# Shihlin Electric & Engineering Corp.

**Financial Statements for the**
**Years Ended December 31, 2013 and 2012 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. (the "Corporation") as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. 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 audit 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 the Corporation as of December 31, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

March 28, 2014

*<u>Notice to Readers</u>*

*The accompanying financial statements are intended only to present the financial position, financial performance 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 applied in the Republic of China.*

*For the convenience of readers, the independent 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 independent auditors' report and financial statements shall prevail.*

## SHIHLIN ELECTRIC & ENGINEERING CORP.

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

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | $ 512,307 | 2 | $ 310,298 | 1 | $ 284,217 | 1 |
| Financial assets at fair value through profit or loss - current (Note 7) | - | - | 301 | - | 2,233 | - |
| Available-for-sale financial assets - current (Note 8) | 160,000 | 1 | - | - | - | - |
| Debt investments with no active markets - current (Note 10) | 2,400 | - | - | - | 1,381 | - |
| Notes receivable (Note 11) | 774,944 | 3 | 892,097 | 3 | 976,489 | 3 |
| Notes receivable from related parties (Note 32) | 1,836 | - | 1,298 | - | 1,932 | - |
| Trade receivables (Note 11) | 2,923,772 | 10 | 2,435,004 | 8 | 2,268,573 | 8 |
| Trade receivables from related parties (Note 32) | 387,821 | 1 | 194,336 | 1 | 307,751 | 1 |
| Amounts due from customers for construction contracts (Note 12) | 106,048 | - | 256,628 | 1 | 130,262 | 1 |
| Other receivable (Note 11) | 5,155 | - | 24,733 | - | 3,471 | - |
| Other receivables from related parties (Note 32) | 10,644 | - | 5,815 | - | 7,715 | - |
| Inventories (Note 13) | 2,548,037 | 8 | 2,814,949 | 10 | 3,096,647 | 11 |
| Other current assets (Note 17) | 137,274 | - | 168,043 | - | 294,311 | 1 |
| Total current assets | 7,570,238 | 25 | 7,103,502 | 24 | 7,374,982 | 26 |
| NON-CURRENT ASSETS | | | | | | |
| Available-for-sale financial assets - non-current (Note 8) | 640,487 | 2 | 2,803,733 | 10 | 2,528,706 | 9 |
| Financial assets measured at cost - non-current (Note 9) | 294,383 | 1 | 356,564 | 1 | 365,156 | 1 |
| Investments accounted for using equity method (Note 14) | 8,961,924 | 29 | 5,600,682 | 19 | 5,076,386 | 18 |
| Property, plant and equipment (Notes 15 and 33) | 4,372,884 | 14 | 4,225,879 | 15 | 4,269,828 | 15 |
| Investment properties (Note 16) | 8,348,359 | 27 | 8,532,141 | 29 | 8,715,918 | 30 |
| Deferred tax assets (Note 25) | 305,423 | 1 | 308,225 | 1 | 341,293 | 1 |
| Other non-current assets (Note 17) | 184,957 | 1 | 141,100 | 1 | 138,224 | - |
| Total noncurrent assets | 23,108,417 | 75 | 21,968,324 | 76 | 21,435,511 | 74 |
| TOTAL | $ 30,678,655 | 100 | $ 29,071,826 | 100 | $ 28,810,493 | 100 |
| **LIABILITIES AND EQUITY** | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Short-term borrowings (Note 18) | $ 1,651,166 | 5 | $ 1,850,000 | 6 | $ 1,957,991 | 7 |
| Short-term bills payable (Note 18) | - | - | 199,955 | 1 | - | - |
| Financial liabilities at fair value through profit or loss - current (Note 7) | 2,543 | - | 12,565 | - | 17,834 | - |
| Notes payable (Note 19) | 76,076 | - | 69,494 | - | 62,027 | - |
| Trade payables (Note 19) | 1,928,790 | 6 | 1,550,761 | 5 | 1,963,626 | 7 |
| Trade payables to related parties (Note 32) | 504,247 | 2 | 497,089 | 2 | 433,659 | 1 |
| Accounts due to customers for construction contracts (Note 12) | 3,500 | - | 66 | - | - | - |
| Other payables (Note 20) | 898,568 | 3 | 799,067 | 3 | 842,121 | 3 |
| Other payable to related parties (Note 32) | 30,923 | - | 19,137 | - | 30,378 | - |
| Current tax liabilities (Note 25) | 93,304 | - | 66,775 | - | 71,276 | - |
| Provisions - current (Note 21) | 479,338 | 2 | 197,286 | 1 | 199,957 | 1 |
| Other current liabilities (Note 20) | 524,708 | 2 | 463,408 | 2 | 461,350 | 2 |
| Total current liabilities | 6,193,163 | 20 | 5,725,593 | 20 | 6,040,219 | 21 |
| NON-CURRENT LIABILITIES | | | | | | |
| Long-term borrowings (Note 18) | 850,000 | 3 | 850,000 | 3 | 850,000 | 3 |
| Provisions - non-current (Note 21) | 35,902 | - | 31,504 | - | 31,567 | - |
| Deferred tax liabilities (Note 25) | 1,712,755 | 6 | 1,627,689 | 5 | 1,579,607 | 5 |
| Accrued pension liabilities (Note 22) | 1,367,412 | 4 | 1,347,326 | 5 | 1,334,756 | 5 |
| Other non-current liabilities (Note 20) | 108,345 | - | 103,751 | - | 79,658 | - |
| Total non-current liabilities | 4,074,414 | 13 | 3,960,270 | 13 | 3,875,588 | 13 |
| Total liabilities | 10,267,577 | 33 | 9,685,863 | 33 | 9,915,807 | 34 |
| EQUITY (Note 23) | | | | | | |
| Ordinary shares | 5,209,722 | 17 | 5,209,722 | 18 | 5,209,722 | 18 |
| Capital surplus | 2,559,723 | 8 | 2,485,306 | 8 | 2,481,940 | 9 |
| Retained earnings | | | | | | |
| Legal reserve | 1,795,880 | 6 | 1,699,943 | 6 | 1,589,950 | 6 |
| Special reserve | 5,136,954 | 17 | - | - | - | - |
| Unappropriated earnings | 5,487,229 | 18 | 10,115,714 | 35 | 9,908,478 | 34 |
| Total retained earnings | 12,420,063 | 41 | 11,815,657 | 41 | 11,498,428 | 40 |
| Other equity | 221,570 | 1 | (124,722) | - | (295,404) | (1) |
| Total equity | 20,411,078 | 67 | 19,385,963 | 67 | 18,894,686 | 66 |
| TOTAL | $ 30,678,655 | 100 | $ 29,071,826 | 100 | $ 28,810,493 | 100 |

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

## SHIHLIN ELECTRIC & ENGINEERING CORP.

**STATEMENTS OF COMPREHENSIVE INCOME**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | For the Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 29 and 32) | | | | |
| Sales | $ 13,545,387 | 94 | $ 13,983,335 | 93 |
| Rental revenue | 508,633 | 3 | 497,234 | 3 |
| Construction revenue | 384,042 | 3 | 633,844 | 4 |
| Total operating revenue | 14,438,062 | 100 | 15,114,413 | 100 |
| OPERATING COSTS (Notes 13, 24, 29 and 32) | | | | |
| Cost of goods sold | 11,542,803 | 80 | 11,737,326 | 77 |
| Rental cost | 264,387 | 2 | 255,700 | 2 |
| Construction cost | 348,798 | 2 | 560,156 | 4 |
| Total operating costs | 12,155,988 | 84 | 12,553,182 | 83 |
| GROSS PROFIT | 2,282,074 | 16 | 2,561,231 | 17 |
| OPERATING EXPENSES (Notes 24 and 32) | | | | |
| Selling and marketing expenses | 918,547 | 6 | 818,208 | 5 |
| General and administrative expenses | 640,699 | 5 | 575,398 | 4 |
| Research and development expenses | 414,556 | 3 | 401,500 | 3 |
| Total operating expenses | 1,973,802 | 14 | 1,795,106 | 12 |
| PROFIT FROM OPERATIONS | 308,272 | 2 | 766,125 | 5 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Other income (Note 24) | 50,779 | - | 56,653 | - |
| Other gains and losses (Notes 24 and 32) | 567,976 | 4 | (7,053) | - |
| Finance costs (Note 24) | (27,224) | - | (30,465) | - |
| Share of the profit or loss of subsidiaries and associates (Note 14) | 461,591 | 3 | 423,922 | 3 |
| Total non-operating income and expenses | 1,053,122 | 7 | 443,057 | 3 |
| PROFIT BEFORE INCOME TAX | 1,361,394 | 9 | 1,209,182 | 8 |
| INCOME TAX EXPENSE (Note 25) | 188,707 | 1 | 201,180 | 2 |
| NET PROFIT FOR THE YEAR | 1,172,687 | 8 | 1,008,002 | 6 |

(Continued)

## SHIHLIN ELECTRIC & ENGINEERING CORP.

**STATEMENTS OF COMPREHENSIVE INCOME**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | For the Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME (Note 23) | | | | |
| Exchange differences on translating foreign operations | $ 136,035 | 1 | $ (109,554) | (1) |
| Unrealized gain on available-for-sale financial assets | 268,553 | 2 | 210,239 | 1 |
| Actuarial loss arising from defined benefit plans | (47,333) | - | (79,588) | - |
| Share of the other comprehensive income of subsidiaries and associates | 42,405 | - | 92,867 | 1 |
| Income tax relating to the components of other comprehensive income | (90,130) | (1) | (8,832) | - |
| Other comprehensive income for the year, net of income tax | 309,530 | 2 | 105,132 | 1 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 1,482,217 | 10 | $ 1,113,134 | 7 |
| EARNINGS PER SHARE (Note 26) | | | | |
| Basic | $2.25 | | $1.93 | |
| Diluted | $2.24 | | $1.92 | |

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

## SHIHLIN ELECTRIC & ENGINEERING CORP.

**STATEMENTS OF CHANGES IN EQUITY**
**YEARS ENDED DECEMBER 31, 2013 AND 2012**
**(In Thousands of New Taiwan Dollars, Except Per Share Amounts)**

| | | Capital Surplus | | | | | | Retained Earnings | | | | Other Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ordinary Shares | Additional Paid-in Capital on Issuance of Ordinary Shares | Additional Paid-in Capital on Conversion of Bonds | Treasury Stock Transactions | Partial Disposal of Interests in Subsidiaries | Share of Changes in Equity of Associates | Total | Legal Reserve | Special Reserve | Unappropriated Earnings | Total | Exchange Difference on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Total | Total |
| BALANCE, JANUARY 1, 2012 | $ 5,209,722 | $ 1,441,424 | $ 970,457 | $ 70,059 | $ - | $ - | $ 2,481,940 | $ 1,589,950 | $ - | $ 9,908,478 | $ 11,498,428 | $ 132,031 | $ (427,435) | $ (295,404) | $ 18,894,686 |
| Appropriation of the 2011 earnings | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | 109,993 | - | (109,993) | - | - | - | - | - |
| Cash dividends - $1.2 per share | - | - | - | - | - | - | - | - | - | (625,167) | (625,167) | - | - | - | (625,167) |
| Adjustments to share of changes in equity of associates | - | - | - | - | - | 3,366 | 3,366 | - | - | (56) | (56) | - | - | - | 3,310 |
| Net profit for year ended December 31, 2012 | - | - | - | - | - | - | - | - | - | 1,008,002 | 1,008,002 | - | - | - | 1,008,002 |
| Other comprehensive income (loss) for year ended December 31, 2012, net of income tax | - | - | - | - | - | - | - | - | - | (65,550) | (65,550) | (86,070) | 256,752 | 170,682 | 105,132 |
| Total comprehensive income (loss) for the year ended December 31, 2012 | - | - | - | - | - | - | - | - | - | 942,452 | 942,452 | (86,070) | 256,752 | 170,682 | 1,113,134 |
| BALANCE, DECEMBER 31, 2012 | 5,209,722 | 1,441,424 | 970,457 | 70,059 | - | 3,366 | 2,485,306 | 1,699,943 | - | 10,115,714 | 11,815,657 | 45,961 | (170,683) | (124,722) | 19,385,963 |
| Special reserve under Rule No. 1010012865 issued by the FSC | - | - | - | - | - | - | - | - | 5,136,954 | (5,136,954) | - | - | - | - | - |
| Appropriation of the 2012 earnings | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | 95,937 | - | (95,937) | - | - | - | - | - |
| Cash dividends - $1.0 per share | - | - | - | - | - | - | - | - | - | (520,972) | (520,972) | - | - | - | (520,972) |
| Adjustments to share of changes in equity of associates | - | - | - | - | - | 12,028 | 12,028 | - | - | (10,547) | (10,547) | - | - | - | 1,481 |
| Net profit for the year ended December 31, 2013 | - | - | - | - | - | - | - | - | - | 1,172,687 | 1,172,687 | - | - | - | 1,172,687 |
| Other comprehensive income (loss) for the year ended December 31, net of income tax | - | - | - | - | - | - | - | - | - | (36,762) | (36,762) | 116,450 | 229,842 | 346,292 | 309,530 |
| Total comprehensive income (loss) for the year ended December 31, 2013 | - | - | - | - | - | - | - | - | - | 1,135,925 | 1,135,925 | 116,450 | 229,842 | 346,292 | 1,482,217 |
| Partial disposal of interests in subsidiaries | - | - | - | - | 62,389 | - | 62,389 | - | - | - | - | - | - | - | 62,389 |
| BALANCE, DECEMBER 31, 2013 | $ 5,209,722 | $ 1,441,424 | $ 970,457 | $ 70,059 | $ 62,389 | $ 15,394 | $ 2,559,723 | $ 1,795,880 | $ 5,136,954 | $ 5,487,229 | $ 12,420,063 | $ 162,411 | $ 59,159 | $ 221,570 | $ 20,411,078 |

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

## SHIHLIN ELECTRIC & ENGINEERING CORP.

**STATEMENTS OF CASH FLOWS**
**(In Thousands of New Taiwan Dollars)**

| | For the Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | $ 1,361,394 | $ 1,209,182 |
| Adjustments for: | | |
| Impairment loss recognized on notes receivables and trade receivables | 86,868 | 24,879 |
| Loss on fair value change of financial assets and liabilities at fair value through profit or loss | 24,789 | 31,689 |
| Depreciation expenses | 404,452 | 409,121 |
| Finance costs | 27,224 | 30,465 |
| Interest income | (1,354) | (1,710) |
| Dividend income | (35,832) | (39,785) |
| Share of the profit of subsidiaries and associates | (461,591) | (423,922) |
| Loss on disposal of property, plant and equipment | 575 | 604 |
| Loss (gain) on disposal of investments | 423,845 | (1,782) |
| Impairment loss recognized on financial assets | 116,091 | - |
| Impairment loss recognized on non-financial assets | - | 3,889 |
| Reversal of impairment loss recognized on non-financial assets | (712) | - |
| Gain from bargain purchase | (1,048,687) | - |
| Changes in operating assets and liabilities | | |
| Financial assets held for trading | 301 | 1,932 |
| Notes receivable | 114,393 | 84,392 |
| Notes receivable from related parties | (538) | 634 |
| Trade receivables | (572,876) | (191,310) |
| Trade receivables from related parties | (193,485) | 113,415 |
| Amounts due from customers for construction contracts | 150,580 | (126,366) |
| Other receivables | 19,578 | 1,517 |
| Other receivables from related parties | (4,829) | 1,900 |
| Inventories | 244,552 | 243,028 |
| Other current assets | 35,911 | 97,950 |
| Financial liabilities held for trading | (34,811) | (36,958) |
| Notes payable | 6,582 | 7,467 |
| Trade payables | 378,029 | (412,865) |
| Trade payables to related parties | 7,158 | 63,430 |
| Amounts due to customers for construction contracts | 3,434 | 66 |
| Other payables | 99,724 | (43,177) |
| Other payables to related parties | 11,786 | (11,241) |
| Provisions | 286,450 | (2,734) |
| Other current liabilities | 64,968 | 7,992 |
| Accrued pension liabilities | (27,247) | (67,018) |
| Cash generated from operations | 1,486,722 | 974,684 |
| Interest received | 1,706 | 1,616 |
| Interest paid | (27,437) | (30,352) |
| Income tax paid | (164,440) | (133,259) |
| Net cash generated from operating activities | 1,296,551 | 812,689 |

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# SHIHLIN ELECTRIC & ENGINEERING CORP.

