

# **Standard Foods Corporation**

**Financial Statements for the  
Years Ended December 31, 2013 and 2012 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Standard Foods Corporation

We have audited the accompanying balance sheets of Standard Foods 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 Company'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 Standard Foods 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 26, 2014

### Notice to Readers

*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. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

# STANDARD FOODS CORPORATION

## BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Note 6)	\$ 586,556	5	\$ 801,145	7	\$ 848,377	8
Financial assets at fair value through profit or loss - current (Note 7)	-	-	95,525	1	-	-
Available-for-sale financial assets - current (Note 8)	31,700	-	317,276	3	167,798	1
Debt investments with no active market - current (Note 10)	550,280	4	294,249	2	67,500	1
Notes receivable (Note 11)	1,491	-	2,474	-	2,341	-
Trade receivables from unrelated parties (Note 11)	1,720,623	14	1,817,700	15	1,920,152	18
Trade receivables from related parties (Note 30)	104,049	1	91,091	1	86,344	1
Other receivables (Note 11)	33,088	-	28,995	-	13,605	-
Other receivables from related parties (Note 30)	2,120	-	804	-	640	-
Inventories (Note 12)	1,873,104	15	1,674,641	14	1,718,028	16
Prepayments (Note 13)	306,989	2	232,208	2	266,660	2
Other current assets (Note 18)	16,568	-	11,819	-	3,908	-
Total current assets	5,226,568	41	5,367,927	45	5,095,353	47
<b>NON-CURRENT ASSETS</b>						
Financial assets measured at cost - non-current (Note 9)	97,263	1	120,062	1	150,904	1
Investments accounted for using equity method (Note 14)	5,846,479	45	4,890,826	41	4,166,858	38
Property, plant and equipment (Notes 15 and 31)	1,116,909	9	1,051,711	9	951,445	9
Investment properties (Note 16)	127,926	1	128,342	1	128,757	1
Other intangible assets (Note 17)	4,031	-	17,606	-	21,076	-
Deferred tax assets (Note 25)	256,463	2	250,051	2	248,220	2
Other non-current assets (Note 18)	139,228	1	63,201	1	158,128	2
Total non-current assets	7,588,299	59	6,521,799	55	5,825,388	53
<b>TOTAL</b>	<b>\$ 12,814,867</b>	<b>100</b>	<b>\$ 11,889,726</b>	<b>100</b>	<b>\$ 10,920,741</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Notes payable (Note 19)	\$ 938	-	\$ 1,392	-	\$ 1,081	-
Trade payables (Note 19)	886,540	7	846,331	7	853,222	8
Trade payables to related parties (Note 30)	-	-	647	-	-	-
Other payables (Note 20)	866,539	6	823,440	7	866,161	8
Current tax liabilities (Note 27)	107,503	1	212,420	2	213,845	2
Provisions - current (Note 21)	10,050	-	10,805	-	11,981	-
Finance lease payables - current	758	-	728	-	728	-
Other current liabilities (Note 20)	10,374	-	3,595	-	8,127	-
Total current liabilities	1,882,702	14	1,899,358	16	1,955,145	18
<b>NON-CURRENT LIABILITIES</b>						
Deferred tax liabilities (Note 25)	83,496	1	43,882	-	65,293	-
Finance lease payables - non-current	657	-	1,455	-	2,184	-
Accrued pension liabilities (Note 22)	141,289	1	115,881	1	93,532	1
Other non-current liabilities (Note 20)	900	-	900	-	900	-
Total non-current liabilities	226,342	2	162,118	1	161,909	1
Total liabilities	2,109,044	16	2,061,476	17	2,117,054	19
<b>EQUITY (Note 23)</b>						
Common stock	6,611,319	52	5,748,973	48	4,636,269	43
Capital surplus	43,620	-	35,240	-	27,130	-
Retained earnings						
Legal reserve	1,505,940	12	1,282,134	11	1,036,298	10
Unappropriated earnings	2,326,179	18	2,726,508	23	2,974,538	27
Total retained earnings	3,832,119	30	4,008,642	34	4,010,836	37
Other equity	239,947	2	56,577	1	150,634	1
Treasury shares	(21,182)	-	(21,182)	-	(21,182)	-
Total equity	10,705,823	84	9,828,250	83	8,803,687	81
<b>TOTAL</b>	<b>\$ 12,814,867</b>	<b>100</b>	<b>\$ 11,889,726</b>	<b>100</b>	<b>\$ 10,920,741</b>	<b>100</b>

