	6,361,474	132,031	(150,230)	(427,435)	5,496,797	5,051,163	19,179,082
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	109,993	(109,993)	-	-	-	-	-	-	-
Cash dividends - \$1.2 per share	-	-	-	-	-	-	-	(625,167)	(625,167)	-	-	-	-	-	(625,167)
Adjustment to long-term stock investments accounted for under equity method	-	-	-	-	7,026	7,026	-	(56)	(56)	13,245	-	79,010	-	92,255	99,225
Net income for the year ended December 31, 2012	-	-	-	-	-	-	-	959,371	959,371	-	-	-	-	-	959,371
Change in translation adjustments	-	-	-	-	-	-	-	-	-	(99,315)	-	-	-	(99,315)	(99,315)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(56,751)	-	-	(56,751)	(56,751)
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	177,742	-	177,742	177,742
BALANCE, DECEMBER 31, 2012	<u>\$ 5,209,722</u>	<u>\$ 1,441,424</u>	<u>\$ 970,457</u>	<u>\$ 70,059</u>	<u>\$ 81,809</u>	<u>\$ 2,563,749</u>	<u>\$ 1,699,943</u>	<u>\$ 4,995,679</u>	<u>\$ 6,695,622</u>	<u>\$ 45,961</u>	<u>\$ (206,981)</u>	<u>\$ (170,683)</u>	<u>\$ 5,496,797</u>	<u>\$ 5,165,094</u>	<u>\$ 19,634,187</u>

The accompanying notes are an integral part of the financial statements.

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 959,371	\$ 1,099,934
Depreciation	409,121	420,833
Provision for (recovery of) doubtful accounts	24,879	(150)
Provision for (recovery of) loss on inventories	(18,845)	41,318
Impairment loss	3,889	-
Loss on disposal of properties, net	604	1,591
Investment income recognized under equity method, net	(423,532)	(480,172)
Cash dividends from investees accounted for under equity method	115,324	118,746
Loss (gain) on sale of investments, net	1,878	(253)
Deferred income tax	63,291	129,015
Changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss	(3,337)	(27,918)
Notes receivable	84,392	(154,589)
Notes receivable from related parties	634	(623)
Accounts receivable	(172,968)	213,685
Accounts receivables from related parties	113,415	(123,527)
Other receivables	(21,262)	(466)
Other receivables from related parties	1,900	449
Inventories	261,873	(136,576)
Construction in progress	(126,366)	(130,262)
Other current assets	105,635	(32,439)
Notes payable	7,467	60,863
Accounts payable	(412,865)	(18,490)
Accounts payable to related parties	63,430	(102,490)
Income tax payable	(4,501)	(201,353)
Accrued expenses	(36,053)	77,045
Other payables to related parties	(11,241)	9,181
Other payables	(8,905)	7,646
Collections in advance	8,501	164,238
Collections in advance for construction	66	(125,365)
Other current liabilities	(6,819)	40,429
Accrued pension cost	(32,113)	24,026
Net cash provided by operating activities	<u>946,863</u>	<u>874,326</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in other receivables from related parties transferred from accounts receivable from related parties	-	10,223
Acquisition of available-for-sale financial assets	(551,788)	(1,251,053)
Proceeds from disposal of available-for-sale financial assets	487,109	1,190,253
Proceeds from disposal of financial assets carried at cost	8,592	10,502
Acquisition of investments accounted for under equity method	(216,328)	(51,213)
Proceeds from disposal of investments accounted for under equity method	4,680	-

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SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
Acquisition of properties and properties for lease	\$ (149,737)	\$ (221,083)
Proceeds from disposal of properties	4,711	9,860
Decrease in restricted assets	9,905	15,354
Decrease (increase) in miscellaneous assets	<u>5,660</u>	<u>(9,867)</u>
Net cash used in investing activities	<u>(397,196)</u>	<u>(297,024)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in short-term loans	(107,991)	(337,211)
Net increase (decrease) in short-term bills payable	199,955	(300,000)
Additions to long-term debt	200,000	900,000
Repayments of long-term debt	(200,000)	(350,000)
Increase (decrease) in deposits received	8,236	(9,602)
Cash dividends	<u>(625,167)</u>	<u>(625,167)</u>
Net cash used in financing activities	<u>(524,967)</u>	<u>(721,980)</u>
NET INCREASE (DECREASE) IN CASH	24,700	(144,678)
CASH, BEGINNING OF YEAR	<u>285,598</u>	<u>430,276</u>
CASH, END OF YEAR	<u>\$ 310,298</u>	<u>\$ 285,598</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 30,397</u>	<u>\$ 27,751</u>
Income tax paid	<u>\$ 133,259</u>	<u>\$ 260,555</u>
NON-CASH INVESTING ACTIVITIES		
Transfer of inventories to properties	<u>\$ 38,670</u>	<u>\$ 34,568</u>

The accompanying notes are an integral part of the financial statements.

(Concluded)

SHIHLIN ELECTRIC & ENGINEERING CORP.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

The Corporation, established in November 1955, is engaged in the manufacture of heavy electric equipment, electric machinery, electric automotive equipment and related parts, and in the sale and lease of commercial building. The Corporation's shares have been listed and traded on the Taiwan Stock Exchange since December 1969.

As of December 31, 2012 and 2011, the number of employees of the Corporation was 1,703 and 1,688, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China ("ROC").

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau ("SFB") for their oversight purposes.

Significant accounting policies are summarized as follows:

Foreign Currencies

Foreign-currency transactions other than derivative financial instruments are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from settlement of foreign-currency assets and liabilities at rates different from those at which these assets and liabilities are carried in the accounts are recognized in profit or loss in the period of settlement.

At year-end, foreign-currency monetary assets and liabilities are restated using prevailing exchange rates and the resulting differences are recognized in profit or loss.

At year-end, foreign-currency nonmonetary assets and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

The differences resulting from translation into New Taiwan dollars of foreign-currency financial statements of foreign equity-method investees prepared in their respective functional currencies are recorded as translation adjustments under stockholders' equity.

Accounting Estimates

The preparation of financial statements in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are cash and assets that are expected to be converted into cash or consumed within one year from the balance sheet date, assets other than current assets are noncurrent assets. Current liabilities are obligations that are expected to be settled within one year from the balance sheet date; liabilities other than current liabilities are noncurrent liabilities. However, the Corporation's operating cycle for the construction and sale of real estate and construction contract is longer than one year. Accordingly, assets and liabilities relating to the construction operations are classified as either current or noncurrent based on this operating cycle.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss are financial assets or financial liabilities held for trading (including derivative financial instruments that do not meet the criteria for hedge accounting). Financial instruments at fair value through profit or loss are initially recognized at fair value, with transaction costs expensed as incurred. These financial instruments are subsequently measured at fair value with changes in fair value recognized in profit or loss. A regular way purchase or sale of financial instruments is accounted for using settlement date accounting.

Impairment of Accounts Receivable

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable before and on December 31, 2012.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Inventories

Inventories consist of raw materials and supplies, work in process and finished goods. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost.