## STATEMENTS OF CASH FLOWS
**(In Thousands of New Taiwan Dollars)**

| | For the Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of available-for-sale financial assets | $ (684,757) | $ (551,788) |
| Proceeds on sale of available-for-sale financial assets | 545,153 | 487,109 |
| Decrease (increase) in debt investments with no active market | (2,400) | 1,381 |
| Proceeds on sale of financial assets measured at cost | 13,084 | 8,592 |
| Acquisition of investments accounted for using equity method | - | (121,220) |
| Proceeds on sale of investments accounted for using equity method | - | 4,680 |
| Payments for property, plant and equipment | (340,928) | (140,618) |
| Proceeds from disposal of property, plant and equipment | 3,815 | 4,711 |
| Decrease in other financial assets | 2,269 | 23,824 |
| Increase in other non-current assets | (59,685) | (9,599) |
| Dividends received from subsidiaries and associates | 237,239 | 92,544 |
| Other dividends received | 35,832 | 39,785 |
| Net cash used in investing activities | (250,378) | (160,599) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments of short-term borrowings | (198,834) | (107,991) |
| Proceeds from (repayments of) short-term bills payable | (199,955) | 199,955 |
| Proceeds from long-term borrowings | 200,000 | 200,000 |
| Repayments of long-term borrowings | (200,000) | (200,000) |
| Increase in other financial liabilities | 696 | 2,302 |
| Dividends paid to owners of the Corporation | (520,972) | (625,167) |
| Acquisition of interests in subsidiaries | (100,005) | (95,108) |
| Proceeds from capital reduction of subsidiaries | 174,906 | - |
| Net cash used in financing activities | (844,164) | (626,009) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 202,009 | 26,081 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 310,298 | 284,217 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 512,307 | $ 310,298 |

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

# SHIHLIN ELECTRIC & ENGINEERING CORP.

**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**
**(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)**

## 1. GENERAL INFORMATION

Shihlin Electric & Engineering Corp. (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 registration shows its major operations as located at 16F, No. 88, Sec. 6, Zhongshan N. Rd., Shilin Dist., Taipei City 111, Taiwan (ROC).

The Corporation's shares have been listed and traded on the Taiwan Stock Exchange since December 1969.

The financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 27, 2014.

## 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. New, amended and revised standards and interpretations (the "New IFRSs") in issue but not yet effective

   The Corporation has not applied the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) issued by the IASB. On January 28, 2014, the Financial Supervisory Commission (the "FSC") announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the "New IFRSs") included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.

| The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC | Effective Date Announced by IASB (Note 1) |
|---|---|
| Improvements to IFRSs (2009) - amendment to IAS 39 | January 1, 2009 and January 1, 2010, as appropriate |
| Amendment to IAS 39 "Embedded Derivatives" | Effective for annual periods ending on or after June 30, 2009 |

(Continued)

| The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC | Effective Date Announced by IASB (Note 1) |
|---|---|
| Improvements to IFRSs (2010) | July 1, 2010 and January 1, 2011, as appropriate |
| Annual Improvements to IFRSs 2009-2011 Cycle | January 1, 2013 |
| Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" | July 1, 2010 |
| Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" | July 1, 2011 |
| Amendment to IFRS 1 "Government Loans" | January 1, 2013 |
| Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities" | January 1, 2013 |
| Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets" | July 1, 2011 |
| IFRS 10 "Consolidated Financial Statements" | January 1, 2013 |
| IFRS 11 "Joint Arrangements" | January 1, 2013 |
| IFRS 12 "Disclosure of Interests in Other Entities" | January 1, 2013 |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" | January 1, 2013 |
| Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities" | January 1, 2014 |
| IFRS 13 "Fair Value Measurement" | January 1, 2013 |
| Amendment to IAS 1 "Presentation of Other Comprehensive Income" | July 1, 2012 |
| Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets" | January 1, 2012 |
| IAS 19 (Revised 2011) "Employee Benefits" | January 1, 2013 |
| IAS 27 (Revised 2011) "Separate Financial Statements" | January 1, 2013 |
| IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures" | January 1, 2013 |
| Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities" | January 1, 2014 |
| IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine" | January 1, 2013 |

(Concluded)

| The New IFRSs Not Included in the 2013 IFRSs Version | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| IFRS 9 "Financial Instruments" | Note 3 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | Note 3 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets" | January 1, 2014 |
| Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| IFRIC 21 "Levies" | January 1, 2014 |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after the respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: IASB tentatively decided that an entity should apply IFRS 9 for annual periods beginning on or after January 1, 2018.

b. Significant impending changes in accounting policy that would result from adoption of New IFRSs in issue but not yet effective

Except for the following, the initial application of the above New IFRSs, whenever applied, would not have any material impact on the Corporation's accounting policies:

1) IFRS 9 "Financial Instruments"

<u>Recognition and measurement of financial assets</u>

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period. However, the Corporation may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

2) IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than in the current standards.

3) IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

4) Amendment to IAS 1 "Presentation of Items of Other Comprehensive Income"

The amendment to IAS 1 requires items of other comprehensive income to be grouped into those that (1) will not be reclassified subsequently to profit or loss; and (2) will be reclassified subsequently to profit or loss when specific conditions are met. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

5) Revision to IAS 19 “Employee Benefits”

Revision in 2011

The interest cost and expected return on plan assets are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

c. The impact of the application of New IFRSs in issue but not yet effective on the Corporation’s financial statements

As of the date the financial statements were authorized for issue, the Corporation is continuingly assessing the possible impact that the application of the above New IFRSs will have on the Corporation’s financial position and operating result, and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation’s financial statements for the year ended December 31, 2013 are its first IFRS financial statements prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

a. Statement of compliance

The Corporation’s financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the “Regulations”).

b. Basis of presentation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

When preparing its financial statements, the Corporation used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the financial statements to be the same with the amounts attributable to the owner of the Corporation in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period; and

3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

The Corporation engages in the construction business, which has an operating cycle of over one year, the normal operating cycle applies when considering the classification of the Corporation's construction-related assets and liabilities.

d. Business combinations

Acquisition of business is accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognized immediately in profit or loss as a gain from bargain purchase.

e. Foreign currencies

In preparing the Corporation's financial statements, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting the financial statements, the assets and liabilities of the Corporation's foreign operations (including operations of the subsidiaries and associates in other countries or currencies used are different from the functional currency of the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income attributed to the owners of the Corporation and non-controlling interests, as appropriate.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation and attributable to the owners of the Corporation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation's loss of control over the subsidiary, the proportionate share of accumulated exchange differences is combined into equity transaction of the Corporation and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities from acquired foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

f. Inventories

Inventories consist of raw materials and supplies, work-in-process and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made 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 on the balance sheet date.

g. Investments accounted for using equity method

Investments in subsidiaries and associates are accounted for by the equity method.

1) Investment in subsidiaries

Subsidiaries are the entities controlled by the Corporation.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Corporation also recognizes the Corporation's share of the change in other equity of the subsidiary.

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Corporation's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Corporation's net investment in the subsidiary), the Corporation continues recognizing its share of further losses.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When testing for impairment, the cash-generating unit is determined based on the financial statements as a whole by comparing its recoverable amount with its carrying amount. If the recoverable amount of the asset subsequently increases, the reversal of the impairment loss is recognized as a gain, but the increased carrying amount of an asset after a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized on the asset in prior years. An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

When the Corporation ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Corporation had directly disposed of the related assets or liabilities.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and sidestream transactions between subsidiaries are recognized in the Corporation's financial statements only to the extent of interests in the subsidiary that are not related to the Corporation.

2) Investment in associates

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Investment in associate is accounted for in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes its share of changes in equity of associate.

When the Corporation subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Corporation's proportionate interest in the associate. The Corporation records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Corporation's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Corporation's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Corporation's net investment in the associate), the Corporation discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Corporation's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

Any retained investment is measured at fair value at the date on which the Corporation ceases to have significant influence. The difference between the previous carrying amount and fair value of the retained interest in the associate is included in the determination of the gain or loss on disposal of the associate. The Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Corporation transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the financial statements only to the extent of the Corporation's equity interest in the associate.

h. Property, plant, and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method or the fixed-percentage-of-declining-balance method. Each significant part of depreciable asset is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

i. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

j. Impairment of assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is evaluated based on present value of estimated future cash flows, discounted at the current market-determined rate, and certain risk assumptions which impact future cash flows.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

An impairment loss is subsequently reversed when the revised estimate of the recoverable amount of the asset or cash-generating unit exceeds the carrying amount; but impairment loss is reversed only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss when it is held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including cash and cash equivalent, debt investments with no active market, notes receivable, trade receivables, other receivables and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term and trade receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition; it must be highly liquid, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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 financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as notes receivable and trade receivables, are assessed for impairment on a collective basis even if they were assessed as not impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience in the collection of payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situations.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by impairment loss directly for all financial assets with the exception of notes receivable and trade receivables where the carrying amount is reduced through the use of an allowance account. When notes receivable and trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Corporation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

The Corporation's own equity instruments repurchased are recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method except for financial liabilities at fair value through profit or loss.

Financial liabilities are classified as at fair value through profit or loss when they are held for trading.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4) Derivative financial instruments

The Corporation enters into a variety of derivative financial instruments to manage its exposure to price volatility risk of raw materials and futures contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

m. Provision

Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced by the amount of estimated customer returns, rebates and other similar allowances.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

a) The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Corporation; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Rendering of services

Service income is recognized when the service is provided.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

o. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet as other current liabilities. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

p. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Corporation as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Contingent rents arising under operating leases are recognized as income in the period in which they are earned.

q. Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method. All actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Corporation's financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current tax and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Corporation takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

c. The provision for warranties

The provision for warranties was based on contracts, historical experience and other known reasons estimated obligations may occur in the year. The provision was recognized at the date of sale of the relevant products. The Corporation regularly reviews the reasonableness of estimates.

d. Recognition and measurement of defined benefit plans

Accrued pension liabilities and the resulting pension expense under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and long-term average future salary increase. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

e. Income taxes

The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

## 6. CASH AND CASH EQUIVALENTS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Cash on hand | $ 1,041 | $ 1,371 | $ 1,055 |
| Checking accounts and demand deposits | 479,712 | 157,893 | 252,887 |
| Cash equivalent | | | |
| Time deposits with original maturity less than three months | 31,554 | 151,034 | 30,275 |
| | $ 512,307 | $ 310,298 | $ 284,217 |

The market rate intervals of cash in bank at the end of the reporting period were as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Bank balance | 0.17%-1.50% | 0.17%-0.71% | 0.17%-0.70% |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Financial assets at FVTPL - current | | | |
| Financial assets held for trading | | | |
| Derivative financial assets (not under hedge accounting) | | | |
| Foreign exchange forward contracts | $ - | $ 301 | $ 2,233 |
| Financial liabilities at FVTPL - current | | | |
| Financial liabilities held for trading | | | |
| Derivative financial liabilities (not under hedge accounting) | | | |
| Foreign exchange forward contracts | $ 2,543 | $ 12,565 | $ 17,834 |

The Corporation entered into forward exchange contracts during the years ended December 31, 2013 and 2012 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 forward exchange contracts.

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

| | **Currency** | **Maturity Date** | **Notional Amount (In Thousands)** |
|---|---|---|---|
| December 31, 2013 | | | |
| Buy | JPY/USD | January 2014 to March 2014 | JPY253,611/USD2,500 |
| December 31, 2012 | | | |
| Buy | JPY/USD | January 2013 to April 2013 | JPY480,120/USD6,000 |
| Buy | EUR/NTD | January 2013 | EUR6,000/NTD22,817 |
| January 1, 2012 | | | |
| Sell | USD/NTD | April 2012 | USD3,050/NTD91,546 |
| Buy | JPY/USD | January 2012 to June 2012 | JPY1,060,445/USD13,678 |
| Buy | EUR/NTD | January 2012 to October 2012 | EUR9,303/NTD379,562 |

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **December 31, 2013** | **December 31, 2012** | **January 1, 2012** |
|---|---|---|---|
| Current | | | |
| Mutual funds | $ 160,000 | $ - | $ - |
| Non-current | | | |
| Listed shares | $ 18,210 | $ 1,552,040 | $ 1,464,319 |
| Mutual funds | 622,277 | 1,251,693 | 1,064,387 |
| | $ 640,487 | $ 2,803,733 | $ 2,528,706 |

## 9. FINANCIAL ASSETS MEASURED AT COST

| | **December 31, 2013** | **December 31, 2012** | **January 1, 2012** |
|---|---|---|---|
| Non-current | | | |
| Unlisted shares | $ 294,383 | $ 350,836 | $ 359,428 |
| Mutual funds | - | 5,728 | 5,728 |
| | $ 294,383 | $ 356,564 | $ 365,156 |

(Continued)

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Classified according to financial asset measurement categories | | | |
| Available-for-sale financial assets | $ 294,383 | $ 356,564 | $ 365,156 |

(Concluded)

Management believed that the above investments in unlisted shares and mutual funds held by the Corporation, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

## 10. DEBT INVESTMENTS WITH NO ACTIVE MARKET

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Current | | | |
| Time deposits with original maturity more than 3 months | $ 2,400 | $ - | $ 1,381 |

The market interest rates of the time deposits with original maturity of more than 3 months were 0.55% and 0.20%-1.13% per annum as of December 31, 2013 and January 1, 2012, respectively.

## 11. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Notes receivable | | | |
| Notes receivable - operating | $ 777,704 | $ 892,097 | $ 976,489 |
| Less: Allowance for impairment loss | (2,760) | - | - |
| | $ 774,944 | $ 892,097 | $ 976,489 |
| Trade receivables | | | |
| Trade receivables | $ 3,116,872 | $ 2,547,821 | $ 2,356,781 |
| Less: Allowance for impairment loss | (193,100) | (112,817) | (88,208) |
| | $ 2,923,772 | $ 2,435,004 | $ 2,268,573 |
| Other receivables | | | |
| Management fee receivables | $ 503 | $ 1,193 | $ 1,549 |
| Tax refund receivable | 4,641 | - | - |
| Dividend receivable | - | 22,780 | - |
| Others | 11 | 760 | 1,922 |
| | $ 5,155 | $ 24,733 | $ 3,471 |

The average credit period on sales of goods was 90 days. Allowance for impairment loss were recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Corporation did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable.

The aging of receivables that were past due but not impaired was as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| 0-90 days | $ 23,142 | $ 10,096 | $ 105,186 |
| 91-180 days | 34,437 | 69,339 | 20,013 |
| 181-360 days | 25,729 | 48,381 | 12,526 |
| Over than 361 days | 7,348 | 4,174 | 35,252 |
| | $ 90,656 | $ 131,990 | $ 172,977 |

The above aging schedule was based on the past due date.

Movements in the allowance for impairment loss recognized on notes receivable were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance at January 1 | $ - | $ - |
| Add: Impairment losses recognized on receivables | 2,760 | - |
| Balance at December 31 | $ 2,760 | $ - |

Movements in the allowance for impairment loss recognized on trade receivables were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance at January 1 | $ 112,817 | $ 88,208 |
| Add: Impairment losses recognized on receivables | 84,108 | 24,879 |
| Less: Amounts written off as uncollectible | (3,825) | (270) |
| Balance at December 31 | $ 193,100 | $ 112,817 |

## 12. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Amount due from customers for construction contracts | | | |
| Construction costs incurred plus recognized profits less recognized losses to date | $ 1,942,522 | $ 1,570,658 | $ 943,060 |
| Less: Progress billings | (1,836,474) | (1,314,030) | (812,798) |
| | $ 106,048 | $ 256,628 | $ 130,262 |
| Amount due to customers for construction contracts | | | |
| Progress billings | $ 21,924 | $ 6,312 | $ - |
| Less: Construction costs incurred plus recognized profits less recognized losses to date | (18,424) | (6,246) | - |
| | $ 3,500 | $ 66 | $ - |

## 13. INVENTORIES

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Finished goods | $ 1,024,688 | $ 1,150,341 | $ 988,161 |
| Work in progress | 603,296 | 734,507 | 1,096,574 |
| Raw materials | 920,053 | 930,101 | 1,008,262 |
| Inventory in transit | - | - | 3,650 |
| | $ 2,548,037 | $ 2,814,949 | $ 3,096,647 |

The cost of inventories recognized as cost of goods sold included inventory write-downs of $16,679 thousand and reversal of inventory write-downs of $10,772 thousand for the years ended December 31, 2013 and 2012, respectively.