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

# STANDARD FOODS CORPORATION

## 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 REVENUES				
Sales	\$ 11,153,037	100	\$ 11,011,135	100
OPERATING COSTS				
Cost of goods sold	<u>7,536,931</u>	<u>68</u>	<u>7,280,755</u>	<u>66</u>
GROSS PROFIT	<u>3,616,106</u>	<u>32</u>	<u>3,730,380</u>	<u>34</u>
OPERATING EXPENSES (Notes 22 and 24)				
Selling and marketing expenses	1,256,471	11	1,199,678	11
General and administrative expenses	254,699	2	251,163	2
Research and development expenses	<u>84,214</u>	<u>1</u>	<u>66,967</u>	<u>1</u>
Total operating expenses	<u>1,595,384</u>	<u>14</u>	<u>1,517,808</u>	<u>14</u>
OPERATING INCOME	<u>2,020,722</u>	<u>18</u>	<u>2,212,572</u>	<u>20</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)				
Other income (Note 30)	30,279	-	169,628	2
Other gains and losses	84,391	1	50,593	-
Finance costs	(929)	-	(148)	-
Share of the profit or loss of subsidiaries and associates (Note 14)	<u>72,925</u>	<u>1</u>	<u>272,026</u>	<u>2</u>
Total non-operating income and expenses	<u>186,666</u>	<u>2</u>	<u>492,099</u>	<u>4</u>
PROFIT BEFORE INCOME TAX	2,207,388	20	2,704,671	24
INCOME TAX EXPENSE (Note 25)	<u>(347,806)</u>	<u>(3)</u>	<u>(463,541)</u>	<u>(4)</u>
NET PROFIT FOR THE YEAR	<u>1,859,582</u>	<u>17</u>	<u>2,241,130</u>	<u>20</u>
OTHER COMPREHENSIVE INCOME				
Exchange differences on translating foreign operations	236,193	2	(142,804)	(1)
Unrealized gain on available-for-sale financial assets	2,315	-	3,329	-
Actuarial loss arising from defined benefit plans	(24,967)	-	(24,322)	-

(Continued)

# STANDARD FOODS CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
Share of the other comprehensive income of subsidiaries and associates	\$ (21,683)	-	\$ 26,579	-
Income tax relating to the components of other comprehensive income	<u>(32,453)</u>	<u>(1)</u>	<u>25,245</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>159,405</u>	<u>1</u>	<u>(111,973)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,018,987</u>	<u>18</u>	<u>\$ 2,129,157</u>	<u>19</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$2.83</u>		<u>\$3.41</u>	
Diluted	<u>\$2.83</u>		<u>\$3.41</u>	

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

(Concluded)

