

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 | 330,759 | 2 | 377,282 | 2 |
| 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 | 633,844 | 4 | 639,738 | 4 |
| Total operating revenues | 15,093,713 | 100 | 16,154,539 | 100 |
| 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 | 560,156 | 4 | 556,248 | 3 |
| Total operating costs | 12,553,182 | 83 | 13,647,227 | 85 |
| GROSS PROFIT | 2,540,531 | 17 | 2,507,312 | 15 |
| OPERATING EXPENSES (Notes 21 and 22) | | | | |
| Selling | 831,863 | 5 | 797,075 | 5 |
| Administrative | 589,272 | 4 | 609,022 | 4 |
| Research and development | 406,982 | 3 | 393,946 | 2 |
| Total operating expenses | 1,828,117 | 12 | 1,800,043 | 11 |
| INCOME FROM OPERATIONS | 712,414 | 5 | 707,269 | 4 |
| 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) | 68,349 | - | 57,843 | 1 |
| Total non-operating income and gains | 537,362 | 3 | 612,780 | 4 |

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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 | 98,356 | 1 | 31,898 | - |
| INCOME BEFORE INCOME TAX | 1,151,420 | 7 | 1,288,151 | 8 |
| INCOME TAX EXPENSE (Note 17) | 192,049 | 1 | 188,217 | 1 |
| NET INCOME | \$ 959,371 | 6 | \$ 1,099,934 | 7 |
| | | | | |
| | 2012 | | 2011 | |
| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax |
| EARNINGS PER SHARE (Note 20) | | | | |
| Basic earnings per share | \$ 2.21 | \$ 1.84 | \$ 2.47 | \$ 2.11 |
| Diluted earnings per share | \$ 2.20 | \$ 1.83 | \$ 2.46 | \$ 2.10 |

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)

| | Common Stock (Note 19) | Capital Surplus (Note 19) | | | | | Other Equity Items | | | | | | | | | Total Stockholders' Equity |
|--|------------------------------|---|---|-----------------------------------|-----------------------------------|--------------|-----------------------------|----------------------------|--------------|--|---|---|---|--------------|---------------|----------------------------------|
| | | 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 | | |
| | | | | | | | 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 | \$ 5,209,722 | \$ 1,441,424 | \$ 970,457 | \$ 70,059 | \$ 81,809 | \$ 2,563,749 | \$ 1,699,943 | \$ 4,995,679 | \$ 6,695,622 | \$ 45,961 | \$ (206,981) | \$ (170,683) | \$ 5,496,797 | \$ 5,165,094 | \$ 19,634,187 | |

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 | - |

(Continued)

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

| | December 31 | |
|---------------------------------------|----------------------------|----------------------------|
| | 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:

| | Years Ended December 31 | | | |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | 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 Ownership | Carrying Amount | % of Ownership |
| 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. | - | 25.2 | - | 25.2 |
| | <u>5,586,885</u> | | <u>5,079,345</u> | |
| 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 | <u>18,441</u> | <u>16,708</u> | 6.98 | <u>121</u> | <u>1,287</u> | <u>-</u> | <u>1,287</u> |
| | | <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>-</u> | <u>-</u> | <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) | | | | | |

(Continued)

| | 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, 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) | | | | | |

(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

| | Years Ended December 31 | | | | | |
|----------------|-------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|
| | 2012 | | | 2011 | | |
| | Operating Costs | Operating Expenses | Total | Operating Costs | Operating Expenses | Total |
| 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:

| Name of Related Party | Relationship with the Corporation |
|--|-------------------------------------|
| 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 | | \$ 20,512 | \$ 17,050 | |
| 15) Maintenance expense | | | | |
| Mitsubishi Taiwan | | \$ 1,150 | \$ 2,871 | |
| 16) Commission expense | | | | |
| Shihlin Electric USA | | \$ 21,682 | \$ 11,502 | |
| 17) Leasing expense | | | | |
| HCT Logistics | | \$ 2,007 | \$ 2,305 | |
| Others | | 924 | 660 | |
| | | \$ 2,931 | \$ 2,965 | |
| 18) Advertising expense | | | | |
| Yeangder Entertainment | | \$ 13,000 | \$ 8,000 | |
| 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 | | - | 6,725 | |
| | | \$ 27,069 | \$ 26,284 | |
| 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 | \$ 4,680 | \$ 1,987 |

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:

- 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.
- Unused letters of credit of approximately \$174 million.
- Commitments for purchase of properties and construction in progress of approximately \$214 million.
- 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.