Available-for-sale Financial Assets

Investments designated as available-for-sale financial assets include quoted stocks and open-end funds. Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent measurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in profit or loss when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

Cash dividends are recognized as investment income on the ex-dividend date of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared out of the earnings of the investee attributable to the period prior to the investment. Stock dividends are recorded only as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Financial Assets Carried at Cost

Investments in unquoted stocks and funds whose fair value can not be reliably measured are carried at their original cost. Costs of stocks and funds sold are determined using the weighted-average method. If there is objective evidence of impairment, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends derived from financial assets carried at cost is the same as that for cash dividends and stock dividends derived from available-for-sale financial assets.

Investments Accounted for Under the Equity Method

Investments in which the Corporation can exercise significant influence over the investee are accounted for under the equity method. The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. When an indication of impairment is identified, the carrying amount of investment is reduced, with the related impairment loss charged to earnings.

When the Corporation subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee before the new issue, the Corporation records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus recognized from long-term investments is insufficient, the shortage is debited to retained earnings.

Unrealized profits and losses arising from transactions with investees are accounted for under equity method are deferred and then recognized as profits or losses in the year of realization.

When the Corporation's share in losses of an investee over which the Corporation has control exceeds its investment in the investee, unless the other stockholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Corporation has to bear all of the losses in excess of the capital contributed by stockholders of the investee. If the investee subsequently reports profits, such profits are first attributed to the Corporation to the extent of the excess losses previously borne by the Corporation.

Properties and Properties for Lease

Properties and properties for lease are stated at cost or cost plus revaluation increment, less accumulated depreciation and accumulated impairment losses. Major renewals and betterments are capitalized, while maintenance and repairs are expensed currently. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized. Depreciation on cost is provided by the straight-line method for properties bought before January 1, 1988 and on or after January 1, 1999 and by the fixed-percentage-of-declining-balance method for those bought between January 1, 1988 and December 31, 1998 over estimated service lives which range as follows: buildings and equipment, 3 to 60 years; machinery and equipment, 3 to 15 years; other equipment, 2 to 15 years. When an asset has reached its original estimated service life but still in use, its carrying amount is further depreciated over the new estimated service life.

Upon sale or disposal of properties and properties for lease, the related cost, revaluation increment, accumulated depreciation, accumulated impairment losses and unrealized revaluation increment are removed from the accounts, and any gain or loss is recognized in profit or loss.

Pension Cost

For a defined contribution pension plan, pension cost is recorded based on the amount of contributions made during the period in which employees render services. For a defined benefit pension plan, pension cost is recorded based on actuarial calculations.

Income Tax

The Corporation applies the intra-year allocation methods to its income tax, whereby (1) a portion of income tax expense is charged or credited directly to stockholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused investment tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statement, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Investment tax credits are recognized using the flow-through method.

Additional income tax at 10% of undistributed earnings is recorded when the amount is determinable, namely, when the retention of earnings is resolved by the stockholders.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Revenue Recognition

Sales are recognized when titles to products and risks of ownership are transferred to customers, primarily upon shipment.

Leasing revenue is recognized on a straight-line basis over the lease period.

Revenue of construction contract is recognized based on the percentage of completion method.

Research and Development Expenses

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are changed to expense when incurred.

3. ACCOUNTING CHANGES

Financial Instruments

On January 1, 2011, the Corporation adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include receivables originated by the Corporation under SFAS No. 34. This accounting change did not have a material effect on the financial statements of the Corporation as of and for the year ended December 31, 2011.

Operating Segments

On January 1, 2011, the Corporation adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Corporation that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting" and the Corporation conformed to the disclosure requirement.

4. CASH

	December 31	
	2012	2011
Cash on hand	\$ 1,371	\$ 1,055
Checking account deposits and demand deposits	157,893	252,887
Time deposits	<u>151,034</u>	<u>31,656</u>
	<u>\$ 310,298</u>	<u>\$ 285,598</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2012	2011
<u>Financial assets held for trading - current</u>		
Forward exchange contracts	<u>\$ 301</u>	<u>\$ 2,233</u>
<u>Financial liabilities held for trading - current</u>		
Forward exchange contracts	<u>\$ 12,565</u>	<u>\$ 17,834</u>

The Corporation entered into forward exchange contracts during the years ended December 31, 2012 and 2011 mainly to manage exposures to the fluctuations of foreign exchange rates. The forward exchange contracts entered into by the Corporation did not meet the criteria for hedge accounting. Therefore, the Corporation did not apply hedge accounting treatment for its forward exchange contracts.

As of December 31, 2012 and 2011, outstanding forward contracts were as follows:

Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2012</u>		
Buy JPY/Sell USD	January 2013 to April 2013	JPY480,120/USD6,000
Buy EUR/Sell NTD	January 2013	EUR600/NTD22,817
<u>December 31, 2011</u>		
Buy NTD/Sell USD	April 2012	NTD91,546/USD3,050
Buy JPY/Sell USD	January 2012 to June 2012	JPY1,060,445/USD13,678
Buy EUR/Sell NTD	January 2012 to October 2012	EUR9,303/NTD379,562

Net gains (losses) from financial instruments held for trading for the years ended December 31, 2012 and 2011 were \$(31.7) million and \$28.2 million, respectively.

6. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2012	2011
Accounts receivable	\$ 2,432,797	\$ 2,260,099
Less: Allowance for doubtful accounts	<u>(112,817)</u>	<u>(88,208)</u>
	<u>\$ 2,319,980</u>	<u>\$ 2,171,891</u>

Movements of the allowance for doubtful accounts were as follows:

	<u>Years Ended December 31</u>			
	2012		2011	
	Accounts Receivable	Overdue Receivable	Accounts Receivable	Overdue Receivable
Balance, beginning of year	\$ 88,208	\$ 65	\$ 89,969	\$ 65
Amounts written off	(270)	-	(1,611)	-
Allowance (reversal of the allowance) for doubtful accounts	<u>24,879</u>	<u>-</u>	<u>(150)</u>	<u>-</u>
Balance, end of year	<u>\$ 112,817</u>	<u>\$ 65</u>	<u>\$ 88,208</u>	<u>\$ 65</u>

7. INVENTORIES

	December 31	
	2012	2011
Finished goods	\$ 1,150,341	\$ 988,161
Work in process	734,507	1,096,574
Raw materials and supplies	930,101	1,008,262
Goods in transit	<u>-</u>	<u>3,650</u>
	<u>\$ 2,814,949</u>	<u>\$ 3,096,647</u>

As of December 31, 2012 and 2011, the allowance for inventory devaluation was \$307.4 million and \$326.5 million, respectively.