Previous write-downs were reversed as a result of increased selling prices in certain markets.

## 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Investments in subsidiaries | $ 5,922,204 | $ 5,538,655 | $ 5,019,797 |
| Investments in associates | $ 3,039,720 | $ 62,027 | $ 56,589 |

a. Investments in subsidiaries

| Name of Subsidiaries | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Unlisted companies | | | |
| SEEC International Holdings Ltd. of the British Virgin Islands ("SEEC International Holdings") | $ 3,261,063 | $ 3,146,495 | $ 2,910,962 |
| Shinlin Electrical Engineering Ltd. of Vietnam ("Vietnam SEEC") | 427,419 | 353,803 | 321,479 |
| Yuh Lin Investment Co., Ltd.("Yuh Lin") | 413,146 | 378,804 | 351,516 |
| Hwo Lin Investment Co., Ltd. ("Hwo Lin") | 400,245 | 365,601 | 341,117 |
| Ji Lin Investment, Co., Ltd. ("Ji Lin") | 223,091 | 200,559 | 184,274 |
| Jeng Lin Investment Co., Ltd. ("Jeng Lin") | 199,390 | 169,930 | 158,848 |
| Cheng Lin Investments Co., Ltd. ("Cheng Lin") | 155,784 | 144,655 | 133,666 |
| Hsin Lin Electric Machinery Co., Ltd. ("Hsin Lin") | 151,681 | 142,732 | 125,574 |
| SEEC International Trading Ltd. of the British Virgin Islands ("SEEC International Trading") | 150,303 | 140,755 | 137,599 |
| Rueylin Electric & Engineering Corp. ("Rueylin") | 149,980 | 133,266 | 114,417 |
| Ting Lin Enterprise Co., Ltd. ("Ting Lin") | 129,820 | 127,983 | 2,455 |
| Shang Lin Investment Co., Ltd. ("Shang Lin") | 118,059 | 96,785 | 91,750 |
| Jeen-Lin Industrial Co., Ltd. ("Jeen-Lin") | 68,542 | 64,900 | 63,928 |
| Shihlin Electric USA Company Limited (Shihlin Electric USA) | 44,641 | 45,925 | 42,097 |
| Union Power Industrial Corporation ("Union Power") | 19,253 | 16,754 | 17,437 |
| Chuan Lin Technology Corporation ("Chuan Lin") | 9,787 | 9,708 | 9,399 |
| Shihlin Electric (Australia) Pty. Ltd. (Shihlin Electric Australia) | (16,087) | (15,857) | 2,952 |
| Shihlin Enterprise Co., Ltd. ("Shihlin") | - | - | 10,327 |
| | 5,906,117 | 5,522,798 | 5,019,797 |
| Add: Credit balance in investment transfer to non-current liabilities | 16,087 | 15,857 | - |
| | $ 5,922,204 | $ 5,538,655 | $ 5,019,797 |

At the end of the reporting period, the proportions of ownership and voting rights in subsidiaries held by the Corporation were as follows:

| Name of Subsidiaries | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| SEEC International Holdings | 100.0% | 100.0% | 100.0% |
| Yuh Lin | 93.7% | 93.7% | 93.7% |
| Hwo Lin | 94.8% | 94.8% | 94.8% |
| Vietnam SEEC | 100.0% | 100.0% | 100.0% |
| Ji Lin | 99.9% | 99.9% | 99.9% |

(Continued)

| Name of Subsidiaries | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Jeng Lin | 87.4% | 87.4% | 87.4% |
| SEEC International Trading | 100.0% | 100.0% | 100.0% |
| Cheng Lin | 99.3% | 99.3% | 99.3% |
| Hsin Lin | 60.0% | 60.0% | 60.0% |
| Rueylin | 70.4% | 70.4% | 70.4% |
| Shang Lin | 99.3% | 99.3% | 99.3% |
| Jeen-Lin | 78.4% | 78.4% | 78.4% |
| Shihlin Electric USA | 100.0% | 100.0% | 100.0% |
| Union Power | 72.5% | 72.5% | 72.5% |
| Shihlin | - | - | 72.0% |
| Chuan Lin | 31.5% | 31.5% | 31.5% |
| Shihlin Electric Australia | 100.0% | 100.0% | 100.0% |
| Ting Lin | 96.7% | 96.7% | - |

(Concluded)

The disclosures about the Corporation's acquisition of Ting Lin and disposal of Shihlin are made in Notes 28 and 29 to the consolidated financial statements for 2013.

The sum of the holdings of the Corporation and its subsidiaries in Chuan Lin is 73.0% and have the control ability. Hence, it is classified as subsidiary.

b. Investments in associates

| Name of Associate | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Listed companies | | | |
| The Ambassador Hotel Co., Ltd. ("Ambassador Hotel") | $ 2,976,127 | $ - | $ - |
| Unlisted companies | | | |
| Chan Der Investment Corp. ("Chan Der") | 31,440 | 30,149 | 27,350 |
| Yu Der Investment Corp. ("Yu Der") | 20,428 | 20,488 | 19,099 |
| Cheng Der Investment Corp. ("Cheng Der") | 11,725 | 11,390 | 10,140 |
| | $ 3,039,720 | $ 62,027 | $ 56,589 |

At the end of the reporting period, the proportions of ownership and voting rights in associates held by the Corporation were as follows:

| Name of Associate | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Ambassador Hotel | 18.2% | - | - |
| Chan Der | 8.1% | 8.1% | 8.1% |
| Yu Der | 4.8% | 4.8% | 4.8% |
| Cheng Der | 3.6% | 3.6% | 3.6% |
| Ting Lin | - | - | 21.2% |

In November of 2013, the Corporation subscribed 18,276 thousand shares of Ambassador Hotel for cash of $524,757 thousand; after the subscription, the Corporation and its subsidiaries' total percentage of ownership in Ambassador Hotel was 21.3% and the Corporation are able to exercise significant influence over Ambassador Hotel. For the year ended December 31, 2013, a bargain purchase gain of $1,048,687 thousand arising from the acquisition of Ambassador Hotel.

The Corporation and its subsidiaries' total ownership of Chan Der, Yu Der, and Cheng Der amounted to 34.0%, 24.4% and 28.5%, respectively, which have significant influence; thus, they are recognized as associates.

The summarized financial information in respect of the Corporation's associates is set out below:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Total assets | $ 13,117,524 | $ 1,115,409 | $ 1,029,401 |
| Total liabilities | $ 3,093,537 | $ 1,798 | $ 2,850 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Revenue | $ 100,966 | $ 26,826 |
| Profit for the year | $ 22,217 | $ 21,048 |
| Other comprehensive income | $ 36,160 | $ 77,853 |
| The proportion of the profit of the investments in associates | $ 2,441 | $ 1,163 |
| The proportion of the profit of the other comprehensive income in associates | $ 5,953 | $ 4,360 |

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Freehold Land | Buildings | Machinery and Equipment | Other Equipment | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at January 1, 2012 | $ 2,450,723 | $ 2,684,591 | $ 2,879,492 | $ 1,476,902 | $ 9,491,708 |
| Additions | - | 6,697 | 85,391 | 48,530 | 140,618 |
| Disposals | - | (2,160) | (32,479) | (20,268) | (54,907) |
| Transferred from inventories | - | - | 8,137 | 17,962 | 26,099 |
| Transferred from prepayments for equipment | - | 2,570 | 20,944 | 367 | 23,881 |
| Balance at December 31, 2012 | $ 2,450,723 | $ 2,691,698 | $ 2,961,485 | $ 1,523,493 | $ 9,627,399 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2012 | $ - | $ 1,549,564 | $ 2,445,451 | $ 1,226,865 | $ 5,221,880 |
| Disposals | - | (2,157) | (31,281) | (16,155) | (49,593) |
| Impairment losses recognized in profit or loss | - | - | 3,889 | - | 3,889 |
| Depreciation expense | - | 48,541 | 104,204 | 72,599 | 225,344 |
| Balance at December 31, 2012 | $ - | $ 1,595,948 | $ 2,522,263 | $ 1,283,309 | $ 5,401,520 |

(Continued)

| | Freehold Land | Buildings | Machinery and Equipment | Other Equipment | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2012, net | $ 2,450,723 | $ 1,135,027 | $ 434,041 | $ 250,037 | $ 4,269,828 |
| Balance at December 31, 2012, net | $ 2,450,723 | $ 1,095,750 | $ 439,222 | $ 240,184 | $ 4,225,879 |
| Cost | | | | | |
| Balance at January 1, 2013 | $ 2,450,723 | $ 2,691,698 | $ 2,961,485 | $ 1,523,493 | $ 9,627,399 |
| Additions | - | 60,662 | 219,781 | 60,485 | 340,928 |
| Disposals | - | (293) | (121,438) | (160,400) | (282,131) |
| Transferred from inventories | - | - | 3,294 | 19,066 | 22,360 |
| Transferred from prepayments for equipment | - | - | 8,065 | - | 8,065 |
| Balance at December 31, 2013 | $ 2,450,723 | $ 2,752,067 | $ 3,071,187 | $ 1,442,644 | $ 9,716,621 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2013 | $ - | $ 1,595,948 | $ 2,522,263 | $ 1,283,309 | $ 5,401,520 |
| Disposals | - | (290) | (122,017) | (155,434) | (277,741) |
| Reversal of impairment loss recognized in profit or loss | - | - | (712) | - | (712) |
| Depreciation expense | - | 45,264 | 105,535 | 69,871 | 220,670 |
| Balance at December 31, 2013 | $ - | $ 1,640,922 | $ 2,505,069 | $ 1,197,746 | $ 5,343,737 |
| Balance at January 1, 2013, net | $ 2,450,723 | $ 1,095,750 | $ 439,222 | $ 240,184 | $ 4,225,879 |
| Balance at December 31, 2013, net | $ 2,450,723 | $ 1,111,145 | $ 566,118 | $ 244,898 | $ 4,372,884 |

(Concluded)

The Corporation adopted depreciation methods that were decided at the dates the assets were acquired. The Corporation's depreciation on cost is provided by the straight-line method for properties bought before January 1, 1988 and on or after January 1, 1999. The Corporation's depreciation on cost is provided by the fixed-percentage-of-declining-balance method for properties bought in the period from January 1, 1988 to December 31, 1998.

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

| | |
|---|---|
| Building | |
| Main buildings | 40-60 years |
| Building improvements | 20-35 years |
| Electrical power equipment and engineering system | 8-35 years |
| Others | 2-15 years |
| Machinery and equipment | 3-15 years |
| Other equipment | 2-15 years |

Refer to Note 33 for the carrying amount of property, plant and equipment pledged to general banking facilities granted to the Corporation.

## 16. INVESTMENT PROPERTIES

| | Completed Investment Property |
|---|---|
| Cost | |
| Balance at January 1, 2012 | $ 10,464,926 |
| Balance at December 31, 2012 | $ 10,464,926 |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2012 | $ 1,749,008 |
| Depreciation expense | 183,777 |
| Balance at December 31, 2012 | $ 1,932,785 |
| Balance at January 1, 2012, net | $ 8,715,918 |
| Balance at December 31, 2012, net | $ 8,532,141 |
| Cost | |
| Balance at January 1, 2013 | $ 10,464,926 |
| Balance at December 31, 2013 | $ 10,464,926 |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2013 | $ 1,932,785 |
| Depreciation expense | 183,782 |
| Balance at December 31, 2013 | $ 2,116,567 |
| Balance at January 1, 2013, net | $ 8,532,141 |
| Balance at December 31, 2013, net | $ 8,348,359 |

Investment properties were depreciated on a straight-line basis over the estimated useful life of the asset:

| | |
|---|---|
| Main buildings | 50-60 years |
| Engineering system | 5-15 years |
| Air-conditioning system | 8-10 years |
| Others | 5-15 years |

The fair value of the Corporation's investment properties as of December 31, 2013, December 31, 2012 and January 1, 2012 was $22,052,435 thousand, $22,520,307 thousand and $22,104,358 thousand, respectively. The fair value was arrived at on the basis of valuations carried out on February 18, 2014 and May 8, 2013 by independent qualified professional valuers. The valuation was arrived at by reference to sales comparison approach, income approach and cost approach.

## 17. OTHER ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Current | | | |
| Prepaid expenses | $ 36,174 | $ 29,941 | $ 24,439 |
| Prepayments for purchases | 45,735 | 92,546 | 195,850 |
| Refundable deposits | 10,797 | 9,090 | 16,775 |
| Other financial assets | 38,516 | 35,081 | 55,714 |
| Others | 6,052 | 1,385 | 1,533 |
| | $ 137,274 | $ 168,043 | $ 294,311 |
| Non-current | | | |
| Refundable deposits | $ 6,098 | $ 8,326 | $ 14,466 |
| Advances to employees | 8,159 | 10,408 | 9,503 |
| Prepayments for equipment | 88,951 | 27,078 | 29,270 |
| Other financial assets | 10,646 | 16,181 | 5,453 |
| Others | 71,103 | 79,107 | 79,532 |
| | $ 184,957 | $ 141,100 | $ 138,224 |

## 18. SHORT-TERM LOANS, SHORT-TERM BILLS PAYABLE AND LONG-TERM DEBT

a. Short-term loans

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Secured borrowings (Note 33) | | | |
| Bank loans (NTD) | $ 100,000 | $ 350,000 | $ 800,000 |
| Unsecured borrowings | | | |
| Usance L/C (JPY) | 1,166 | - | 142,888 |
| Usance L/C (USD) | - | - | 65,103 |
| Bank loans (NTD) | 1,550,000 | 1,500,000 | 950,000 |
| | 1,551,166 | 1,500,000 | 1,157,991 |
| | $ 1,651,166 | $ 1,850,000 | $ 1,957,991 |

The range of weighted average effective interest rate on bank loans was 0.73%-1.25%, 0.87%-1.12% and 0.82%-0.95% per annum as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

b. Short-term bills payable

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Commercial paper | $ - | $ 200,000 | $ - |
| Less: Unamortized discount on bills payable | - | (45) | - |
| | $ - | $ 199,955 | $ - |

Outstanding short-term bills payable were as follows:

December 31, 2012

| Promissory Institutions | Nominal Amount | Discount Amount | Carry Value | Rate | Collateral | The Carry Value of Collateral |
|---|---|---|---|---|---|---|
| Commercial paper | | | | | | |
| Mega Bills Finance Co., Ltd. | $ 200,000 | $ (45) | $ 199,955 | 1.038% | - | $ - |

c. Long-term borrowings

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Secured borrowings (Note 34) | | | |
| Bank loans (1) | $ - | $ 200,000 | $ 100,000 |
| Unsecured borrowings | | | |
| Bank loans (2) | 850,000 | 650,000 | 750,000 |
| | $ 850,000 | $ 850,000 | $ 850,000 |

1) December 31, 2012: Revolving before November 2014, interest at 1.37%; January 1, 2012: Revolving before December 2013, interest at 1.09%.

2) December 31, 2013: Revolving before January 2015 interest at 0.98%; December 31, 2012: Revolving before January 2014, interest at 0.95%; January 1, 2012: Revolving before January 2013, interest at 0.86%-1.09%.