# STANDARD FOODS CORPORATION

## STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	Common Stock	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Other Equity		Treasury Stock	Total Equity
			Legal Reserve	Unappropriated Earnings	Total		Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total		
BALANCE AT JANUARY 1, 2012	\$ 4,636,269	\$ 27,130	\$ 1,036,298	\$ 2,974,538	\$ 4,010,836	\$ 154,322	\$ (3,688)	\$ 150,634	\$ (21,182)	\$ 8,803,687
Appropriation of 2011 earnings										
Legal reserve	-	-	245,836	(245,836)	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(1,112,704)	(1,112,704)	-	-	-	-	(1,112,704)
Stock dividends to shareholders	1,112,704	-	-	(1,112,704)	(1,112,704)	-	-	-	-	-
Adjustment of capital surplus for the Company's cash dividends received by a subsidiary	-	8,110	-	-	-	-	-	-	-	8,110
Net profit for the year ended December 31, 2012	-	-	-	2,241,130	2,241,130	-	-	-	-	2,241,130
Other comprehensive income (loss) for the year ended December 31, 2012, net of income tax	-	-	-	(17,916)	(17,916)	(119,410)	25,353	(94,057)	-	(111,973)
Total comprehensive income (loss) for the year ended December 31, 2012	-	-	-	2,223,214	2,223,214	(119,410)	25,353	(94,057)	-	2,129,157
BALANCE AT DECEMBER 31, 2012	5,748,973	35,240	1,282,134	2,726,508	4,008,642	34,912	21,665	56,577	(21,182)	9,828,250
Appropriation of 2012 earnings										
Legal reserve	-	-	223,806	(223,806)	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(1,149,794)	(1,149,794)	-	-	-	-	(1,149,794)
Stock dividends to shareholders	862,346	-	-	(862,346)	(862,346)	-	-	-	-	-
Adjustment of capital surplus for the Company's cash dividends received by a subsidiary	-	8,380	-	-	-	-	-	-	-	8,380
Net profit for the year ended December 31, 2013	-	-	-	1,859,582	1,859,582	-	-	-	-	1,859,582
Other comprehensive income (loss) for the year ended December 31, 2013, net of income tax	-	-	-	(23,965)	(23,965)	194,248	(10,878)	183,370	-	159,405
Total comprehensive income (loss) for the year ended December 31, 2013	-	-	-	1,835,617	1,835,617	194,248	(10,878)	183,370	-	2,018,987
BALANCE AT DECEMBER 31, 2013	\$ 6,611,319	\$ 43,620	\$ 1,505,940	\$ 2,326,179	\$ 3,832,119	\$ 229,160	\$ 10,787	\$ 239,947	\$ (21,182)	\$ 10,705,823

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

# STANDARD FOODS CORPORATION

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

	For the Years Ended December 31	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 2,207,388	\$ 2,704,671
Adjustments for:		
Depreciation expenses	119,461	96,107
Amortization expenses	24,628	29,412
Impairment loss recognized (reversal of impairment loss) on trade receivables	282	(3,167)
Net gain on fair value change of financial assets designated as at fair value through profit or loss	(67,964)	(51,244)
Finance costs	929	148
Interest income	(19,938)	(11,073)
Dividend income	(7,101)	(155,416)
Share of profit of subsidiaries and associates	(72,925)	(272,026)
Gain on disposal of property, plant and equipment	(426)	(54,519)
Gain on disposal of investments	(2,193)	(1,708)
Impairment loss recognized on financial assets measured at cost	15,190	8,941
Others	(2,158)	9
Changes in operating assets and liabilities		
Financial assets held for trading	163,489	(44,281)
Notes receivable	983	(133)
Trade receivables	96,795	105,619
Trade receivables - related parties	(12,958)	(4,747)
Other receivables	877	(16,171)
Other receivables - related parties	(1,315)	(164)
Inventories	(198,463)	43,387
Prepayments	(74,781)	34,452
Other current assets	(4,751)	(7,911)
Notes payable	(454)	311
Trade payables	40,210	(6,891)
Trade payables - related parties	(647)	647
Other payables	43,099	(42,721)
Provisions	(755)	(1,176)
Other current liabilities	6,779	(4,532)
Accrued pension payable	441	(1,973)
Cash generated from operations	2,253,722	2,343,851
Interest received	14,968	11,854
Interest paid	(929)	(148)
Income tax paid	(451,973)	(462,965)
Net cash generated from operating activities	<u>1,815,788</u>	<u>1,892,592</u>