The cost of goods sold for the year ended December 31, 2012 and 2011 included \$18.8 million gain on reversal of write-downs of inventories and \$41.3 million loss on write-downs of inventories, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	December 31	
	2012	2011
Quoted stocks	\$ 1,552,040	\$ 1,464,319
Open-end funds	<u>1,251,693</u>	<u>1,064,387</u>
	<u>\$ 2,803,733</u>	<u>\$ 2,528,706</u>

9. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2012	2011
Unquoted stocks or funds		
The Industrial Bank of Taiwan Co., Ltd.	\$ 100,000	\$ 100,000
AmTrust Capital I Corp.	82,000	82,000
Arch Meter Corp.	33,061	33,061
Jine De Sheng Co., Ltd.	30,318	30,318
Noble Tech Venture Capital Corporation	23,083	27,944
Pac-Link Opportunity Venture Capital Co.	11,616	11,616
Charter Leisure Co., Ltd. (“Charter Leisure”)	11,574	11,574
Global Securities Finance Corporation	11,566	11,566
Tan Xi Photronic Corp.	10,500	10,500
HCT Logistics Co., Ltd. (“HCT Logistics”)	7,608	7,608
Power World Capital Management Inc.	7,214	9,100
Der Shin Venture Capital Co.	6,500	8,345
Super Tech Venture Capital Co.	6,338	6,338
Sycamore Venture Capital, L.P.	5,728	5,728
Hsinchu Venture Capital Co.	5,608	5,608
Innocom Telecom Corp.	3,105	3,105
Formosa Capital Holdings Corporation	566	566
TSC Finance.Com	51	51

(Continued)

	December 31	
	2012	2011
Chinese Products Promotion Center	\$ 50	\$ 50
Normpacific Automation Corp.	40	40
Windance Co., Ltd.	26	26
Asia Technology 3 Limited	<u>12</u>	<u>12</u>
	<u>\$ 356,564</u>	<u>\$ 365,156</u>
		(Concluded)

10. INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD

	December 31			
	2012		2011	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
Unquoted stocks or funds				
SEEC International Holdings Ltd. of the British Virgin Islands (“SEEC International Holdings”)	\$ 3,146,493	100.0	\$ 2,910,962	100.0
Yuh Lin Investment Co., Ltd.	378,804	93.7	351,516	93.7
Hwo Lin Investment Co., Ltd.	365,601	94.8	341,117	94.8
Shihlin Electrical Engineering Ltd. of Vietnam (“Vietnam SEEC”)	353,803	100.0	321,479	100.0
Ji Lin Investment Co., Ltd.	200,559	99.9	184,274	99.9
Jeng Lin Investment Co., Ltd.	169,930	87.4	158,848	87.4
SEEC International Trading Ltd. of the British Virgin Islands	140,755	100.0	137,599	100.0
Cheng Lin Investment Co., Ltd.	144,371	99.3	133,666	99.3
Hsin Lin Electric Machinery Co., Ltd. (“Hsin Lin”)	142,682	60.0	125,986	60.0
Rueylin Electric & Engineering Corp. (“Rueylin”)	135,294	70.4	116,892	70.4
Shang Lin Investment Co., Ltd.	96,786	99.3	91,750	99.3
Jeen-Lin Industrial Co., Ltd. (“Jeen-Lin”)	65,501	78.4	64,111	78.4
Shihlin Electric USA Company Limited (“Shihlin Electric USA”)	45,925	100.0	42,097	100.0
Chan Der Investment Co.	30,149	8.1	27,350	8.1
Yu Der Investment Co.	20,488	4.8	19,099	4.8
Union Power Industrial Corporation (“Union Power”)	16,754	72.5	17,437	72.5
Shinlin Enterprise Co., Ltd. (“Shinlin”)	-	-	10,327	72.0
Cheng Der Investment Co.	11,390	3.6	10,140	3.6
Chuan Lin Technology Corporation (“Chuan Lin”)	9,474	31.5	9,288	31.5
				(Continued)

	December 31			
	2012		2011	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
Shihlin Electric (Australia) Pty. Ltd. (“Shihlin Electric Australia”)	\$ (15,857)	100.0	\$ 2,952	100.0
Ting Lin Enterprise Co. (“Ting Lin”)	127,983	96.7	2,455	21.1
Yuan-Gu Light & Electricity Co., Ltd.	<u>-</u>	25.2	<u>-</u>	25.2
	5,586,885		5,079,345	
Credit balance of long-term investments	<u>15,857</u>		<u>-</u>	
	<u>\$ 5,602,742</u>		<u>\$ 5,079,345</u>	

(Concluded)

In March 2012, the Corporation acquired shares of Ting Lin from other stockholders, and subscribed for newly issued shares of Ting Lin; as a result, the Corporation’s ownership increased from 21.1% to 96.7%.

In June 2012, the Corporation sold all of its shares in Shinlin to De Hong Investment Corporation (“De Hong”) at the price of \$4.7 million, resulting in an investment disposal loss of \$2.0 million.

11. PROPERTIES AND PROPERTIES FOR LEASE, NET

	December 31	
	2012	2011
Properties		
Revaluation increment		
Land	<u>\$ 2,006,549</u>	<u>\$ 2,006,549</u>
Accumulated depreciation		
Buildings and equipment	\$ 1,595,948	\$ 1,549,564
Machinery and equipment	2,518,374	2,445,451
Other equipment	<u>1,283,309</u>	<u>1,226,865</u>
	<u>\$ 5,397,631</u>	<u>\$ 5,221,880</u>
Accumulated impairment losses		
Machinery and equipment	<u>\$ 3,889</u>	<u>\$ -</u>
Properties for lease		
Revaluation increment		
Land	<u>\$ 4,768,356</u>	<u>\$ 4,768,356</u>
Accumulated depreciation		
Buildings and equipment	<u>\$ 1,932,785</u>	<u>\$ 1,749,008</u>

The Corporation revalued its land on various dates from 1964 to 2007, in accordance with government regulations. In addition, the Corporation revalued its land in 2011, which resulted in total revaluation increments of \$3,778 million. The net revaluation amount of \$3,553 million after deducting the reserve for land value increment tax of \$225 million was credited to equity as unrealized revaluation increment. As of December 31, 2012, the balance of the reserve for land value increment tax had decreased to \$1,175 million due to disposal of certain revalued land and reduction of land value increment tax rate; the balance of the unrealized revaluation increment had decreased to \$5,497 million due to the net effect of disposal of certain revalued land, transfer of unrealized revaluation increment to common stock, and reduction of land value increment tax rate.