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

## 19. NOTES PAYABLE AND TRADE PAYABLES

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Notes payable | | | |
| Notes receivable - operating | $ 76,076 | $ 69,494 | $ 62,027 |
| Trade payables | | | |
| Trade payables | $ 1,928,790 | $ 1,550,761 | $ 1,963,626 |

The average credit period of purchases of certain goods was 90-120 days. The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 20. OTHER LIABILITIES

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Current | | | |
| Other payables | | | |
| Salaries or bonus | $ 354,862 | $ 319,999 | $ 341,346 |
| Payable for annual leave | 71,163 | 67,902 | 66,007 |
| Payable for dividends | 73,920 | 71,989 | 80,894 |
| Bonus to employees | 84,400 | 69,000 | 79,000 |
| Remuneration to directors and supervisors | 42,200 | 34,500 | 41,615 |
| Payable for patent royalties | 7,093 | 3,386 | 1,914 |
| Payable for labor and health insurance | 16,871 | 16,785 | 15,938 |
| Others | 248,059 | 215,496 | 215,407 |
| | $ 898,568 | $ 799,057 | $ 842,121 |
| Other liabilities | | | |
| Collections in advance | $ 415,289 | $ 365,723 | $ 357,222 |
| Temporary receipts | 74,568 | 74,224 | 54,065 |
| Deposits received | 10,333 | 14,001 | 19,935 |
| Others | 24,518 | 9,460 | 30,128 |
| | $ 524,708 | $ 463,408 | $ 461,350 |
| Non-current | | | |
| Other liabilities | | | |
| Deposits received | $ 92,258 | $ 87,894 | $ 79,658 |
| Credit balance of Investment under equity method | 16,087 | 15,857 | - |
| Deposits received | $ 108,345 | $ 103,751 | $ 79,658 |

## 21. PROVISION

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Current | | | |
| Warranties | $ 448,814 | $ 192,955 | $ 193,268 |
| Sales returns and discounts | 30,524 | 4,331 | 6,689 |
| | $ 479,338 | $ 197,286 | $ 199,957 |
| Non-current | | | |
| Warranties | $ 35,902 | $ 31,504 | $ 31,567 |

| | Warranties | Sales returns and discounts | Total |
|---|---|---|---|
| Balance at January 1, 2012 | $ 224,835 | $ 6,689 | $ 231,524 |
| Additional provisions recognized | - | 244,982 | 244,982 |
| Usage | - | (247,340) | (247,340) |
| Reversing un-usage balances | (376) | - | (376) |
| Balance at December 31, 2012 | 224,459 | 4,331 | 228,790 |
| Additional provisions recognized | 260,257 | 282,157 | 542,414 |
| Usage | - | (255,964) | (255,964) |
| Balance at December 31, 2013 | $ 484,716 | $ 30,524 | $ 515,240 |

The provision for warranty claims represents the present value of management’s best estimate of the future outflow of economic benefits that will be required under the Corporation’s obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

The provision of sales returns and discounts was based on historical experience, management's judgments and other known reasons estimated product returns and discounts may occur in the year. The provision was recognized as a reduction of operating income in the periods of the related goods sold.

## 22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. According to local regulations, foreign subsidiaries also make contributions to employees’ individual pension accounts, which is defined contribution plan.

b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes at 2% of salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund the return generated by employees' pension contribution should not be below the interest rate for a 2-year time deposit with local banks.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualifying actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Discount rate(s) | 1.875% | 1.625% | 1.750% |
| Expected rate(s) of salary increase | 2.000% | 2.000% | 2.000% |
| Expected return on plan assets | 2.000% | 1.875% | 2.000% |

The assessment of the overall expected rate of return was based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation, by reference to the aforementioned use of the plan assets and the impact of the related minimum return.

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Current service cost | $ 25,043 | $ 25,567 |
| Interest cost | 22,762 | 23,873 |
| Expected return on plan assets | (1,176) | (768) |
| | $ 46,629 | $ 48,672 |
| An analysis by function | | |
| Operating cost | $ 23,360 | $ 24,383 |
| Marketing expenses | 9,921 | 10,355 |
| Administration expenses | 9,521 | 9,939 |
| Research and development expenses | 3,827 | 3,995 |
| | $ 46,629 | $ 48,672 |

Actuarial losses recognized in other comprehensive income or loss for the years ended December 31, 2013 and 2012 were $47,333 thousand and $79,588 thousand, respectively. The cumulative amount of actuarial losses recognized in other comprehensive income or loss as of December 31, 2013 and 2012 was $126,921 thousand and $79,588 thousand, respectively.

The amounts included in the Corporation's balance sheet in respect of its obligations for defined benefit plans were as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Present value of funded defined benefit obligation | $ 1,440,426 | $ 1,400,735 | $ 1,369,159 |
| Fair value of plan assets | (73,014) | (53,409) | (34,403) |
| Accrued pension liabilities | $ 1,367,412 | $ 1,347,326 | $ 1,334,756 |

Movements in the present value of the defined benefit obligations were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Opening defined benefit obligation | $ 1,400,735 | $ 1,369,159 |
| Current service cost | 25,043 | 25,567 |
| Interest cost | 22,762 | 23,873 |
| Actuarial losses | 46,901 | 79,241 |
| Benefits paid | (55,015) | (97,105) |
| Closing defined benefit obligation | $ 1,440,426 | $ 1,400,735 |

Movements in the fair value of the plan assets were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Opening fair value of plan assets | $ 53,409 | $ 34,403 |
| Expected return on plan assets | 1,176 | 768 |
| Actuarial losses | (432) | (347) |
| Contributions from the employer | 18,861 | 18,585 |
| Closing fair value of plan assets | $ 73,014 | $ 53,409 |

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Labor Pension Fund Supervisory Committee:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Bank deposits | 23% | 25% | 24% |
| Equity instruments | 45% | 37% | 41% |
| Debt instruments | 31% | 37% | 35% |
| Others | 1% | 1% | - |
| | 100% | 100% | 100% |

The Corporation chose to disclose the history of experience adjustments as the amounts determined for each accounting period prospectively from the date of transition to the Regulations:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Present value of defined benefit obligation | $ 1,440,426 | $ 1,400,735 | $ 1,369,159 |
| Fair value of plan assets | $ 73,014 | $ 53,409 | $ 34,403 |
| Deficit | $ 1,367,412 | $ 1,347,326 | $ 1,334,756 |
| Experience adjustments on plan liabilities | $ 60,968 | $ 79,241 | $ - |
| Experience adjustments on plan assets | $ (432) | $ (347) | $ - |

The Corporation expects to make a contribution of $18,861 thousand and $18,585 thousand, respectively to the defined benefit plans during the annual period beginning after 2013 and 2012.

## 23. EQUITY

### Share Capital - Ordinary Shares

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Numbers of shares authorized (in thousands) | 580,000 | 580,000 | 580,000 |
| Shares authorized | $ 5,800,000 | $ 5,800,000 | $ 5,800,000 |
| Number of shares issued and fully paid (in thousands) | 520,972 | 520,972 | 520,972 |
| Shares issued | $ 5,209,722 | $ 5,209,722 | $ 5,209,722 |

Fully paid ordinary shares, which have a par value of $10, carry one vote per share and carry a right to dividends.

### Capital Surplus

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares, conversion of bonds, treasury share transactions, and excess of the consideration received over the carrying amount of the subsidiaries' net assets during disposal or acquisition) may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital limited to a certain percentage of the Corporation's capital surplus and once a year.

The capital surplus from long-term investments may not be used for any purpose.

### Retained Earnings and Dividend Policy

The Corporation's Articles of Incorporation, which was amended on June 5, 2013, 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 5% 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, 2013 and 2012, the bonus to employees of the Corporation was $84,400 thousand and $69,000 thousand, respectively, and the remuneration to directors and supervisors of the Corporation was $42,200 thousand and $34,500 thousand, respectively. The bonus to employees for the years ended December 31, 2013 and 2012 was both 8% of the Corporation's net profit minus the legal reserve to be appropriated; the remuneration to directors and supervisors for the years ended December 31, 2013 and 2012 was both 4% of the Corporation's net profit minus the legal reserve to be appropriated. Material differences between estimated amounts and the amounts proposed by the board of directors on or before the financial statements are authorized for issue are adjusted in the year the bonus and remuneration are recognized. If there is a change in the proposed amounts after the financial statements are authorized for issue, the differences are recorded 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 fair value of the shares. For the calculation of the number of shares, the fair value of the shares refer to the closing price (after considering the effect of cash and stock dividends) of the shares on the day immediately preceding the shareholders' meeting.

Under Rule No. 100116 and Rule No. 0950000507 issued by the FSC, an amount equal to the net debit balance of shareholders' other equity items (including exchange differences on translating foreign operations, unrealized gain (loss) on available-for-sale financial assets, and the gain or loss on the hedging instrument relating to the effective portion of cash flow hedge) shall be transferred from unappropriated earnings to a special reserve before any appropriation of earnings generated before January 1, 2012 shall be made. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under Rule No. 1010012865 issued by the FSC on April 6, 2012 and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", on the first-time adoption of IFRSs, a corporation should appropriate to a special reserve of an amount that was the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the corporation's use of exemptions under IFRS 1. However, at the date of transitions to IFRSs, if the increase in retained earnings that resulted from all IFRSs adjustments is not sufficient for this appropriation, only the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve appropriated as above may be reversed in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. The special reserve appropriated on the first-time adoption of IFRSs may be used to offset deficits in subsequent years. No appropriation of earnings shall be made until any shortage of the aforementioned special reserve is appropriated in subsequent years if the corporation has earnings and the original need to appropriate a special reserve is not eliminated.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset 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 2012 and 2011 had been approved in the Corporation's stockholders' meetings on June 5, 2013 and May 25, 2012, respectively. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2012** | **2011** | **2012** | **2011** |
| Legal reserve | $ 95,937 | $ 109,993 | | |
| Cash dividends | 520,972 | 625,167 | $1.0 | $1.2 |

Bonus to employees and the remuneration to directors and supervisors for 2012 and 2011 approved in the stockholders' meetings on June 5, 2013 and May 25, 2012, respectively, were as follows:

| | **For the Year Ended December 31** | |
|---|---|---|
| | **2012** | **2011** |
| Bonuses to employees - cash | $ 69,000 | $ 79,000 |
| Remuneration to directors and supervisors | 34,500 | 39,500 |

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings in 2013 and 2012 and the amounts recognized in the financial statements for the years ended December 31, 2012 and 2011.

The appropriations of earnings for 2012 were proposed according to the Corporation's financial statements for the year ended December 31, 2012, which were prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the Generally Accepted Accounting Standard in the Republic of China ("ROC GAAP"),, and by reference to the balance sheet for the year ended December 31, 2012, which was prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (revised) and the Regulations.

The appropriations of earnings for 2013 had been proposed by the Corporation's board of directors on March 27, 2014. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 117,269 | |
| Cash dividends | 729,361 | $1.4 |

The appropriations of earnings, the bonus to employees, and the remuneration to directors and supervisors for 2013 are subject to the resolution of the shareholders' meeting to be held on June 20, 2014.

Information on the bonus to employees, directors and supervisors proposed by the Corporation's board of directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

**Special Reserves Under Rule No. 1010012865 Issued by the FSC**

The Corporation's special reserves under rule No.1010012865 issued by the FSC were as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Special reserve | $ 5,136,954 | $ - | $ - |

The Corporation's unrealized revaluation increment transferred to retained earnings was $5,496,797 thousand. The increase in retained earnings that resulted from all IFRSs adjustments was smaller and only $5,136,954 thousand; therefore, the Corporation appropriated to special reserve only the amount of $5,136,954 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transition to IFRSs.

The special reserve appropriated on the first-time adoption of IFRSs relating to land may be reversed on the disposal or reclassification of the related assets.

**Other Equity Items**

a. Foreign currency translation reserve

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance at January 1 | $ 45,961 | $ 132,031 |
| Exchange differences arising on translating the foreign operations | 136,035 | (109,554) |
| Income tax relating to gain (loss) arising on translating the net assets of foreign operations | (23,126) | 10,239 |
| Share of translation difference of subsidiaries and associates accounted for using the equity method | 3,541 | 13,245 |
| Balance at December 31 | $ 162,411 | $ 45,961 |

b. Investments revaluation reserve

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance at January 1 | $ (170,683) | $ (427,435) |
| Unrealized gain (loss) arising on revaluation of available-for-sale financial assets | (222,286) | 210,348 |
| Income tax relating to unrealized gain (loss) arising on revaluation of available-for-sale financial assets | 13,942 | (31,343) |
| Cumulative gain (loss) reclassified to profit or loss on sale of available-for-sale financial assets | 425,145 | (109) |
| Income tax related to the amounts reclassified to loss on disposal of available-for-sale financial assets | (73,646) | - |
| Cumulative loss reclassified to profit on impairment of available-for-sale financial assets | 65,694 | - |
| Income tax related to the amounts reclassified to loss on impairment of available-for-sale financial assets | (11,168) | - |
| Share of unrealized gain on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using the equity method | 36,339 | 79,010 |
| Income tax related to the share of unrealized gain on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using the equity method | (4,178) | (1,154) |
| Balance at December 31 | $ 59,159 | $ (170,683) |

## 24. NET PROFIT

Net profit (loss) from continuing operations had been arrived at after charging (crediting):

a. Other income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Interest income | | |
| Bank deposits | $ 1,253 | $ 950 |
| Others | 101 | 760 |
| | 1,354 | 1,710 |
| Dividends | 35,832 | 39,785 |
| Others | 13,593 | 15,158 |
| | $ 50,779 | $ 56,653 |

b. Other gains and losses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Loss on financial assets and liabilities held for trading | $ (24,789) | $ (31,689) |
| Loss on disposal of property, plant and equipment | (575) | (604) |
| Gain (loss) on disposal of available-for-sale financial assets | (425,145) | 109 |
| Gain on disposal of financial assets measured at cost | 1,300 | - |
| Gain on disposal of subsidiaries and associates | - | 1,673 |
| Net foreign exchange gain (loss) | 28,295 | (25,776) |
| Gain from bargain purchase | 1,048,687 | - |
| Impairment loss recognized on available-for-sale financial assets | (65,694) | - |
| Impairment loss recognized on financial assets measured at cost | (50,397) | - |
| Reversal of impairment loss (impairment loss) recognized on non-financial assets | 712 | (3,889) |
| Others | 55,582 | 53,123 |
| | $ 567,976 | $ (7,053) |

c. Finance costs

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Interest on bank loans | $ 27,179 | $ 29,074 |
| Interest on short-term bills payable | 45 | 1,391 |
| | $ 27,224 | $ 30,465 |

d. Impairment losses on financial assets

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Notes receivable | $ 2,760 | $ - |
| Trade receivables | 84,108 | 24,879 |
| Available-for-sale financial assets | 65,694 | - |
| Financial assets measured at cost | 50,397 | - |
| | $ 202,959 | $ 24,879 |

e. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Property, plant and equipment | $ 220,670 | $ 225,344 |
| Investment properties | 183,782 | 183,777 |
| | $ 404,452 | $ 409,121 |
| An analysis of depreciation by function | | |
| Operating costs | $ 361,712 | $ 366,867 |
| Operating expenses | 42,740 | 42,254 |
| | $ 404,452 | $ 409,121 |

f. Operating expenses directly related to investment properties

| | For the Year Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Direct operating expenses from investment properties that generated rental income | $ 32,150 | $ 32,212 |

g. Employee benefits expense

| | For the Year Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Post-employment benefits (Note 22) | | |
| Defined contribution plans | $ 38,251 | $ 36,887 |
| Defined benefit plans | 46,629 | 48,672 |
| | 84,880 | 85,559 |
| Other employee benefits | 1,994,242 | 1,895,560 |
| Total employee benefits expense | $ 2,079,122 | $ 1,981,119 |
| An analysis of employee benefits expense by function | | |
| Operating costs | $ 1,014,433 | $ 975,586 |
| Operating expenses | 1,064,689 | 1,003,639 |
| | $ 2,079,122 | $ 1,979,225 |

h. Gain or loss on foreign currency exchange

| | For the Year Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Foreign exchange gains | $ 226,610 | $ 204,389 |
| Foreign exchange losses | (198,315) | (230,165) |
| | $ 28,295 | $ (25,776) |

i. Impairment losses (reversal of impairment losses) on non-financial assets

| | For the Year Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Property, plant and equipment (included in other gains and losses) | $ (712) | $ 3,889 |
| Inventories (included in cost of goods sold) | $ 16,180 | $ (18,845) |

## 25. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Current tax | | |
| In respect of the current period | $ 60,054 | $ 103,615 |
| Tax at 10% of unappropriated earnings | 34,243 | 36,477 |
| In respect of prior periods | 96,672 | (11,230) |
| | 190,969 | 128,862 |
| Deferred tax | | |
| In respect of the current period | (2,262) | 72,318 |
| Income tax expense recognized in profit or loss | $ 188,707 | $ 201,180 |

A reconciliation of accounting profit and current income tax expenses is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Profit before tax from continuing operations | $ 1,361,394 | $ 1,209,182 |
| Income tax expense at the 17% statutory rate | $ 231,437 | $ 205,561 |
| Nondeductible expenses in determining taxable income | 16,400 | 16,800 |
| Tax-exempt income | (221,283) | (20,227) |
| Unused loss carryforwards and deductible temporary differences | 43,128 | 1,749 |
| Investment tax credits used in current year | (11,890) | (27,950) |
| Tax at 10% of unappropriated earnings | 34,243 | 36,477 |
| Adjustments for prior years' tax | 96,672 | (11,230) |
| Income tax expense recognized in profit or loss | $ 188,707 | $ 201,180 |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Corporation.