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# STANDARD FOODS CORPORATION

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

	For the Years Ended December 31	
	2013	2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of available-for-sale financial assets	\$ (2,180,454)	\$ (1,102,137)
Proceeds on sale of available-for-sale financial assets	2,469,958	957,361
Purchase of debt investments with no active market	(1,272,979)	(294,249)
Proceeds on sale of debt investments with no active market	1,016,947	67,500
Proceeds from capital reduction of financial assets measured at cost	7,609	21,901
Net cash inflow on disposal of subsidiaries at equity method	578	-
Proceeds from capital reduction of associates at equity method	-	83,996
Payments for property, plant and equipment	(151,149)	(115,957)
Proceeds from disposal of property, plant and equipment	1,782	101,381
Payment for intangible assets	(740)	(12,826)
Decrease in other financial assets	332	396
Increase in other non-current assets	(121,119)	(45,448)
Dividend received from subsidiaries and associates	172,962	250,890
Other dividend received	<u>7,101</u>	<u>155,416</u>
Net cash (used in) generated from investing activities	<u>(49,172)</u>	<u>68,224</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in finance lease payables	(768)	(729)
Dividends paid to owners of the Company	(1,149,794)	(1,112,704)
Acquisition of interests in subsidiaries	<u>(830,643)</u>	<u>(894,615)</u>
Net cash used in financing activities	<u>(1,981,205)</u>	<u>(2,008,048)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(214,589)</u>	<u>(47,232)</u>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>801,145</u>	<u>848,377</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 586,556</u>	<u>\$ 801,145</u>

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

(Concluded)

# STANDARD FOODS CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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

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#### 1. GENERAL INFORMATION

Standard Foods Corporation (the “Company”) was incorporated on June 6, 1986. The Company mainly manufactures and sells nutritious foods, edible oil, dairy products and beverage. The Company’s registered address is 5F., No. 136, Sec. 3, Renai Rd., Da’an Dist., Taipei City, Taiwan, Republic of China (ROC).

The Company’s shares have been listed on the Taiwan Stock Exchange (“TSE”) since April 1994.

The financial statements are presented in the Company’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 26, 2014.

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

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

The Company 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 (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.

<b>The New IFRSs included in the 2013 IFRSs version not yet endorsed by the FSC</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate

(Continued)

<b>The New IFRSs included in the 2013 IFRSs version not yet endorsed by the FSC</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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)

<b>The New IFRSs not included in the 2013 IFRSs version</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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 impending initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies:

- 1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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 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 Company 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 possible impact of the application of New IFRSs in issue but not yet effective on the Company’s financial statements

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the FSC for their oversight purposes.

- a. Statement of compliance

The 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 Company 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 Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between 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 Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (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 Company's foreign operations (including the subsidiaries or associates operating in other countries or currencies used different with the Company) 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.

On the disposal of a foreign operation which results in the Company's loss of control or significant influence over the entity, all exchange differences accumulated in equity attributable to the owners of the Company in respect of that operation are reclassified to profit or loss.

In a partial disposal of a subsidiary that does not result in the Company's loss of control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and 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.

e. Inventories

Inventories consist of raw materials, packing materials, work-in-process, finished goods and merchandise 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.

f. Investments accounted for using equity method

Investments in subsidiaries and associates are accounted for using equity method.

1) Investment in subsidiaries

Subsidiaries are the entities controlled by the Company.

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

Changes in the Company's ownership interests in subsidiaries that do not result in the Company'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 Company'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 Company's net investment in the subsidiary), the Company 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 on goodwill shall not be reversed in a subsequent period.

When the Company 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 Company 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 Company 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 financial statements only to the extent of interests in the subsidiary that are not related to the Company.

## 2) Investment in associates

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

The results and assets and liabilities of associates are incorporated 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 Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in equity of associates attributable to the Company.

When the Company 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 Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to non-subscription to 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 Company'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 Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Company'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 in the carrying amount of the investment and is not amortized. Any excess of the Company'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 from 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 subsequently increases.