12. MISCELLANEOUS ASSETS

	December 31	
	2012	2011
Refundable deposits	\$ 8,326	\$ 14,466
Loans to employees for purchase of cars or motorcycles	10,408	9,503
Overdue receivables, net of allowance for loss of \$65 thousand	-	-
Others	<u>79,107</u>	<u>79,532</u>
	<u>\$ 97,841</u>	<u>\$ 103,501</u>

13. SHORT-TERM LOANS AND SHORT-TERM BILLS PAYABLE

	December 31	
	2012	2011
Short-term loans		
Unsecured loans (NTD): Interest at 0.87%-1.12% in 2012 and 0.82%- 0.95% in 2011	\$ 1,500,000	\$ 950,000
Mortgage loans (NTD): Interest at 1.02% in 2012 and 0.93% in 2011	350,000	800,000
Usance L/C (JPY): Due 90-180 days after sight, interest at 0.68%-1.057%	-	142,888
Usance L/C (USD): Due 180 days after sight, interest at 0.846%-1.797%	<u>-</u>	<u>65,103</u>
	<u>\$ 1,850,000</u>	<u>\$ 1,957,991</u>
Short-term bills payable		
Commercial papers (NTD): Interest at 1.038%	\$ 200,000	\$ -
Less: Unamortized discount on bills payable	<u>(45)</u>	<u>-</u>
	<u>\$ 199,955</u>	<u>\$ -</u>

14. CONSTRUCTION IN PROGRESS (COLLECTIONS IN ADVANCE FOR CONSTRUCTION), NET

Name of Construction	Expected Year of Completion	Contract Price	Estimated Total Cost	Percentage of Completion	Accumulated Profit	Construction in Progress	Collections in Advance for Construction	Construction in Progress, Net of Collections in Advance for Construction
<u>December 31, 2012</u>								
SE10001	2013	\$ 1,525,000	\$ 1,329,887	95.00	\$ 185,358	\$ 1,448,748	\$ (1,267,723)	\$ 181,025
IL5101201	2014	65,591	57,138	93.28	7,885	61,183	(46,307)	14,876
IL5101152	2014	14,900	14,064	93.09	778	13,861	-	13,861
IL5101101	2013	46,400	41,551	80.07	3,883	37,153	-	37,153
IL5101301	2013	16,300	13,810	51.69	1,287	8,426	-	8,426
IL5101105	2014	18,441	16,708	6.98	121	1,287	-	1,287
		<u>\$ 1,686,632</u>	<u>\$ 1,473,158</u>		<u>\$ 199,312</u>	<u>\$ 1,570,658</u>	<u>\$ (1,314,030)</u>	<u>\$ 256,628</u>
IL5101202	2013	<u>\$ 7,820</u>	<u>\$ 6,599</u>	77.88	<u>\$ 975</u>	<u>\$ 6,246</u>	<u>\$ (6,312)</u>	<u>\$ (66)</u>
<u>December 31, 2011</u>								
SE10001	2013	<u>\$ 1,525,000</u>	<u>\$ 1,320,280</u>	61.84	<u>\$ 126,599</u>	<u>\$ 943,060</u>	<u>\$ (812,798)</u>	<u>\$ 130,262</u>

15. LONG-TERM DEBT

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Revolving unsecured loans (NTD)		
2012: Revolving before January 2014, interest at 0.95%; 2011: Revolving from January 2013 to December 2013, interest at 0.86%-1.09%	\$ 650,000	\$ 750,000
Revolving mortgage loans (NTD)		
2012: Repayable in November 2014, interest at 1.37%; 2011: Revolving before December 2013, interest at 1.09%	<u>200,000</u>	<u>100,000</u>
	<u>\$ 850,000</u>	<u>\$ 850,000</u>

Under several credit facility agreements, the Corporation may obtain loans within a total credit line limit of \$1,600 million before the expiry dates of the agreements, which range from January 2014 to November 2014.

Parts of the loan agreements, among other things, require the Corporation to maintain certain financial ratios.

16. PENSION PLANS

The pension plan under the Labor Pension Act is a defined contribution pension plan. Pursuant to the plan, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of each employee's monthly salary. The Corporation recognized pension cost of \$36.9 million and \$34.4 million under the plan for the years ended December 31, 2012 and 2011, respectively.

Under the Labor Standard Law, the Corporation has a defined benefit pension plan for its employees. Benefits under the plan are based on length of service and average salary for the six months before retirement. The Corporation makes monthly contributions at 2% of salaries to a pension fund, which is administered by the employees pension fund committee and deposited in the committee's name with the Bank of Taiwan. Pension information about the plan is summarized as follows:

Net periodic pension cost:

	Years Ended December 31	
	2012	2011
Service cost	\$ 24,722	\$ 24,617
Interest cost	26,391	25,281
Actual return on plan assets	\$ (421)	\$ (275)
Loss on plan assets	<u>(347)</u>	<u>(158)</u>
Projected return on plan assets	(768)	(433)
Amortization	<u>33,232</u>	<u>32,210</u>
Net periodic pension cost	<u>\$ 83,577</u>	<u>\$ 81,675</u>

Reconciliation of funded status of the plan and accrued pension cost:

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	\$ 536,714	\$ 411,206
Nonvested benefit obligation	<u>524,107</u>	<u>619,741</u>
Accumulated benefit obligation	1,060,821	1,030,947
Additional benefit based on future salaries	<u>295,159</u>	<u>293,611</u>
Projected benefit obligation	1,355,980	1,324,558
Fair value of plan assets	<u>(53,409)</u>	<u>(34,402)</u>
Funded status	1,302,571	1,290,156
Unrecognized net transition obligation	(41,855)	(55,625)
Unamortized net loss	(502,139)	(443,841)
Additional liability	<u>248,836</u>	<u>205,855</u>
Accrued pension cost	<u>\$ 1,007,413</u>	<u>\$ 996,545</u>
Vested benefit	<u>\$ 709,771</u>	<u>\$ 558,489</u>

Actuarial assumptions:

	December 31	
	2012	2011
Discount rate used in determining present values	1.875%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	1.875%	2.00%

	Years Ended December 31	
	2012	2011
Contributions to the fund	<u>\$ 18,585</u>	<u>\$ 18,078</u>
Payments from the fund	<u>\$ -</u>	<u>\$ 2,200</u>

17. INCOME TAX EXPENSE

A reconciliation of income tax expense based on income before income tax at statutory rates and income tax expense was as follows:

	Years Ended December 31	
	2012	2011
Income tax expense based on income before income tax at statutory rates	\$ 195,741	\$ 218,986
Tax effect on adjusting items		
Permanent differences	(2,738)	(2,431)
Temporary differences	(61,558)	(69,817)
Additional income tax at 10% of undistributed earnings	36,477	13,989
Less: Investment tax credits used	<u>(27,950)</u>	<u>(19,000)</u>
Current income tax	139,972	141,727
Deferred income tax		
Excess provisions for doubtful accounts	(3,952)	122
Pension cost not funded	9,248	(7,873)
Allowance for loss on inventories	3,238	(5,573)
Depreciation difference	9,976	14,032
Temporary differences relating to recognition of foreign investment income under equity method	44,826	54,369
Provision for warranty reserve	65	(927)
Deferred sales discounts	58	1,601
Adjustment of unrealized exchange gain or loss	(1,892)	7,856
Adjustment of unrealized valuation gain or loss on financial instruments	567	4,746
Others	(576)	1,464
Adjustment to valuation allowance	1,749	59,199
Adjustments to prior years' income tax	<u>(11,230)</u>	<u>(82,526)</u>
Income tax expense	<u>\$ 192,049</u>	<u>\$ 188,217</u>

Deferred income tax assets (liabilities) comprised:

	December 31	
	2012	2011
Current		
Deferred income tax assets		
Allowance for loss on inventories	\$ 52,266	\$ 55,504
Provision for warranty reserve	38,157	38,222
Excess provisions for doubtful accounts	13,204	9,252
Deferred sales discounts	4,693	4,751
Others	<u>2,280</u>	<u>971</u>
	110,600	108,700
Less: Valuation allowance	<u>(76,674)</u>	<u>(74,925)</u>
	<u>\$ 33,926</u>	<u>\$ 33,775</u>