As the status of 2014 appropriations of earnings is uncertain, the potential income tax consequences of 2013 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Deferred tax | | |
| Current year | | |
| Recognized in other comprehensive income: | | |
| Translation of foreign operations | $ 23,126 | $ (10,239) |
| Unrealized (loss) gain on available-for-sale financial assets | (13,942) | 31,343 |
| Actuarial loss arising from defined benefit plans | (8,046) | (13,426) |
| Unrealized (loss) gain on available-for-sale financial assets of subsidiaries and associates under equity method | 4,178 | 1,154 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Reclassification | | |
| Disposal of available-for-sale financial assets | $ 73,646 | $ - |
| Impairment of available-for-sale financial assets | 11,168 | - |
| Total income tax expense (benefit) recognized in other comprehensive income | $ 90,130 | $ 8,832 |

c. Current tax assets and liabilities

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Current tax liabilities | | | |
| Income tax payable | $ 93,304 | $ 66,775 | $ 71,276 |

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2013

| Deferred Tax Assets | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Inventory write-downs | $ 18,292 | $ 677 | $ - | $ 18,969 |
| Provision | 13,354 | 15,487 | - | 28,841 |
| Defined benefit plan | 229,045 | (4,631) | 8,046 | 232,460 |
| AFS financial assets | 32,506 | 11,169 | (32,507) | 11,168 |
| Payable for annual leave | 11,543 | 555 | - | 12,098 |
| Others | 3,485 | (1,598) | - | 1,887 |
| | $ 308,225 | $ 21,659 | $ (24,461) | $ 305,423 |

| Deferred Tax Liabilities | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Property, plant and equipment | $ 122,684 | $ 6,438 | $ - | $ 129,122 |
| Deferred lease revenue | 18,817 | 3,520 | - | 22,337 |
| Exchange difference on foreign operations | 14,247 | - | 23,126 | 37,373 |
| Foreign investments accounted for using equity method | 296,222 | 8,181 | - | 304,403 |

(Continued)

| Deferred Tax Liabilities | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| AFS financial assets | $ - | $ - | $ 42,543 | $ 42,543 |
| Reserve for land value increment tax | 1,175,718 | - | - | 1,175,718 |
| Others | 1 | 1,258 | - | 1,259 |
| | $ 1,627,689 | $ 19,397 | $ 65,669 | $ 1,712,755 |

(Concluded)

For the year ended December 31, 2012

| Deferred Tax Assets | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Inventory write-downs | $ 19,426 | $ (1,134) | $ - | $ 18,292 |
| Provision | 13,378 | (24) | - | 13,354 |
| Defined benefit plan | 230,697 | (15,078) | 13,426 | 229,045 |
| AFS financial assets | 65,003 | - | (32,497) | 32,506 |
| Payable for annual leave | 11,221 | 322 | - | 11,543 |
| Other | 1,568 | 1,917 | - | 3,485 |
| | $ 341,293 | $ (13,997) | $ (19,071) | $ 308,225 |

| Deferred Tax Liabilities | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Property, plant and equipment | $ 112,708 | $ 9,976 | $ - | $ 122,684 |
| Deferred lease revenue | 15,299 | 3,519 | - | 18,818 |
| Exchange difference on foreign operations | 24,486 | - | (10,239) | 14,247 |
| Foreign investments accounted for using equity method | $ 251,396 | $ 44,826 | $ - | $ 296,222 |
| Reserve for land value increment tax | 1,175,718 | - | - | 1,175,718 |
| | $ 1,579,607 | $ 58,321 | $ (10,239) | $ 1,627,689 |

e. Deductible temporary differences, which no deferred tax assets have been recognized in the balance sheets

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Deductible temporary differences | $ 759,329 | $ 505,635 | $ 495,347 |

f. Integrated income tax

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Unappropriated earnings | | | |
| Unappropriated earnings generated before January 1, 1998 | $ 359,635 | $ 370,182 | $ 370,238 |
| Unappropriated earnings generated on and after January 1, 1998 | 5,127,594 | 9,745,532 | 9,538,240 |
| | $ 5,487,229 | $ 10,115,714 | $ 9,908,478 |
| Imputation credits accounts | $ 639,986 | $ 562,478 | $ 525,026 |

The creditable ratio for distribution of earnings of 2013 and 2012 was 14.30% (expected ratio) and 13.88%, respectively.

Under the Income Tax Law, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Corporation was calculated based on the creditable ratio as of the date of dividend distribution. Therefore, the expected creditable ratio for the 2013 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

According to legal interpretation No. 10204562810 announced by the Taxation Administration of the Ministry of Finance, when calculating imputation credits in the year of first-time adoption of IFRSs, the cumulative retained earnings include the net increase or net decrease in retained earnings arising from first-time adoption of the Regulations.

g. Income tax assessments

The Corporation's income tax returns through 2011 have been examined by the tax authority.

## 26. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

**Net Profit for the Period**

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Earnings used in computation of basic earnings per share | $ 1,172,687 | $ 1,008,002 |
| Effect of dilutive potential ordinary share | | |
| Bonus to employees | - | - |
| Earnings used in the computation of diluted earnings per share | $ 1,172,687 | $ 1,008,002 |

**Weighted Average Number of Ordinary Shares Outstanding**

**(In Thousand Shares)**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Weighted average number of ordinary shares outstanding in computation of basic earnings per share | 520,972 | 520,972 |
| Effect to dilutive potential ordinary share: | | |
| Bonus to employees | 3,128 | 2,909 |
| Weighted average number of ordinary shares outstanding in computation of dilutive earnings per share | 524,100 | 523,881 |

If the Corporation can settle the bonus to employees by cash or shares, the Corporation presumes that the entire amount of the bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 27. BUSINESS COMBINATIONS

**Subsidiaries Acquired**

| | Principal Activity | Date of Acquisition | Proportion of Voting Equity Interests Acquired (%) | Consideration Transferred |
|---|---|---|---|---|
| Ting Lin | Manufacture, process, trade, maintain and repair mechanical lifting equipment, toll system and automatic storage equipment. Agent for foreign and local manufacturers and distributors; import and export business of various products. | March 19, 2012 | 75.6 | $ 121,220 |

With regard to the details of the Corporation's acquisition of Ting Lin, please refer to Note 28 of the consolidated financial statements for the year ended December 31,2013.

## 28. DISPOSAL OF SUBSIDIARIES

The disposal of Shihlin was completed on June 7, 2012, the date control of Shihlin passed to the acquirer.

With regard to disposal of subsidiary, Shihlin, please refer to Note 29 of the consolidated financial statements for the year ended December 31, 2013.

## 29. OPERATING LEASE ARRANGEMENTS

### The Corporation as Lessor

Operating leases relate to the investment property owned by the Corporation with lease terms between 2 to 20 years. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Not later than 1 year | $ 456,643 | $ 402,705 | $ 430,007 |
| Later than 1 year and not later than 5 years | 1,653,373 | 1,513,779 | 1,463,280 |
| Later than 5 years | 3,748,687 | 4,031,971 | 4,461,590 |
| | $ 5,858,703 | $ 5,948,455 | $ 6,354,877 |

In addition to the minimum lease payments receivable, the contract of the Corporation's lease of mall building and parking spaces to Pacific Sogo Department Store Company Limited included contingent rentals clause, which provides that the Corporation shall receive shopping mall's monthly minimum guaranteed rent (minimum guaranteed 6% of revenue) and car parking spaces rent, and at each year end, an extra operating lease payment will be charged if the actual revenue exceeds the minimum revenue base of the guaranteed 6% of revenue.

## 30. CAPITAL MANAGEMENT

In order to maintain the Corporation's competitiveness in the market and to continually generate profits and grow as well as to reward stockholders, it makes decision based on industry features and current operations and future development plans, and after considering factors such as changes in the external environment, plan for future working capital requirements, research and development expenses, dividend payments and other needs.

Management regularly reviews the capital structure and considers various structures that may involve different considerations of cost and risk. According to scale in the industry, industry growth and future product roadmaps, the Corporation plans for an appropriate market share. In addition, the Corporation plans the required funding that corresponds to capital expenditure needs, as well as calculates the working capital based on the characteristics of the industry and provides an overall plan for the Corporation's long term development. Lastly, the Corporation estimates the needed contribution margin and ratio, ratio of profit from operations and cash flows to support the competitiveness of its products; as well as it considers the industry business cycle fluctuations and risk factors such as product life cycle to determine an appropriate capital structure for the Corporation.

## 31. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value measurements recognized in the balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2013

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| Listed securities | | | | |
| Equity securities | $ 18,210 | $ - | $ - | $ 18,210 |
| Mutual funds | 782,277 | - | - | 782,277 |
| | $ 800,487 | $ - | $ - | $ 800,487 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | $ - | $ 2,543 | $ - | $ 2,543 |

December 31, 2012

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 301 | $ - | $ 301 |
| Available-for-sale financial assets | | | | |
| Listed securities | | | | |
| Equity securities | $ 1,552,040 | $ - | $ - | $ 1,552,040 |
| Mutual funds | 1,251,693 | - | - | 1,251,693 |
| | $ 2,803,733 | $ - | $ - | $ 2,803,733 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | $ - | $ 12,565 | $ - | $ 12,565 |

January 1, 2012

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 2,233 | $ - | $ 2,233 |

(Continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| Listed securities | | | | |
| Equity securities | $ 1,464,319 | $ - | $ - | $ 1,464,319 |
| Mutual funds | 1,064,387 | - | - | 1,064,387 |
| | $ 2,528,706 | $ - | $ - | $ 2,528,706 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | $ - | $ 17,834 | $ - | $ 17,834 |

(Concluded)

There were no transfers between Level 1 and 2 in the current and prior periods.

2) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices.

b) A discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for forward exchange derivatives. The estimates and assumptions used by the Corporation were consistent with those that market participants would use in setting a price for the financial instrument.

c) The fair values of other financial assets and financial liabilities were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

b. Categories of financial instruments

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Financial assets | | | |
| Fair value through profit or loss (FVTPL) | | | |
| Held for trading | $ - | $ 301 | $ 2,233 |
| Loans and receivables (Note 1) | 4,693,095 | 3,942,667 | 3,953,440 |
| Available-for-sale financial assets (Note 2) | 1,094,870 | 3,160,297 | 2,893,862 |
| Financial liabilities | | | |
| Fair value through profit or loss (FVTPL) | | | |
| Held for trading | 2,543 | 12,565 | 17,834 |
| Amortized cost (Note 3) | 5,187,529 | 5,192,135 | 5,448,629 |

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, trade receivables, other receivables, and other financial assets.

Note 2: The balances included the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes payable, trade payables, long-term borrowings and other financial liabilities.

c. Financial risk management objectives and policies

The Corporation's major financial instruments included cash and cash equivalents, equity investments, mutual funds, notes receivable, trade receivables, trade payables and borrowings. The Corporation's Finance division provides services to the business, coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Corporation through the analysis of exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Corporation sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Corporation's policies approved by the board of directors.

1) Market risk

The Corporation's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (2) below).

a) Foreign currency risk

The Corporation had foreign currency sales and purchases, which exposed the Corporation to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

With regard to the carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period, please refer to Note 35.

<u>Sensitivity analysis</u>

The Corporation was mainly exposed to the currency USD and currency RMB.

The following table details the Corporation's sensitivity to a 1% increase in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period under the assumption of a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit when New Taiwan dollars strengthened by 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

| | **USD Impact** | |
|---|---|---|
| | **For the Year Ended December 31** | |
| | **2013** | **2012** |
| Profit or loss | $(10,474) (i) | $(8,198) (i) |

| | RMB Impact<br>For the Year Ended December 31<br>2013 | <br><br>2012 |
|---|---|---|
| Profit or loss | $(410) (i) | $- (ii) |

i) This was mainly attributable to the exposure on outstanding USD bank deposits, receivables, borrowings and payables which were not hedged at the end of the reporting period.

ii) This was mainly attributable to the exposure on outstanding RMB bank deposits, receivables, borrowings and payables which were not hedged at the end of the reporting period.

The Corporation's sensitivity to USD and RMB both increased during the current period mainly due to the increase in sales in USD and RMB which increased trade receivable in USD and RMB.

b) Interest rate risk

The Corporation was exposed to interest rate risk because entities in the Corporation borrowed funds at both fixed and floating interest rates. The Corporation pays attention to changes in market interest rates in order to make plans to manage interest rate risk.

The carrying amounts of the Corporation's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Fair value interest rate risk | | | |
| Financial assets | $ 83,020 | $ 202,296 | $ 92,823 |
| Financial liabilities | 1,451,166 | 1,549,955 | 1,957,991 |
| Cash flow interest rate risk | | | |
| Financial liabilities | 1,050,000 | 1,350,000 | 850,000 |

Sensitivity analysis

The sensitivity analyses below were determined based on the Corporation's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A sensitivity rate of 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2013 and 2012 would decrease/increase by $10,500 thousand and $13,500 thousand, respectively.

The Corporation's sensitivity to interest rates increased during the current period mainly due to the increase in variable rate borrowings.

c) Other price risk

The Corporation was exposed to price risk through its investments in listed equity securities and mutual funds. The Corporation has appointed a special team to monitor the price risk and make plans to manage the price risk.

<u>Sensitivity analysis</u>

The sensitivity analyses below were determined based on the exposure to the price risks of the aforementioned investments at the end of the reporting period.

If the price of the aforementioned investments had been 1% higher/lower, the Corporation's pre-tax other comprehensive income for the years ended December 31, 2013 and 2012 would have been higher/lower by $8,005 thousand and $28,037 thousand, respectively; the sensitivity was mainly due to the changes in the fair value of available-for-sale financial assets.

The Corporation's sensitivity to prices decreased during the current period mainly due to the transfer of part of available-for-sale financial assets to investments accounted for under equity method.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. As at the end of the reporting period, the Corporation's maximum exposure to credit risk which will cause a financial loss to the Corporation due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the condensed balance sheets.

In order to minimize credit risk, the management of the Corporation has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Corporation reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Corporation consider that the Corporation's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was low because the counterparties are banks with high credit ratings.

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2013, December 31, 2012 and January 1, 2012, the Corporation had available unutilized short-term bank loan facilities of $7,810,000 thousand, $7,410,000 thousand and $6,910,000 thousand, respectively.

The following table details the Corporation's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Corporation can be required to pay. The tables included both interest and principal cash flows.

December 31, 2013

| | Weighted Average Effective Interest Rate (%) | On Demand or Less than 1 Month | 1-3 Months | 4 Months to 1 Year | 1-2 Years | 2+ Years |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Non-interest bearing | - | $ 594,191 | $ 1,055,600 | $ 869,655 | $ 79,538 | $ 86,640 |
| Variable interest rate liabilities | 0.98% | 859 | 1,719 | 207,734 | 850,639 | - |
| Fixed interest rate liabilities | 0.97% | 551,173 | 801,553 | 102,258 | - | - |
| | | $ 1,146,223 | $ 1,858,872 | $ 1,179,647 | $ 930,177 | $ 86,640 |

December 31, 2012

| | Weighted Average Effective Interest Rate (%) | On Demand or Less than 1 Month | 1-3 Months | 4 Months to 1 Year | 1-2 Years | 2+ Years |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Non-interest bearing | - | $ 657,517 | $ 831,328 | $ 642,500 | $ 159,883 | $ - |
| Variable interest rate liabilities | 0.98% | 1,096 | 402,213 | 106,967 | 850,639 | - |
| Fixed interest rate liabilities | 1.01% | 1,550,905 | - | - | - | - |
| | | $ 2,209,518 | $ 1,233,541 | $ 749,467 | $ 1,010,522 | $ - |

January 1, 2012

| | Weighted Average Effective Interest Rate (%) | On Demand or Less than 1 Month | 1-3 Months | 4 Months to 1 Year | 1-2 Years | 2+ Years |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Non-interest bearing | - | $ 537,402 | $ 915,240 | $ 1,026,604 | $ 160,553 | $ - |
| Variable interest rate liabilities | 0.90% | 647 | 950 | 4,656 | 850,483 | - |
| Fixed interest rate liabilities | 0.91% | 1,251,168 | 500,679 | 208,303 | - | - |
| | | $ 1,789,217 | $ 1,416,869 | $ 1,239,563 | $ 1,011,036 | $ - |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

The following table detailed the Corporation's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2013

| | On Demand or Less than 1 Month | 1-3 Months | 3-6 Months | 7 Months to 1 Year | 1+ Years |
|---|---|---|---|---|---|
| Gross settled | | | | | |
| Foreign exchange forward contracts | | | | | |
| Inflows | $ 28,255 | $ 43,715 | $ - | $ - | $ - |
| Outflows | 29,805 | 44,708 | - | - | - |
| | $ (1,550) | $ (993) | $ - | $ - | $ - |

December 31, 2012

| | On Demand or Less than 1 Month | 1-3 Months | 3-6 Months | 7 Months to 1 Year | 1+ Years |
|---|---|---|---|---|---|
| Gross settled | | | | | |
| Foreign exchange forward contracts | | | | | |
| Inflows | $ 62,417 | $ 80,651 | $ 41,725 | $ - | $ - |
| Outflows | 66,377 | 87,120 | 43,560 | - | - |
| | $ (3,960) | $ (6,469) | $ (1,835) | $ - | $ - |

January 1, 2012

| | On Demand or Less than 1 Month | 1-3 Months | 3-6 Months | 7 Months to 1 Year | 1+ Years |
|---|---|---|---|---|---|
| Gross settled | | | | | |
| Foreign exchange forward contracts | | | | | |
| Inflows | $ 108,397 | $ 310,123 | $ 428,427 | $ 23,439 | $ - |
| Outflows | 109,751 | 316,643 | 435,450 | 24,143 | - |
| | $ (1,354) | $ (6,520) | $ (7,023) | $ (704) | $ - |

## 32. TRANSACTIONS WITH RELATED PARTIES

Besides disclosures mentioned in other notes, the details of transactions between the Corporation and other related parties were disclosed below.

a. Trading transactions and other transactions with related parties

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Sales of goods | | |
| Subsidiaries of investors that have significant influence over the Corporation | $ 133,721 | $ 3,428 |
| Associates | 43,503 | 34,975 |
| Other related parties (Note 1) | 127 | 619 |
| Other related parties (Note 2) | 48 | - |
| Subsidiaries | 1,009,444 | 663,897 |
| | $ 1,186,843 | $ 702,919 |
| Purchases of goods | | |
| Investors that have significant influence over the Corporation | $ 337,969 | $ 440,693 |
| Subsidiaries of investors that have significant influence over the Corporation | 63,317 | 82,104 |
| Subsidiaries | 2,174,845 | 1,859,792 |
| Associates | - | 16,847 |
| | $ 2,576,131 | $ 2,399,436 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Leasing revenue | | |
| Subsidiaries of investors that have significant influence over the Corporation | $ 24,532 | $ 20,915 |
| Other related parties (Note 1) | 41,000 | 40,756 |
| Other related parties (Note 2) | 8,102 | 6,964 |
| Subsidiaries | 12,484 | 12,521 |
| Associates | 82 | - |
| | $ 86,200 | $ 81,156 |
| Royalty expense | | |
| Investors that have significant influence over the Corporation | $ 33,124 | $ 20,528 |
| Freight expense | | |
| Other related parties (Note 1) | $ 16,083 | $ 18,403 |
| Fee for consultation on and management of construction | | |
| Other related parties (Note 2) | $ 600 | $ 600 |
| Fee for consultation on logistics management | | |
| Other related parties (Note 1) | $ 1,950 | $ 20,512 |
| Maintenance expense | | |
| Subsidiaries of investors that have significant influence over the Corporation | $ 950 | $ 1,150 |
| Leasing expense | | |
| Other related parties (Note 1) | $ 1,621 | $ 2,931 |
| Commission expense | | |
| Subsidiaries | $ 42,931 | $ 21,682 |
| Advertising expense | | |
| Subsidiaries | $ 13,000 | $ 13,000 |
| Service expense | | |
| Subsidiaries | $ - | $ 48,403 |
| Technical guidance fee | | |
| Investors that have significant influence over the corporation | $ 1,509 | $ - |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Management service revenue (included in other gains and losses) | | |
| Associates | $ 11,035 | $ 6,388 |
| Subsidiaries | 20,060 | 20,681 |
| | $ 31,095 | $ 27,069 |

(Concluded)

Sale of investments

For the year ended December 31, 2012

| Counter Party | Type and Name of Securities | Number of Shares (In Thousands) | Selling Price | Loss |
|---|---|---|---|---|
| Associates | Sale of common stock in Shinlin | 360 | $ 4,680 | $ 1,987 |

The following balances of receivables from and payables to related parties were outstanding at the end of the reporting period:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Notes receivable from related parties | | | |
| Other related parties (Note 2) | $ 1,836 | $ 1,298 | $ 1,932 |
| Trade receivables from related parties | | | |
| Subsidiaries of investors that have significant influence over the Corporation | $ 50,987 | $ - | $ 1,984 |
| Associates | 14,360 | 7,350 | 7,504 |
| Other related parties (Note 1) | 9 | 244 | - |
| Other related parties (Note 2) | - | 635 | - |
| Subsidiaries | 322,465 | 186,107 | 298,263 |
| | $ 387,821 | $ 194,336 | $ 307,751 |
| Other receivables from related parties | | | |
| Subsidiaries | $ 10,565 | $ 5,741 | $ 1,264 |
| Associates | 1 | - | 6,400 |
| Other related parties (Note 2) | 78 | 74 | 51 |
| | $ 10,644 | $ 5,815 | $ 7,715 |

(Continued)

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Trade payables to related parties | | | |
| Investors that have significant influence over the Corporation | $ 24,439 | $ 25,072 | $ 26,296 |
| Subsidiaries of investors that have significant influence over the Corporation | 16,264 | 36,472 | 29,896 |
| Subsidiaries | 463,544 | 433,545 | 357,991 |
| Associates | - | - | 19,476 |
| | $ 504,247 | $ 497,089 | $ 433,659 |
| Other payables to related parties | | | |
| Investors that have significant influence over the Corporation | $ 28,283 | $ 17,188 | $ 19,449 |
| Subsidiaries investors that have significant influence over the Corporation | 249 | 507 | 390 |
| Other related parties (Note 1) | 1,722 | 1,442 | 8,236 |
| Subsidiaries | 116 | - | - |
| Associates | 553 | - | 2,303 |
| | $ 30,923 | $ 19,137 | $ 30,378 |
| Advance receipt (included in other current assets) | | | |
| Subsidiaries | $ 19,187 | $ 32,228 | $ 18,896 |

(Concluded)

Besides sale transactions with Shihlin Electric Australia in which receivable's collectibility depends on its working capital, 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.

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

The outstanding payables to related parties have not been pledged as collateral; and receivables from related parties have not been guaranteed.

As of December 31,2013 and 2012, receivables from related parties have not recognized any bad debt expenses.

Note 1: Same chairman.

Note 2: Its chairman is one of the directors of the Corporation.

b. Compensation of key management personnel

The remuneration of directors and other members of key management personnel was as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Short-term employee benefits | $ 117,850 | $ 106,191 |
| Post-employment benefits | 1,049 | 1,131 |
| | $ 118,899 | $ 107,322 |

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

## 33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Demand deposits (included in other current assets) | $ 25,718 | $ 25,718 | $ 25,718 |
| Pledged time deposits (included in other current assets and other non-current assets) | 23,444 | 25,544 | 35,449 |
| Land | 6,635,862 | 6,635,862 | 6,635,862 |
| Buildings and equipment, net | 173,155 | 172,993 | 187,759 |
| Machinery and equipment, net | - | - | 1,026 |
| | $ 6,858,179 | $ 6,860,117 | $ 6,885,814 |

## 34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Corporation as of December 31, 2013 were as follows:

a. Under technical cooperation agreements with several foreign companies expiring on various dates between January 2013 and February 2016, the Corporation, aside from paying upfront royalties, shall pay running royalties at specified percentages of sales (as defined). For the years ended December 31, 2013 and 2012, royalties were $40,078 thousand, $35,995 thousand respectively.

b. As of December 31, 2013 unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $85,000 thousand.

c. Commitments for purchase of properties and construction in progress amounted to approximately $21,000 thousand.

d. The Corporation had provided guarantees to the following:

| | Amount |
|---|---|
| Subsidiaries | $ 1,804,623 |
| Associate | 269,509 |

## 35. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2013

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 37,846 | 29.81 (USD:NTD) | $ 1,127,990 |
| RMB | 39,009 | 4.92 (RMB:NTD) | 191,886 |
| JPY | 102,933 | 0.2839 (JPY:NTD) | 29,223 |
| AUD | 3,582 | 26.59 (AUD:NTD) | 95,239 |
| EUR | 612 | 41.09 (EUR:NTD) | 25,143 |
| CAD | 2,004 | 28.01 (CAD:NTD) | 56,119 |
| PHP | 1,197 | 0.6880 (PHP:NTD) | 823 |
| | | | $ 1,526,423 |
| Non-monetary items | | | |
| USD | 20,450 | 29.81 (USD:NTD) | $ 609,527 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 2,704 | 29.81 (USD:NTD) | $ 80,579 |
| RMB | 30,664 | 4.92 (RMB:NTD) | 150,839 |
| JPY | 110,880 | 0.2839 (JPY:NTD) | 31,479 |
| EUR | 180 | 41.09 (EUR:NTD) | 7,395 |
| SEK | 666 | 4.64 (SEK:NTD) | 3,092 |
| HKD | 851 | 3.84 (HKD:NTD) | 3,271 |
| SGD | 16 | 23.58 (SGD:NTD) | 379 |
| PHP | 580 | 0.6880 (GBP:NTD) | 405 |
| | | | $ 277,439 |
| Non-monetary items | | | |
| JPY | 8,957 | 0.2839 (JPY:NTD) | $ 2,543 |

December 31, 2012

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 33,007 | 29.04 (USD:NTD) | $ 958,527 |
| AUD | 2,066 | 30.17 (AUD:NTD) | 62,306 |
| EUR | 478 | 38.49 (EUR:NTD) | 18,410 |
| CAD | 343 | 29.21 (CAD:NTD) | 10,005 |
| PHP | 616 | 0.7248 (PHP:NTD) | 446 |
| | | | $ 1,049,694 |
| Non-monetary items | | | |
| USD | 42,695 | 29.04 (USD:NTD) | $ 1,239,858 |
| EUR | 8 | 38.49 (EUR:NTD) | 301 |
| | | | $ 1,240,159 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 4,777 | 29.04 (USD:NTD) | $ 138,723 |
| JPY | 93,436 | 0.3364 (JPY:NTD) | 31,432 |
| EUR | 799 | 38.49 (EUR:NTD) | 30,767 |
| HKD | 1,309 | 3.75 (HKD:NTD) | 4,905 |
| SGD | 16 | 23.76 (SGD:NTD) | 382 |
| | | | $ 206,209 |
| Non-monetary items | | | |
| JPY | 37,187 | 0.3375~0.3383 (JPY:NTD) | $ 12,565 |

January 1, 2012

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 25,110 | 30.28 (USD:NTD) | $ 760,194 |
| JPY | 9,842 | 0.3906 (JPY:NTD) | 3,844 |
| AUD | 3,674 | 30.74 (AUD:NTD) | 112,918 |
| EUR | 143 | 39.80 (EUR:NTD) | 5,584 |
| CAD | 310 | 29.67 (CAD:NTD) | 9,201 |
| PHP | 1 | 0.7078 (PHP:NTD) | 1 |
| | | | $ 891,742 |

(Continued)

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Non-monetary items | | | |
| USD | 34,759 | 30.28 (USD:NTD) | $ 1,052,327 |
| JPY | 5,717 | 0.3906 (JPY:NTD) | 2,233 |
| | | | $ 1,054,560 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 5,368 | 30.28 (USD:NTD) | $ 162,502 |
| JPY | 396,243 | 0.3906 (JPY:NTD) | 154,772 |
| EUR | 96 | 39.18 (EUR:NTD) | 3,758 |
| SEK | 517 | 4.38 (SEK:NTD) | 2,264 |
| CHF | 18 | 32.18 (CHF:NTD) | 563 |
| SGD | 16 | 23.31 (SGD:NTD) | 375 |
| GBP | 6 | 46.73 (GBP:NTD) | 268 |
| | | | $ 324,502 |
| Non-monetary items | | | |
| USD | 19 | 30.28 (USD:NTD) | $ 586 |
| JPY | 5,027 | 0.3906 (JPY:NTD) | 1,963 |
| EUR | 390 | 39.18 (EUR:NTD) | 15,285 |
| | | | $ 17,834 |

(Concluded)

## 36. FIRST-TIME ADOPTION OF THE REGULATIONS

The Corporation's date of transition to the Regulations was January 1, 2012. The impact of the transition to the Regulations on the Corporation's balance sheets and statements of comprehensive income is stated as follows:

a. Reconciliation of balance sheet as of January 1, 2012

| ROC GAAP | | Effect of Transition to the Regulations | | The Regulations | | |
|---|---|---|---|---|---|---|
| Item | Amount | Presentation Difference | Recognition and Measurement Difference | Amount | Item | Note |
| Current assets | | | | | Current assets | |
| Cash | $ 285,598 | $ (1,381) | $ - | $ 284,217 | Cash and cash equivalents | e. 1) |
| Financial assets at fair value through profit or loss - current | 2,233 | - | - | 2,233 | Financial assets at fair value through profit or loss - current | |
| - | - | 1,381 | - | 1,381 | Debt investments with no active market - current | e. 1) |
| Notes receivable | 976,489 | - | - | 976,489 | Notes receivable from unrelated parties | |
| Notes receivable - a related party | $ 1,932 | $ - | $ - | $ 1,932 | Notes receivable from related parties | |
| Accounts receivable, net | 2,171,891 | 6,689 | 89,993 | 2,268,573 | Trade receivables from unrelated parties | e. 6), 9) |
| Accounts receivable - a related party | 307,751 | - | - | 307,751 | Trade receivables from related parties | |
| Other receivables | 3,471 | - | - | 3,471 | Other receivables from unrelated parties | |
| Other receivables - a related party | 7,715 | - | - | 7,715 | Other receivables from related parties | |
| Inventories | 3,096,647 | - | - | 3,096,647 | Inventories | |
| Construction in progress, net of collections in advance for construction | 130,262 | - | - | 130,262 | Amounts due from customers for construction contracts | |
| Deferred income tax assets - current | 33,775 | (33,775) | - | - | - | e. 2) |
| Restricted assets - current | 55,714 | - | - | 55,714 | Other current assets | |
| Other current assets | 238,597 | - | - | 238,597 | Other current assets | |
| Total current assets | 7,312,075 | (27,086) | 89,993 | 7,374,982 | Total current assets | |