(Continued)

	December 31	
	2012	2011
Noncurrent		
Deferred income tax assets		
Pension cost not funded	\$ 128,958	\$ 138,206
Temporary differences relating to recognition of loss of foreign equity instruments	9,284	9,284
Unrealized loss on foreign available-for-sale financial assets	32,507	65,003
Others	<u>1,204</u>	<u>597</u>
	171,953	213,090
Less: Valuation allowance	<u>(9,284)</u>	<u>(9,284)</u>
	<u>162,669</u>	<u>203,806</u>
Deferred income tax liabilities		
Depreciation difference	(122,684)	(112,708)
Cumulative translation adjustments	(14,247)	(24,486)
Temporary differences relating to recognition of foreign investment income under equity method	<u>(296,222)</u>	<u>(251,396)</u>
	<u>(433,153)</u>	<u>(388,590)</u>
	<u>\$ (270,484)</u>	<u>\$ (184,784)</u>
		(Concluded)

The Corporation's income tax returns through 2008 have been examined by the tax authority.

For distribution of earnings generated on and after January 1, 1998 under the ITL, the rate of credit from imputed tax allocated to stockholders of the Corporation is based on the balance of the imputation credit account ("ICA") as of the date of dividend distribution. Information about integrated income tax was as follows:

Undistributed earnings comprised:

	December 31	
	2012	2011
Unappropriated earnings generated before January 1, 1998	\$ 387,102	\$ 387,158
Unappropriated earnings generated on and after January 1, 1998	<u>4,608,577</u>	<u>4,384,366</u>
	<u>\$ 4,995,679</u>	<u>\$ 4,771,524</u>

The balance of the ICA as of December 31, 2012 and 2011 was \$562.5 million and \$525.0 million, respectively.

The rate of credit from imputed tax on distribution of earnings of 2012 and 2011 was 13.65% (estimate) and 13.40%, respectively.

18. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The Corporation classified its assets and liabilities of the construction operations, which have an operating cycle of over one year, as current and noncurrent according to the length of the operating cycle of the construction operation. The Corporation's current assets and current liabilities of the construction operations are expected to be due within one year.

19. STOCKHOLDERS' EQUITY

Under the current regulations, capital surplus may be used as follows:

- a. The capital surplus arising from additional paid-in capital on issuance of common stock and conversion of bonds, and treasury stock transactions may be used to offset a deficit, in addition, when the Corporation has no deficit, such capital surplus may be transferred to capital (limited to a certain prescribed amount in each year) or distributed in cash.
- b. The capital surplus arising from long-term stock investments may not be used for any purpose.

The Corporation's Articles of Incorporation provide that the following shall be appropriated from the annual net income (less any deficit):

- a. 10% thereof as legal reserve;
- b. Special reserve provided in accordance with an SFB directive;
- c. Remuneration to directors and supervisors and bonus to employees at rates ranging from 0.5% to 4% and 1% to 8%, respectively, of the remainder; and
- d. Other special reserve and dividends recommended by the board of directors.

The Articles of Incorporation also prescribe that, after appropriation of the bonus to employees, 1) not less than 10% of the sum of the remaining annual net income and the previous year's accumulated undistributed earnings shall be appropriated as dividends and 2) of the dividends, not less than 20% shall be paid in cash.

For the years ended December 31, 2012 and 2011, the bonus to employees was \$69 million and \$79 million, respectively, and the remuneration to directors and supervisors was \$34.5 million and \$39.5 million, respectively. The bonus to employees represented 8% of the net income for the years ended December 31, 2012 and 2011, minus the legal reserve to be appropriated; the remuneration to directors and supervisors represented 4% of the net income for the years ended December 31, 2012 and 2011, minus the legal reserve to be appropriated. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Under the Company Law, legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2011 and 2010 had been approved in the stockholders' meetings on May 25, 2012 and May 27, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (In New Taiwan Dollars)	
	For Year 2011	For Year 2010	For Year 2011	For Year 2010
Legal reserve	\$ 109,993	\$ 85,006		
Cash dividends	625,167	625,167	\$1.2	\$1.2

The bonus to employees and the remuneration to directors and supervisors for the years ended December 31, 2011 and 2010 approved in the stockholders' meetings on May 25, 2012 and May 27, 2011, respectively, were as follows:

	Years Ended December 31	
	2011	2010
Bonus to employees - cash	\$ 79,000	\$ 61,200
Remuneration to directors and supervisors	39,500	30,600

The approved amounts of the bonus to employees and the remuneration to directors and supervisors did not differ from the accrual amounts reflected in the financial statements for the years ended December 31, 2011 and 2010, respectively.

The appropriations of earnings for 2012 had been proposed by the board of directors on March 1, 2013. The proposed appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (In New Taiwan Dollars)
Legal reserve	\$ 95,937	
Cash dividends	520,972	\$1.0

The appropriations of 2012 earnings for reserve and dividend, and the amounts of bonus to employees and remuneration to directors and supervisors will be resolved by the stockholders in their meeting scheduled for June 5, 2013.

Information about the bonus to employees and the remuneration to directors and supervisors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

20. EARNINGS PER SHARE

The numerator and denominator used in the calculation of earnings per share were as follows:

	Amount (Numerator)		Shares (Denominator) (In Thousands)	Earnings Per Share (In New Taiwan Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2012</u>					
Basic earnings per share					
Earnings belonging to holders of common shares	\$ 1,151,420	\$ 959,371	520,972	<u>\$ 2.21</u>	<u>\$ 1.84</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	<u>2,909</u>		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	<u>\$ 1,151,420</u>	<u>\$ 959,371</u>	<u>523,881</u>	<u>\$ 2.20</u>	<u>\$ 1.83</u>

(Continued)

	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (In Thousands)</u>	<u>Earnings Per Share (In New Taiwan Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2011</u>					
Basic earnings per share					
Earnings belonging to holders of common shares	\$ 1,288,151	\$ 1,099,934	520,972	<u>\$ 2.47</u>	<u>\$ 2.11</u>
Effect of dilutive potential common shares					
Bonus to employees	<u>-</u>	<u>-</u>	<u>3,259</u>		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	<u>\$ 1,288,151</u>	<u>\$ 1,099,934</u>	<u>524,231</u>	<u>\$ 2.46</u>	<u>\$ 2.10</u>

(Concluded)

If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted earnings per share, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