(Continued)

| ROC GAAP | | Effect of Transition to the Regulations | | The Regulations | | |
|---|---|---|---|---|---|---|
| Item | Amount | Presentation Difference | Recognition and Measurement Difference | Amount | Item | Note |
| Long-term investments | | | | | | |
| Available-for-sale financial assets - non-current | $ 2,528,706 | $ - | $ - | $ 2,528,706 | Available-for-sale financial assets - non-current | |
| Financial assets carried at cost - non-current | 365,156 | - | - | 365,156 | Financial assets carried at cost - non-current | |
| Investments accounted for under equity method | 5,079,345 | - | (2,959) | 5,076,386 | Investments accounted for using equity method | |
| Total long-term investments | 7,973,207 | - | (2,959) | 7,970,248 | | |
| Properties and properties for lease | | | | | | |
| Properties | | | | | Property, plant and equipment | |
| Cost | | | | | | |
| Land | 444,174 | - | - | 444,174 | Land | |
| Buildings and equipment | 2,684,591 | - | - | 2,684,591 | Buildings and equipment | |
| Machinery and equipment | 2,879,492 | - | - | 2,879,492 | Machinery and equipment | |
| Other equipment | 1,476,902 | - | - | 1,476,902 | Other equipment | |
| Total cost | 7,485,159 | - | - | 7,485,159 | | |
| Revaluation increment | 2,006,549 | - | - | 2,006,549 | Revaluation increment | |
| Total cost and revaluation increment | 9,491,708 | - | - | 9,491,708 | | |
| Less: Accumulated depreciation | (5,221,880) | - | - | (5,221,880) | Accumulated depreciation | |
| Prepayments | 29,270 | (29,270) | - | - | - | e. 7) |
| Total properties, net | 4,299,098 | (29,270) | - | 4,269,828 | | |
| Properties for lease | | | | | | |
| Cost | | | | | | |
| Land | 24,651 | (24,651) | - | - | - | e. 8) |
| Buildings and equipment | 5,671,919 | (5,671,919) | - | - | - | e. 8) |
| Total cost | 5,696,570 | (5,696,570) | - | - | | |
| Revaluation increment | 4,768,356 | (4,768,356) | - | - | - | e. 8) |
| Total cost and revaluation increment | 10,464,926 | (10,464,926) | - | - | | |
| Less: Accumulated depreciation | (1,749,008) | (1,749,008) | - | - | - | e. 8) |
| Properties for lease, net | 8,715,918 | (8,715,918) | - | - | | |
| Properties and properties for lease, net | 13,015,016 | (8,745,188) | - | 4,269,828 | | |
| - | - | 8,715,918 | - | 8,715,918 | Investment properties | e. 8) |
| Intangible assets | | | | | | |
| Deferred pension cost | 55,625 | - | (55,625) | - | - | e. 4) |
| Other assets | | | | | | |
| - | - | 237,581 | 103,712 | 341,293 | Deferred tax assets | e. 2), 3), 4) |
| Restricted assets - non-current | 5,453 | - | - | 5,453 | Other non-current assets | |
| Miscellaneous assets | 103,501 | 29,270 | - | 132,771 | Other non-current assets | e. 7) |
| Total other assets | 108,954 | 266,851 | 103,712 | 479,517 | | |
| Total | $ 28,464,877 | $ 210,495 | $ 135,121 | $ 28,810,493 | Total | |
| Current liabilities | | | | | | |
| Short-term loans | $ 1,957,991 | $ - | $ - | $ 1,957,991 | Short-term borrowings | |
| Financial liabilities at fair value through profit or loss - current | 17,834 | - | - | 17,834 | Financial liabilities at fair value through profit or loss - current | |
| Notes payable | 62,027 | - | - | 62,027 | Notes payable to unrelated parties | |
| Accounts payable | 1,963,626 | - | - | 1,963,626 | Trade payables to unrelated parties | |
| Accounts payable - a related party | 433,659 | - | - | 433,659 | Trade payables to related parties | |
| Income tax payable, net of prepaid income tax | 71,276 | - | - | 71,276 | Current tax liabilities | e. 3) |
| Accrued expenses | 695,220 | - | 66,007 | 761,227 | Other payables | |
| Other payables - a related party | 30,378 | - | - | 30,378 | Other payables to related parties | |
| Other payables | 80,894 | - | - | 80,894 | Other payables | |
| - | - | 199,957 | - | 199,957 | Provisions - current | e. 6) |
| Collections in advance | 357,222 | - | - | 357,222 | Other current liabilities | e. 6) |
| Other current liabilities | 328,963 | (224,835) | - | 104,128 | Other current liabilities | |
| Total current liabilities | 5,999,090 | (24,878) | 66,007 | 6,040,219 | | |
| Long-term liabilities | | | | | | |
| Long-term debt | 850,000 | - | - | 850,000 | Long-term borrowings | |
| Reserves | | | | | | e. 10) |
| Reserve for land value increment tax | 1,175,718 | (1,175,718) | - | - | - | |
| Other liabilities | | | | | | |
| - | - | 31,567 | - | 31,567 | Provisions - non-current | e. 4) |
| Accrued pension cost | 996,545 | - | 338,211 | 1,334,756 | Accrued pension liabilities | |
| Deposits received | 79,658 | - | - | 79,658 | Other non-current liabilities | e. 2) , 9), 10) |
| Deferred income tax liabilities - non-current | 184,784 | 1,379,524 | 15,299 | 1,579,607 | Deferred tax liabilities | |
| Total other liabilities | 1,260,987 | 1,411,091 | 353,510 | 3,025,588 | | |
| Total liabilities | 9,285,795 | 210,495 | 419,517 | 9,915,807 | Total liabilities | |
| Stockholders' equity | | | | | | |
| Common stock | 5,209,722 | - | - | 5,209,722 | Ordinary shares | |
| Capital surplus | | | | | | |
| Additional paid-in capital on issuance of common stock | 1,441,424 | - | - | 1,441,424 | Additional paid-in capital on issuance of common stock | |
| Additional paid-in capital on conversion of bonds | 970,457 | - | - | 970,457 | Additional paid-in capital on conversion of bonds | |
| Treasury stock transactions | 70,059 | - | - | 70,059 | Treasury stock transactions | e. 5) |
| Long-term stock investments | 74,783 | - | (74,783) | - | - | |
| Total capital surplus | 2,556,723 | - | (74,783) | 2,481,940 | | e. 5), 11) |
| Retained earnings | 6,361,474 | - | 5,136,954 | 11,498,428 | | |
| Other equity items | | | | | | |
| Cumulative translation adjustments | 132,031 | - | - | 132,031 | Exchange differences on translating foreign operations | e. 4) |
| Net loss not recognized as pension cost | (150,230) | - | 150,230 | - | - | |
| Unrealized gain (loss) on available-for-sale financial assets | (427,435) | - | - | (427,435) | Unrealized gain (loss) on available-for-sale financial assets | e. 11) |
| Unrealized revaluation increment | 5,496,797 | - | (5,496,797) | - | - | |
| Total other equity items | 5,051,163 | - | (5,346,567) | (295,404) | - | |
| Total stockholders' equity | 19,179,082 | - | (284,396) | 18,894,686 | Total equity | |
| Total | $ 28,464,877 | $ 210,495 | $ 135,121 | $ 28,810,493 | Total | |

(Concluded)

## b. Reconciliation of balance sheet as of December 31, 2012

| ROC GAAP Item | ROC GAAP Amount | Effect of Transition to the Regulations: Presentation Difference | Effect of Transition to the Regulations: Recognition and Measurement Difference | The Regulations Amount | The Regulations Item | Note |
|---|---|---|---|---|---|---|
| Current assets | | | | | Current assets | |
| Cash | $ 310,298 | $ - | $ - | $ 310,298 | Cash and cash equivalents | e. 1) |
| Financial assets at fair value through profit or loss - current | 301 | - | - | 301 | Financial assets at fair value through profit or loss - current | |
| Notes receivable | 892,097 | - | - | 892,097 | Notes receivable from unrelated parties | |
| Notes receivable - a related party | 1,298 | - | - | 1,298 | Notes receivable from related parties | |
| Accounts receivable, net | 2,319,980 | 4,331 | 110,693 | 2,435,004 | Trade receivables from unrelated parties | e. 6), 9) |
| Accounts receivable - a related party | 194,336 | - | - | 194,336 | Trade receivables from related parties | |
| Other receivables | 24,733 | - | - | 24,733 | Other receivables from unrelated parties | |
| Other receivables - a related party | 5,815 | - | - | 5,815 | Other receivables from related parties | |
| Inventories | 2,814,949 | - | - | 2,814,949 | Inventories | |
| Construction in progress, net of collections in advance for construction | 256,628 | - | - | 256,628 | Amounts due from customers for construction contracts | |
| Deferred income tax assets - current | 33,926 | (33,926) | - | - | - | e. 2) |
| Restricted assets - current | 35,081 | - | - | 35,081 | Other current assets | |
| Other current assets | 132,962 | - | - | 132,962 | Other current assets | e. 1) |
| Total current assets | 7,022,404 | (29,595) | 110,693 | 7,103,502 | Total current assets | |
| Long-term investments | | | | | | |
| Available-for-sale financial assets - non-current | 2,803,733 | - | - | 2,803,733 | Available-for-sale financial assets - non-current | |
| Financial assets carried at cost - non-current | 356,564 | - | - | 356,564 | Financial assets carried at cost - non-current | |
| Investments accounted for under equity method | 5,602,742 | - | (2,060) | 5,600,682 | Investments accounted for using equity method | |
| Total long-term investments | 8,763,039 | - | (2,060) | 8,700,979 | | |
| Properties and properties for lease | | | | | | |
| Properties | | | | | Property, plant and equipment | |
| Cost | | | | | | |
| Land | 444,174 | - | - | 444,174 | Land | |
| Buildings and equipment | 2,691,698 | - | - | 2,691,698 | Buildings and equipment | |
| Machinery and equipment | 2,961,485 | - | - | 2,961,485 | Machinery and equipment | |
| Other equipment | 1,523,493 | - | - | 1,523,493 | Other equipment | |
| Total cost | 7,620,850 | - | - | 7,620,850 | | |
| Revaluation increment | 2,006,549 | - | - | 2,006,549 | Revaluation increment | |
| Total cost and revaluation increment | 9,627,399 | - | - | 9,627,399 | | |
| Less: Accumulated depreciation | (5,397,631) | - | - | (5,397,631) | Accumulated depreciation | |
| Accumulated impairment losses | (3,889) | - | - | (3,889) | Accumulated impairment losses | |
| Prepayments | 27,078 | (27,028) | - | - | - | e. 7) |
| Total properties, net | 4,252,957 | (27,028) | - | 4,225,879 | | |
| Properties for lease | | | | | | |
| Cost | | | | | | |
| Land | 24,651 | (24,651) | - | - | - | e. 8) |
| Buildings and equipment | 5,671,919 | (5,671,919) | - | - | - | e. 8) |
| Total cost | 5,696,570 | (5,696,570) | - | - | | |
| Revaluation increment | 4,768,356 | (4,768,356) | - | - | - | e. 8) |
| Total cost and revaluation increment | 10,464,926 | (10,464,926) | - | - | - | |
| Less: Accumulated depreciation | (1,932,785) | 1,932,785 | - | - | - | e. 8) |
| Properties for lease, net | 8,532,141 | (8,532,141) | - | - | - | |
| Properties and properties for lease, net | 12,785,098 | (8,532,141) | - | 4,225,879 | - | |
| - | - | 8,532,141 | - | 8,532,141 | Investment properties | e. 8) |
| Intangible assets | | | | | | |
| Deferred pension cost | 41,855 | - | (41,855) | - | - | e. 4) |
| Other assets | | | | | | |
| - | - | 196,595 | 111,630 | 308,225 | Deferred tax assets | e. 2), 3), 4) |
| Restricted assets - non-current | 16,181 | - | - | 16,181 | Other non-current assets | |
| Miscellaneous assets | 97,841 | 27,078 | - | 124,919 | Other non-current assets | e. 7) |
| Total other assets | 114,022 | 223,673 | 111,630 | 449,325 | | |
| Total | $ 28,726,418 | $ 167,000 | $ 178,408 | $ 29,071,826 | Total assets | |
| Current liabilities | | | | | | |
| Short-term loans | $ 185,000 | $ - | $ - | $ 185,000 | Short-term borrowings | |
| Short-term bills payable | 199,955 | - | - | 199,955 | Short-term bills payable | |
| Financial liabilities at fair value through profit or loss - current | 12,565 | - | - | 12,565 | Financial liabilities at fair value through profit or loss - current | |
| Notes payable | 69,494 | - | - | 69,494 | Notes payable to unrelated parties | |
| Accounts payable | 1,550,761 | - | - | 1,550,761 | Trade payables to unrelated parties | |
| Accounts payable - a related party | 497,089 | - | - | 497,089 | Trade payables to related parties | |
| Income tax payable, net of prepaid income tax | 66,775 | - | - | 66,775 | Current tax liabilities | e. 3) |
| Accrued expenses | 659,167 | - | 67,901 | 727,068 | Other payables | |
| Other payables - a related party | 19,137 | - | - | 19,137 | Other payables to related parties | e. 6) |
| Other payables | 71,989 | - | - | 71,989 | Other payables | |
| - | - | 197,286 | - | 197,286 | Provisions - current | |
| Collections in advance | 365,723 | - | - | 365,723 | Other current liabilities | |
| Collections in advance for construction | 66 | - | - | 66 | Amounts due to customers for construction contracts | e. 6) |
| Other current liabilities | 322,144 | (224,459) | - | 97,685 | Other current liabilities | |
| Total current liabilities | 5,684,865 | (27,173) | 67,901 | 5,725,593 | | |
| Long-term liabilities | | | | | | |
| Long-term debt | 850,000 | - | - | 850,000 | Long-term borrowings | |

(Continued)

| ROC GAAP Item | ROC GAAP Amount | Effect of Transition to the Regulations: Presentation Difference | Effect of Transition to the Regulations: Recognition and Measurement Difference | The Regulations Amount | The Regulations Item | Note |
|---|---|---|---|---|---|---|
| Reserves | | | | | | e. 10) |
| Reserve for land value increment tax | $ 1,175,718 | $ (1,175,718) | $ - | $ - | - | |
| Other liabilities | | | | | | |
| - | - | 31,504 | - | - | Provisions - non-current | e. 4) |
| Accrued pension cost | 1,007,413 | - | 339,913 | 1,347,326 | Accrued pension liabilities | |
| Deposits received | 87,894 | - | - | 87,894 | Other non-current liabilities | |
| Credit balance in investments under equity method | 15,857 | - | - | 15,857 | Credit balance in investments under equity method | e. 2), 9), 10) |
| Deferred income tax liabilities - non-current | 270,484 | 1,338,387 | 18,818 | 1,627,689 | Deferred tax liabilities | |
| Total other liabilities | 1,381,648 | 1,369,891 | 358,731 | 3,110,270 | | |
| Total liabilities | 9,092,231 | 167,000 | 426,632 | 9,685,863 | Total liabilities | |
| Stockholders' equity | | | | | | |
| Common stock | 5,209,722 | - | - | 5,209,722 | Ordinary shares | |
| Capital surplus | | | | | | |
| Additional paid-in capital on issuance of common stock | 1,441,424 | - | - | 1,441,424 | Additional paid-in capital on issuance of common stock | |
| Additional paid-in capital on conversion of bonds | 970,457 | - | - | 970,457 | Additional paid-in capital on conversion of bonds | |
| Treasury stock transactions | 70,059 | - | - | 70,059 | Treasury stock transactions | e. 5) |
| Long-term stock investments | 81,809 | - | (81,809) | - | - | e. 5) |
| - | - | - | 3,366 | 3,366 | Capital surplus - share of changes in equity of associate | |
| Total capital surplus | 2,563,749 | - | (78,443) | 2,485,306 | | e. 5) ,11) |
| Retained earnings | 6,695,622 | - | 5,120,035 | 11,815,657 | | |
| Other equity items | | | | | | |
| Cumulative translation adjustments | 45,961 | - | - | 45,961 | Exchange differences on translating foreign operations | e. 4) |
| Net loss not recognized as pension cost | (206,981) | - | 206,981 | - | - | |
| Unrealized gain (loss) on available-for-sale financial assets | (170,683) | - | - | (170,683) | Unrealized gain (loss) on available-for-sale financial assets | e. 11) |
| Unrealized revaluation increment | 5,496,797 | - | (5,496,797) | - | - | |
| Total other equity items | 5,165,094 | - | (5,299,816) | (124,722) | | |
| Total stockholders' equity | 19,634,187 | - | (248,224) | 19,385,963 | Total equity | |
| Total | $ 28,726,418 | $ 167,000 | $ 178,408 | $ 29,071,826 | Total | |