21. PERSONNEL COST AND DEPRECIATION

	<u>Years Ended December 31</u>					
	<u>2012</u>			<u>2011</u>		
	<u>Operating Costs</u>	<u>Operating Expenses</u>	<u>Total</u>	<u>Operating Costs</u>	<u>Operating Expenses</u>	<u>Total</u>
Personnel cost						
Payroll	\$ 865,739	\$ 893,175	\$ 1,758,914	\$ 859,841	\$ 904,367	\$ 1,764,208
Insurance	56,032	47,591	103,623	52,134	44,517	96,651
Pension	60,247	60,217	120,464	57,400	58,634	116,034
Others	<u>16,928</u>	<u>14,201</u>	<u>31,129</u>	<u>16,361</u>	<u>14,234</u>	<u>30,595</u>
	<u>\$ 998,946</u>	<u>\$ 1,015,184</u>	<u>\$ 2,014,130</u>	<u>\$ 985,736</u>	<u>\$ 1,021,752</u>	<u>\$ 2,007,488</u>
Depreciation	<u>\$ 366,867</u>	<u>\$ 42,254</u>	<u>\$ 409,121</u>	<u>\$ 374,034</u>	<u>\$ 46,799</u>	<u>\$ 420,833</u>

22. RELATED PARTY TRANSACTIONS

a. Related parties and relationships:

<u>Name of Related Party</u>	<u>Relationship with the Corporation</u>
Mitsubishi Electric	A director
Mitsubishi Electric Taiwan Co., Ltd. ("Mitsubishi Taiwan")	A subsidiary of Mitsubishi Electric
SEEC International Holdings	A subsidiary
Vietnam SEEC	A subsidiary
Shihlin Electric USA	A subsidiary

(Continued)

Name of Related Party	Relationship with the Corporation
Jeen-Lin	A subsidiary
Rueylin	A subsidiary
Union Power	A subsidiary
Hsin Lin	A subsidiary
Chuan Lin	A subsidiary
Ting Lin	A subsidiary (an investee accounted for under equity method before Mach 2012, see Note 10)
Shihlin Electric Australia	A subsidiary
Shinlin	A subsidiary before June 2012 (see Note 10)
Vietnam Rueylin Electrical engineering Ltd. (“Vietnam Rueylin”)	An indirect subsidiary
Changzhou Shihlin Electric & Engineering Co., Ltd. (“Changzhou SEEC”)	An indirect subsidiary
Suzhou Shihlin Electric & Engineering Co., Ltd. (“Suzhou SEEC”)	An indirect subsidiary
Fuzhou Shihlin Electric & Engineering Co., Ltd. (“Fuzhou SEEC”)	An indirect subsidiary
Wuxi Shinlin Electric Company (“Wuxi SEEC”, formerly Wuxi Rotator Electric Company)	An indirect subsidiary
Xiamen Shihlin Electrical & Engineering Co., Ltd. (“Xiamen SEEC”)	An indirect subsidiary
Shihlin Electric (Suzhou) Power Equipment Co., Ltd. (“Suzhou Power Equipment”)	An indirect subsidiary
Yangde Trading Shanghai Co., Ltd. (“Shanghai Yangde”)	An indirect subsidiary
Shihlin Technology (Shenzhen) Co., Ltd. (“Shenzhen Shihlin Technology”)	An indirect subsidiary
Mitsubishi Electric Shihlin Automotive Changzhou Co., Ltd. (“Changzhou Mitsubishi Shihlin”)	An investee accounted for under equity method of a subsidiary
Mitsuba Shihlin Electric (Wuhan) Co., Ltd. (“Wuhan Mitsuba Shihlin”)	An investee accounted for under equity method of a subsidiary
De Hong	An investee accounted for under equity method of a subsidiary
Tsubaki International Co., Ltd. (“Tsubaki”)	An investee accounted for under equity method of a subsidiary before June 2012
Seh International Holdings Ltd. (“Seh International Holdings”)	An investor which accounts for its investment in an indirect subsidiary using equity method
The Ambassador Hotel Co., Ltd. (“Ambassador Hotel”)	Same chairman
HCT Logistics	Same chairman
Charter Leisure	Same chairman
Shihlin Development Co. (“Shihlin Development”)	Its chairman is one of the directors of the Corporation
Yeangder Entertainment Co., Ltd. (Yeangder Entertainment)	An indirect subsidiary

(Concluded)

- b. Except those disclosed in other notes, significant balances and transactions with related parties are summarized as follows:

	December 31	
	2012	2011
1) Notes receivable		
Shihlin Development	\$ <u>1,298</u>	\$ <u>1,932</u>
2) Accounts receivable		
Xiamen SEEC	\$ 65,984	\$ 64,035
Suzhou Power Equipment	30,516	21,824
Shihlin Electric Australia	21,332	108,883
SEEC International Holdings	21,268	29,586
Fuzhou SEEC	19,826	42,526
Vietnam Rueylin	11,341	5,089
Changzhou Mitsubishi Shihlin	7,350	7,504
Wuxi SEEC	5,935	6,612
Suzhou SEEC	5,896	10,432
Vietnam SEEC	3,438	6,803
Shihlin Development	635	-
Union Power	555	2,421
Mitsubishi Taiwan	-	1,984
Others	<u>260</u>	<u>52</u>
	<u>\$ 194,336</u>	<u>\$ 307,751</u>
3) Other receivables		
Xiamen SEEC	\$ 5,187	\$ -
Hsin Lin	439	812
Wuhan Mitsuba Shihlin	-	6,400
Others	<u>189</u>	<u>503</u>
	<u>\$ 5,815</u>	<u>\$ 7,715</u>
4) Prepayments (included in other current assets)		
Shihlin Electric USA	\$ 26,858	\$ 18,896
Wuxi SEEC	<u>5,370</u>	<u>-</u>
	<u>\$ 32,228</u>	<u>\$ 18,896</u>

	December 31	
	2012	2011
5) Accounts payable		
Hsin Lin	\$ 279,957	\$ 217,356
SEEC International Holdings	69,569	57,943
Rueylin	44,919	44,875
Mitsubishi Taiwan	36,472	29,896
Mitsubishi Electric	25,072	26,296
Chuan Lin	15,733	20,873
Suzhou SEEC	9,000	3,000
Jeen-Lin	5,552	6,527
Union Power	4,998	1,143
Changzhou SEEC	3,113	4,050
Fuzhou SEEC	1,393	303
Vietnam SEEC	1,311	1,387
Tsubaki	-	19,476
Wuxi SEEC	-	534
	<u>\$ 497,089</u>	<u>\$ 433,659</u>
6) Other payables		
Mitsubishi Electric	\$ 17,188	\$ 19,449
HCT Logistics	748	7,409
Mitsubishi Taiwan	507	390
Shinlin	-	2,303
Others	694	827
	<u>\$ 19,137</u>	<u>\$ 30,378</u>
7) Purchases		
Hsin Lin	\$ 1,312,252	\$ 1,304,943
Mitsubishi Electric	440,693	590,425
SEEC International Holdings	146,968	151,712
Rueylin	123,745	137,364
Chuan Lin	94,133	75,810
Mitsubishi Taiwan	82,104	103,169
Suzhou SEEC	58,325	45,672
Jeen-Lin	40,028	38,541
Shihlin Electric Australia	26,179	-
Changzhou SEEC	15,798	21,174
Tsubaki	15,300	39,919
Wuxi SEEC	14,148	24,212
Union Power	11,140	4,873
Ting Lin	8,341	8,158
Fuzhou SEEC	4,927	4,294
Vietnam SEEC	4,230	3,967
Suzhou Power Equipment	970	3,115
Others	155	-
	<u>\$ 2,399,436</u>	<u>\$ 2,557,348</u>

	Years Ended December 31	
	2012	2011
8) Sales		
Xiamen SEEC	\$ 200,932	\$ 207,273
Shihlin Electric Australia	130,858	184,828
Fuzhou SEEC	98,962	97,243
SEEC International Holdings	78,937	152,261
Suzhou Power Equipment	50,765	53,458
Changzhou Mitsubishi Shihlin	34,975	39,042
Suzhou SEEC	25,874	32,684
Vietnam SEEC	25,395	35,644
Vietnam Rueylin	25,070	34,621
Wuxi SEEC	15,794	14,991
Union Power	10,699	25,343
Mitsubishi Taiwan	3,428	21,058
Ambassador Hotel	352	1,540
Shenzhen Shihlin Technology	36	5,332
Changzhou SEEC	-	9,627
Seh International Holdings	-	2,384
Others	<u>842</u>	<u>657</u>
	<u>\$ 702,919</u>	<u>\$ 917,986</u>
9) Leasing revenue		
Charter Leisure	\$ 26,029	\$ 25,598
Mitsubishi Taiwan	20,915	18,316
HCT Logistics	14,077	14,917
Hsin Lin	12,241	12,158
Shihlin Development	6,964	5,639
Others	<u>930</u>	<u>200</u>
	<u>\$ 81,156</u>	<u>\$ 76,828</u>
10) Royalty expense		
Mitsubishi Electric	<u>\$ 20,528</u>	<u>\$ 21,284</u>
11) Service expense		
Shinlin	<u>\$ 48,403</u>	<u>\$ 142,833</u>
12) Fee for consultation on and management of construction		
Shihlin Development	<u>\$ 600</u>	<u>\$ 600</u>
13) Freight expense		
HCT Logistics	<u>\$ 18,403</u>	<u>\$ 49,590</u>

	Years Ended December 31	
	2012	2011
14) Fee for consultation on logistics management		
HCT Logistics	\$ <u>20,512</u>	\$ <u>17,050</u>
15) Maintenance expense		
Mitsubishi Taiwan	\$ <u>1,150</u>	\$ <u>2,871</u>
16) Commission expense		
Shihlin Electric USA	\$ <u>21,682</u>	\$ <u>11,502</u>
17) Leasing expense		
HCT Logistics	\$ 2,007	\$ 2,305
Others	<u>924</u>	<u>660</u>
	\$ <u>2,931</u>	\$ <u>2,965</u>
18) Advertising expense		
Yeangder Entertainment	\$ <u>13,000</u>	\$ <u>8,000</u>
19) Management service revenue (included in miscellaneous income)		
Changzhou Mitsubishi Shihlin	\$ 6,388	\$ -
Changzhou SEEC	6,000	6,223
Xiamen SEEC	6,000	6,088
Fuzhou SEEC	4,481	3,067
Suzhou SEEC	2,400	2,373
Hsin Lin	1,200	1,200
Shanghai Yangde	600	608
Wuhan Mitsuba Shihlin	<u>-</u>	<u>6,725</u>
	\$ <u>27,069</u>	\$ <u>26,284</u>

20) Sale of investments

Counter Party	Type and Name of Securities	Number of Shares (In Thousands)	Selling Price	Loss
<u>2012</u>				
De Hong	Sale of common stock in Shinlin	360	\$ <u>4,680</u>	\$ <u>1,987</u>

The transactions with related parties were made at prices and terms comparable to those that would be obtained in similar transactions with non-related parties, except the collection terms for sales to SEEC International Holdings, Xiamen SEEC, Changzhou SEEC, Suzhou SEEC, Fuzhou SEEC, Wuxi SEEC, Suzhou Power Equipment, Shenzhen Shihlin Technology, and Shihlin Electric Australia, which were determined based on the status of their working capital.

The rentals collected or paid monthly were based on normal commercial rates.

c. Compensation of directors, supervisors and management personnel:

	December 31	
	2012	2011
Salaries, incentives and special compensation	\$ 53,840	\$ 43,384
Allowances	7,482	7,362
Remuneration and bonus	<u>46,073</u>	<u>51,182</u>
	<u>\$ 107,395</u>	<u>\$ 101,928</u>

23. ASSETS MORTGAGED

The following assets had been mortgaged as collateral for long- and short-term bank credit lines, performance guaranty, and a deposit for management and maintenance of public open space:

	December 31	
	2012	2011
Demand deposits (included in restricted assets)	\$ 25,718	\$ 25,718
Pledged time deposits (included in restricted assets)	25,544	35,449
Land	6,635,862	6,635,862
Buildings and equipment, net	172,993	187,759
Machinery and equipment, net	<u>-</u>	<u>1,026</u>
	<u>\$ 6,860,117</u>	<u>\$ 6,885,814</u>

24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, the Corporation had the following significant commitments and contingencies:

- a. Under technical cooperation agreements with several foreign companies expiring on various dates between February 2013 and February 2016, the Corporation, aside from paying upfront royalties, shall pay running royalties at specified percentages of sales (as defined). Royalties for the years ended December 31, 2012 and 2011 were \$36.0 million and \$22.3 million, respectively.
- b. Unused letters of credit of approximately \$174 million.
- c. Commitments for purchase of properties and construction in progress of approximately \$214 million.
- d. The Corporation rents out its office building under several operating lease agreements expiring on various dates between February 2013 and August 2020. Future lease revenues were as follows:

Year	Amount
2013	\$ 82,833
2014	57,309
2015	33,086
2016	18,793
2017	16,853
2018 to 2020	46,346 (present value of \$32.5 million)

- e. The Corporation rents out its market building together with parking places under an operating lease agreement to Pacific SOGO Co., Ltd. for 20 years, expiring in May 2029. Pursuant to the lease agreement, the Corporation can collect a guaranteed minimum monthly rental, no less than 6% of the guaranteed minimum operating revenues, for market building and a rental for parking places. Also, the Corporation can collect an additional rental at 6% of the excess of actual operating revenues over the guaranteed minimum operating revenues at the end of every year. Future minimum lease revenues were as follows:

Year	Amount
2013	\$ 319,872
2014	338,122
2015	349,872
2016	349,872
2017	349,872
2018 to 2022	1,749,360 (present value of \$1,076 million)
2023 to 2027	1,749,360 (present value of \$793 million)
2028 to 2029	486,905 (present value of \$180 million)

- f. The Corporation had provided guarantees to the following companies for their bank credit lines:

	Amount
Xiamen SEEC	\$ 314,555
Shanghai Yangde	228,404
Changzhou Mitsubishi Shinlin	185,144
Suzhou SEEC	166,408
Suzhou Power Equipment	118,910
Wuxi SEEC	88,965
Shihlin Electric Australia	87,360
Wuhan Mitsuba Shihlin	61,598
Vietnam Rueylin	58,720
Fuzhou SEEC	29,728