(Concluded)

c. Reconciliation of condensed statement of comprehensive income for the year ended December 31, 2012

| ROC GAAP Item | ROC GAAP Amount | Effect of Transition to the Regulations: Presentation Difference | Effect of Transition to the Regulations: Recognition and Measurement Difference | The Regulations Amount | The Regulations Item | Note |
|---|---|---|---|---|---|---|
| Operating revenues | | | | | Operating revenues | |
| Gross sales | $ 14,384,993 | $ - | $ - | $ 14,384,993 | Gross sales | |
| Less: Sales returns | 70,899 | - | - | 70,899 | Less: Sales returns | |
| Sales discounts | 330,759 | - | - | 330,759 | Sales discounts | |
| Net sales | 13,983,335 | - | - | 13,983,335 | Net sales | |
| Leasing revenue | 476,534 | - | 20,700 | 497,234 | Leasing revenue | e. 9) |
| Revenue of construction contract | 633,844 | - | - | 633,844 | Construction revenue | |
| Total operating revenues | 15,093,713 | - | 20,700 | 15,114,413 | Total operating revenues | |
| Operating costs | | | | | Operating costs | |
| Cost of goods sold | 11,737,326 | - | - | 11,737,326 | Cost of goods sold | |
| Cost of leasing revenue | 255,700 | - | - | 255,700 | Cost of leasing revenue | |
| Cost of construction contract | 560,156 | - | - | 560,156 | Cost of construction contract | |
| Total operating costs | 12,553,182 | - | - | 12,553,182 | Total operating costs | |
| Gross profit | 2,540,531 | - | 20,700 | 2,561,231 | Gross profit | |
| Operating expenses | | | | | Operating expenses | e. 3), 4) |
| Selling | 831,863 | - | (13,655) | 818,208 | Selling and marketing | e. 3), 4) |
| General and administrative | 589,272 | - | (13,874) | 575,398 | General and administrative | e. 3), 4) |
| Research and development | 406,982 | - | (5,482) | 401,500 | Research and development | |
| Total operating expenses | 1,828,117 | - | (33,011) | 1,795,106 | Total operating expenses | |
| Income from operations | 712,414 | - | 53,711 | 766,125 | Income from operations | |
| Non-operating income and gains | | | | | Non-operating income and gains | |
| Interest income | 1,710 | - | - | 1,710 | Interest income | |
| Investment income recognized under equity method, net | 423,531 | - | 391 | 423,922 | Share of the profit or loss of subsidiaries and associates | |
| Dividend income | 39,785 | - | - | 39,785 | Dividend income | |
| Gain on disposal of property, plant and equipment | 3,986 | - | - | 3,986 | Gain on disposal of property, plant and equipment | e. e) |
| Gain on disposal of investments, net | - | - | 3,660 | 3,660 | Gain on disposal of investments, net | |
| Miscellaneous | 68,350 | - | - | 68,350 | Other gains and losses | |
| Total non-operating income and gains | 537,362 | - | 4,051 | 541,413 | Total non-operating income and gains | |
| Non-operating expenses and losses | | | | | Non-operating expenses and losses | |
| Interest expense | 30,465 | - | - | 30,465 | Finance costs | |
| Loss on disposal of properties | 4,590 | - | - | 4,590 | Loss on disposal of property, plant and equipment | |
| Loss on disposal of investments, net | 1,878 | - | - | 1,878 | Loss on disposal of investments, net | |
| Foreign exchange loss, net | 25,776 | - | - | 25,776 | Net loss on foreign currency exchange | |
| Impairment loss | 3,889 | - | - | 3,889 | Impairment loss | |

(Continued)

| ROC GAAP | | Effect of Transition to the Regulations | | The Regulations | | |
|---|---|---|---|---|---|---|
| Item | Amount | Presentation Difference | Recognition and Measurement Difference | Amount | Item | Note |
| Valuation loss on financial instruments, net | $ 31,689 | $ - | $ - | $ 31,689 | Valuation loss on financial instruments, net | |
| Miscellaneous | 69 | - | - | 69 | Other losses | |
| Total non-operating expenses and losses | 98,356 | - | - | 98,356 | Total non-operating expenses and losses | |
| Income before income tax | 1,151,422 | - | - | 1,209,182 | Income before income tax | e. 3), 4), 9) |
| Income tax expense | 192,049 | - | 9,131 | 201,180 | Income tax expense | |
| Net income | $ 959,371 | $ - | $ 48,631 | 1,008,002 | Net income | |
| | | | | (109,554) | Exchange differences on translating foreign operations | |
| | | | | 210,239 | Unrealized gain on available-for-sale financial assets | e. 4) |
| | | | | (79,588) | Actuarial loss arising from defined benefit pension plans | |
| | | | | 92,867 | Share of the other comprehensive income of subsidiaries and associates | e. 4) |
| | | | | (8,832) | Income tax relating to the components of other comprehensive income | |
| | | | | 105,132 | Other comprehensive income for the year, net of income tax | |
| | | | | $ 1,113,134 | Total comprehensive income for the year | |

(Concluded)

d. Exemptions from the Regulations

Except for optional exemptions and mandatory exceptions to retrospective application provided under the Regulations, the Corporation retrospectively applied the Regulations to prepare its opening balance sheet at the date of transition, January 1, 2012. The major optional exemptions the Corporation elected are summarized as follows:

Investments in subsidiaries and associates

The Corporation elected to measure the investments in subsidiaries and associates acquired before the date of transition, at the same carrying amount as recognized under ROC GAAP as of December 31, 2011.

Share-based payment transactions

The Corporation elected to take the optional exemption from applying the Regulations retrospectively for the shared-based payment transactions granted and vested before the date of transition.

Deemed cost

For certain freehold lands, the Corporation elected to use the ROC GAAP revalued amount at the date of transition to the Regulations as their deemed cost under the Regulations.

Employee benefits

The Corporation elected to recognize all cumulative actuarial gains and losses in retained earnings as of the date of transition. In addition, the Corporation elected to apply the exemption disclosure requirement provided by the Regulations, in which the experience adjustments are determined for each accounting period prospectively from the transition date.

Compound financial instruments

As the liability component was no longer outstanding at the date of transition to the Regulations, the Corporation elected not to split the compound financial instruments issued before the date of transition to the Regulations into separate two portions of equity.

The impact of the above exemptions is explained in “e. significant reconciliation items of transition to the Regulations”

e. Explanations to the significant reconciliation items of transition to the Regulations:

Material differences between the accounting policies under ROC GAAP and the accounting policies under the Regulations were as follows:

1) Time deposits with deposit terms of over three months

Under ROC GAAP, time deposits that can be withdrawn at any moment without detriment to the principal are classified as cash. Under the Regulations, time deposits with deposit terms of over three months are not classified as cash and cash equivalents, because they are not traded in an active market; therefore, time deposits with deposit terms of over three months are reclassified as debt investments with no active market.

As of January 1, 2012, the amount reclassified from time deposits with deposit terms of over three months to debt investments with no active market was $1,381 thousand.

2) Deferred income tax assets/liabilities

Under ROC GAAP, 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. Under the Regulations, deferred income tax assets are only recognized to the extent that it is probable that there will be sufficient taxable, profits and valuation allowance account is not used.

Under ROC GAAP, deferred tax assets and liabilities are classified as current or non-current in accordance with the classification of their related assets or liabilities. However, if deferred income tax assets or liabilities do not relate to assets or liabilities in the financial statements they are classified as either current or non-current based on the expected length of time before they are realized or settled. Under the Regulations, deferred tax asset and liabilities are classified as non-current assets or liabilities.

Under ROC GAAP, the current deferred income tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount; the same for the non-current deferred income tax liabilities and assets.

Under the Regulations, an entity should offset deferred income tax assets and deferred income tax liabilities only if:

a) The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and,

b) The deferred income tax assets and the deferred income tax liabilities are related to income taxes levied by the same taxation authority.

As of December 31, 2012 and January 1, 2012 the amounts reclassified from deferred income tax assets to non-current assets were $33,926 thousand and $33,775 thousand, respectively.

3) Employee benefits - short-term accumulated compensated absences

Under ROC GAAP, there are no specific requirements for recognizing accumulated compensated absences at the end of reporting periods. Companies usually recognize the related costs when the employees actually go on leave. Under the Regulations, the expected cost of short-term accumulated compensated absences should be recognized as the employees render services that increase their entitlement to these compensated absences.

As of December 31, 2012, and January 1, 2012, the Regulations-based evaluation adjustments resulted in increase in accrued expenses of $67,901 thousand and $66,007 thousand, respectively; and increase in deferred income tax assets of $11,543 thousand and $11,221 thousand, respectively. In addition, salary expense was adjusted for an increase of $1,894 thousand and tax expense was adjusted for a decrease of $322 thousand.

4) Employee benefits - unrecognized net transition obligation and actuarial gains and losses of defined benefit pension plans

Under ROC GAAP, unrecognized net transition obligation, resulting from first-time adoption of SFAS No. 18, "Accounting for Pensions," should be amortized to pension cost by the straight-line method over the average remaining service period of those employees who are still in service and expected to receive pension benefits. The Regulations did not have transition policy; therefore, the unrecognized net transition obligation and related amounts should be all recognized in retained earnings at the date of transition to the Regulations.

Under ROC GAAP, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized in profit or loss over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under the Regulations, the Corporation should carry out actuarial valuation on defined benefit plans and will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings in the statement of changes in equity. The subsequent reclassification to profit or loss is not permitted.

At the date of transition to the Regulations, the Corporation performed the actuarial valuation on defined benefit plans under the Regulations and recognized the valuation difference under the requirement of the Regulations. As of December 31, 2012 and January 1, 2012, accrued pension cost was adjusted for an increase of $339,913 thousand and $338,211 thousand, respectively; deferred income tax assets were adjusted for an increase of $100,087 thousand and $92,491 thousand, respectively; defined benefit pension costs were adjusted for a decrease of $41,855 thousand and $55,625 thousand, respectively; and deferred pension cost net loss was adjusted for a decrease of $206,981 thousand and $150,230 thousand , respectively. In addition, for the year 2012, pension cost was adjusted for a decrease of $34,905 thousand, and tax expense was adjusted for an increase of $5,934 thousand. Moreover, for the year 2012, actuarial loss arising from defined benefit plan was $79,588 thousand and related income tax gain was $13,530 thousand.

5) The accounting method for investments in associates/subsidiaries when they issue new shares and the investor/the parent does not acquire new shares proportionately and effect on capital reserve from long-term stock investments.

Under ROC GAAP, when the investor does not acquire proportionately from new shares issued by the investee that results in a change in the ownership holding percentage and interest in the investee's net assets, the difference shall be adjusted to the capital reserve - long-term stock investments and long-term stock investments.

Under the Regulations, a change in investor's ownership of associates and investees would be deemed as an acquisition or a disposal of interest in associates and investees if significant influence or control is not lost. In addition, according to "Comments on the Regulations" issued by the Taiwan Stock Exchange, capital surplus should be adjusted at the date of transition to the Regulations if it did not meet the criteria of the Regulations or the Company Law or interpretations of the Ministry of Economic Affairs.

According to “Comments on the Regulations” issued by the Taiwan Stock Exchange, there is no need for the Corporation to apply the rule retrospectively; therefore, the Corporation reclassified capital surplus as retained earnings. As of December 31, 2012 and January 1, 2012, the amounts of capital surplus were adjusted for a decrease of $81,809 thousand and $74,783 thousand, respectively. In addition, the capital surplus from changes in investments accounted for under equity method was adjusted for increase of $3,366 thousand and zero as of December 31, 2012 and January 1, 2012 respectively. Moreover, gain on disposal of investment was adjusted for an increase of $3,660 thousand for the year 2012.

6) Allowance for sales returns and others

Under ROC GAAP, provisions for estimated sales returns and others are recognized as a reduction in revenue in the period the related revenue is recognized based on historical experience. Allowance for sales returns and others is recorded as a deduction in accounts receivable. Under the Regulations, the allowance for sales returns and others is a present obligation with uncertain timing and an amount that arises from past events and is therefore reclassified as provisions.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and others to provision were $4,331 thousand and $6,689 thousand, respectively.

7) Classification of prepayments for property, plant and equipment

Under ROC GAAP, the prepaid item for purchasing property, plant and equipment is classified as prepayments for property, plant and equipment under properties. Under the Regulations, they are reclassified as prepayments under other non-current assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from prepayments for property, plant and equipment to other non-current assets were $27,078 thousand and $29,270 thousand, respectively.

8) Investment property

Under ROC GAAP, leased assets are classified under properties or other assets. Under the Regulations, the aforementioned items are classified as investment property according to their nature. Therefore, the aforementioned items were reclassified as investment property.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from investments in real estate and leased assets to investment property were $8,532,141 thousand and $8,715,918 thousand, respectively.

9) Operating lease

There is no requirement for operating lease agreement which contains rental that be adjusted for an increase according to fixed rate or amount. Under the Regulations, rental that be adjusted for an increase according to fixed rate or amount is recognized revenue in lease term on a straight-line basis.

As of December 31, 2012 and January 1, 2012, accounts receivable were adjusted for an increase of $110,693 thousand and $89,993 thousand; deferred tax liabilities were adjusted for an increase of $18,818 thousand and $15,299 thousand. For the year 2012, leasing revenue was adjusted for an increase of $20,700 thousand; tax expense was adjusted for an increase of $3,519 thousand.

10) Reserve for land value increment tax

Under current Guidelines Governing the Preparation of Financial Reports by Securities Issuers, reserve for land value increment tax recognized due to revaluation on land is classified as long-term liabilities. Under the Regulations, ROC GAAP revaluations are selected as deemed cost for the designated land at the date of transition to the Regulations; thus, the related reserve for land value increment tax should be reclassified to deferred income tax liabilities - land value increment tax.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from reserve for land value increment tax to deferred income tax liabilities - land value increment tax were both $1,175,718 thousand.

11) Revaluation increment

Under the Regulations, ROC GAAP revaluations are selected as deemed cost for the designated land at the date of transition to the Regulations; thus, the adjusted unrealized revaluation increment should be reclassified to retained earnings.

As of December 31, 2012 and January 1, 2012, the amounts adjusted from revaluation increment to retained earnings were both $5,496,797 thousand.

f. Explanation of material adjustments to the statement of cash flows.

The Corporation increased in its interest in subsidiaries in the year ended December 31, 2012. Under ROC GAAP, the resulting cash outflows were classified as investing activities. Under the Regulations, the resulting cash outflows of $95,108 thousand were classified as financing activities.

Time deposits that can be readily cancelled without eroding the principal and negotiable certificates of deposit that can be readily sold without eroding the principal meet the definition of cash in accordance with ROC GAAP. However, under the Regulations, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Therefore, time deposits with a carrying amount of $1,381 thousand as of January 1, 2012, held by the Corporation were for investment purposes and thus not classified as cash under the Regulations.

According to ROC GAAP, interest paid and received and dividends received are classified as operating activities while dividends paid are classified as financing activities. Additional disclosure is required for interest expenses when reporting cash flow using indirect method. However, under the Regulations, cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as operating, investing or financing activities. Therefore, interests and other dividends received by the Corporation of $1,616 thousand and $39,785 thousand, respectively, for the year ended December 31, 2012 were presented separately at the date of transition to the Regulations.

Except for the above differences, there are no other significant differences between ROC GAAP and the Regulations in the statement of cash flows.