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments were as follows:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash	\$ 310,298	\$ 310,298	\$ 285,598	\$ 285,598
Financial assets at fair value through profit and loss - current				
Forward exchange contracts	301	301	2,233	2,233
Notes receivable	892,097	892,097	976,489	976,489
Notes receivable from related parties	1,298	1,298	1,932	1,932
Accounts receivable	2,319,980	2,319,980	2,171,891	2,171,891
Accounts receivable from related parties	194,336	194,336	307,751	307,751
Other receivables	24,733	24,733	3,471	3,471

(Continued)

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other receivables from related parties	\$ 5,815	\$ 5,815	\$ 7,715	\$ 7,715
Restricted assets - current	35,081	35,081	55,714	55,714
Refundable deposits - current (included in other current assets)	9,090	9,090	16,775	16,775
Available-for-sale financial assets - noncurrent	2,803,733	2,803,733	2,528,706	2,528,706
Financial assets carried at cost - noncurrent	356,564		365,156	
Restricted assets - noncurrent	16,181	16,181	5,453	5,453
Refundable deposits - noncurrent (included in miscellaneous assets)	8,326	8,326	14,466	14,466
Liabilities				
Short-term loans	1,850,000	1,850,000	1,957,991	1,957,991
Short-term bills payable	199,955	199,955	-	-
Financial liabilities at fair value through profit and loss - current				
Forward exchange contracts	12,565	12,565	17,834	17,834
Notes payable	69,494	69,494	62,027	62,027
Accounts payable	1,550,761	1,550,761	1,963,626	1,963,626
Accounts payable to related parties	497,089	497,089	433,659	433,659
Other payables to related parties	19,137	19,137	30,378	30,378
Other payables	71,989	71,989	80,894	80,894
Deposits received - current (included in other current liabilities)	14,001	14,001	19,935	19,935
Long-term debt	850,000	850,000	850,000	850,000
Deposits received - noncurrent	87,894	87,894	76,658	76,658

(Concluded)

b. Methods and assumptions used in the estimation of fair values of financial instruments:

- 1) Fair values of short-term financial instruments are determined using their carrying amounts shown on the balance sheet because of their short maturities. This method applies to cash, receivables, short-term loans, short-term bills payable and payables.
- 2) Fair values of financial instruments at fair value through profit or loss, which represent derivative financial instruments, are estimated using valuation techniques because no market prices are available. The estimates and assumptions used in the valuation techniques are consistent with those that market participants would use in setting prices for financial instruments and are attainable by the Corporation.
- 3) Fair value of available-for-sale financial assets is based on their market price.
- 4) Fair value of financial assets carried at cost, which represent unquoted stocks and funds, has not been presented because their market prices are not available.
- 5) Fair values of refundable deposits, restricted assets and deposits received are determined using their carrying amounts, which approximate their expected future amounts.
- 6) Fair value of long-term debt, which represents revolving short-term loans, is determined using its carrying amount shown on the balance sheet because of its short maturities.

- c. As of December 31, 2012 and 2011, financial assets exposed to fair value interest rate risk were \$176.6 million and \$31.7 million, respectively; financial liabilities exposed to fair value interest rate risk were \$1,550 million and \$1,958 million, respectively; financial liabilities exposed to cash flow interest rate risk were \$1,350 million and \$850 million, respectively.
- d. Movements of the unrealized gain or loss on available-for-sale financial assets of the Corporation for the years ended December 31, 2012 and 2011 were as follows:

	Credit (Debit)	
	Years Ended December 31	
	2012	2011
Balance, beginning of year	\$ (427,435)	\$ 1,129,567
Recognized directly in stockholders' equity	177,851	(1,026,759)
Removed from stockholders' equity and recognized in earnings	(109)	(253)
Recognized in stockholders' equity for the change in unrealized gain or loss on available-for-sale financial assets held by equity method investees	<u>79,010</u>	<u>(529,990)</u>
Balance, end of year	<u>\$ (170,683)</u>	<u>\$ (427,435)</u>

- e. Information about financial risk

1) Market risk

The Corporation entered into derivative financial instruments to hedge the exchange rate fluctuations of foreign-currency assets and liabilities. Therefore, the market risk of derivatives will be offset by the foreign exchange risk of the hedged assets or liabilities. Available-for-sale financial assets are quoted stocks and open-end funds. Therefore, the fluctuations in prices would result in changes in fair value of these securities.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter parties or third parties breached contracts. The counter parties and third parties are reputable financial institutions and business organizations; thus, no material credit risk is anticipated.

3) Liquidity risk

The Corporation has sufficient operating capital to meet the cash needs upon maturity of derivative financial instruments and long- and short-term loans; thus, liquidity risk is low. The Corporation's available-for-sale financial assets could be sold or redeemed rapidly at prices approximating their fair values because they are traded in an active market or are redeemable; thus, no material liquidity risk is anticipated. There is liquidity risk for the Corporation's financial assets carried at cost because they are not traded in an active market; however, the Corporation had evaluated the risk before making investments.

4) Cash flow interest rate risk

As of December 31, 2012, the Corporation's long-term debts of \$850 million are variable-interest-rate liabilities. Market interest rate changes will affect the effective interest rates of the debts and make the future cash flows fluctuate. If the market interest rates increase by 1%, the Corporation's cash outflow will increase by \$8.5 million a year.

26. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31					
	2012			2011		
	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 33,007	29.04	\$ 958,527	\$ 25,110	30.28	\$ 760,194
JPY	-	0.3364	-	9,842	0.3906	3,844
AUD	2,066	30.165	62,306	3,674	30.74	112,918
CAD	343	29.21	10,005	310	29.67	9,201
EUR	478	38.49	18,410	143	39.18	5,584
PHP	616	0.7248	446	1	0.71	1
Non-monetary items						
USD	42,695	29.04	1,239,858	34,759	30.28	1,052,327
JPY	-	0.3364	-	5,717	0.3906	2,233
EUR	8	38.53	301	-	39.18	-
Investments accounted for under equity method						
USD	114,873	29.04	3,335,905	103,154	30.28	3,122,986
VND	263,024,755	0.00135	353,768	232,991,635	0.00139	323,841
AUD	-	30.165	-	96	30.74	2,952
<u>Financial liabilities</u>						
Monetary items						
USD	4,777	29.04	138,723	5,368	30.28	162,502
JPY	93,436	0.3364	31,432	396,243	0.3906	154,772
EUR	799	38.49	30,767	96	39.18	3,758
SEK	-	4.47	-	517	4.38	2,264
SGD	16	23.76	373	16	23.31	375
CHF	-	31.83	-	18	32.18	563
GBP	-	46.83	-	6	46.73	268
HKD	1,309	3.747	4,905	-	3.897	-
Non-monetary items						
USD	-	29.04	-	19	30.28	586
JPY	37,187	0.3375-0.3383	12,565	5,027	0.3906	1,963
EUR	-	38.49	-	390	39.18	15,285
Credit balance of investments accounted for under equity method						
AUD	422	30.165	12,736	-	30.74	-

27. OPERATING SEGMENT FINANCIAL INFORMATION

The Corporation disclosed its operating segment financial information in the consolidated financial statements.