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company 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 Company 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 interests in the associate that are not related to the Company.

g. 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. Each significant part 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.

Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

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.

h. 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 over the estimated life of the asset.

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.

i. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

Gain or loss on disposal of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and recognized in profit or loss when the asset is derecognized.

j. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

Financial assets and financial liabilities are recognized when the Company 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 assets are classified as at fair value through profit or loss when the financial asset 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. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset.

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 Company'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 notes receivable, trade receivables, cash and cash equivalent, debt investments with no active market, other receivables and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term notes receivable 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, 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, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the

Company's past experience of collecting 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.

Impairment loss on financial assets carried at amortized cost 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. In a subsequent period, if 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 was 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 are 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 the financial asset is reduced by the 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 a notes receivable and trade receivables are considered uncollectible, it is 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 notes receivable and trade receivables that are written off against the allowance account.

#### c) Derecognition of financial assets

The Company derecognizes a financial asset only 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 Company 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 Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is 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 Company's own equity instruments.

### 3) Financial liabilities

#### a) Subsequent measurement

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

### 1. Provisions

Provisions are 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).

### m. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale with corresponding liability for returns based on reliable estimate of future returns and past experience and other relevant factors.

#### 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company 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 Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

## 2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established and it is probable that the economic benefits will flow to the Company 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 Company 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.

## n. Leasing

Leases are classified as finance leases when 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.

### 1) The Company as lessor

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

### 2) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

## o. 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.

Curtailement or settlement gains or losses on the defined benefit plan are recognized when the curtailement or settlement occurs.

## p. 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 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 or research and development expenditures, and personnel training expenditures 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 3) Current and deferred tax for the year

Current 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 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 Company'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 Company 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. Actual future cash flows could be significantly less than the expected amount; thus, 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 in selling products of a similar nature. Changes in market conditions can have a material impact on the estimation of net realizable value.

c. 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.

d. Income taxes

The realizability of 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	\$ 1,446	\$ 1,341	\$ 1,318
Checking accounts and demand deposits	188,638	342,350	309,939
Cash equivalent			
Time deposits with original maturities less than three months	147,960	70,169	20,000
Repurchase agreements collateralized by bonds	<u>248,512</u>	<u>387,285</u>	<u>517,120</u>
	<u>\$ 586,556</u>	<u>\$ 801,145</u>	<u>\$ 848,377</u>

The market rate intervals of cash in bank and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Bank deposits	0.17%-3.60%	0.01%-1.36%	0.05%-1.36%
Repurchase agreement collateralized by bonds	0.62%-0.63%	0.78%-0.80%	0.83%-0.84%

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

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Financial assets at FVTPL - current</u>			
Financial assets held for trading			
Non-derivative financial assets			
Domestic quoted shares	\$ _____	\$ <u>95,525</u>	\$ _____

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current</u>			
Listed shares	\$ 18,699	\$ 17,233	\$ 16,448
Mutual funds	13,001	300,043	121,220
Corporate bonds - Deutsche Bank	_____	_____	_____
	<u>\$ 31,700</u>	<u>\$ 317,276</u>	<u>\$ 167,798</u>

In June 2009, the Company bought 3-year corporate bonds issued by Deutsche Bank with an effective interest rate of 3%.

## 9. FINANCIAL ASSETS MEASURED AT COST

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Non-current</u>			
Unlisted shares	\$ 44,627	\$ 52,441	\$ 71,124
Mutual funds	<u>52,636</u>	<u>67,621</u>	<u>79,780</u>
	<u>\$ 97,263</u>	<u>\$ 120,062</u>	<u>\$ 150,904</u>
Classified according to financial asset measurement categories			
Available-for-sale financial assets	<u>\$ 97,263</u>	<u>\$ 120,062</u>	<u>\$ 150,904</u>

Management believed that the fair value of the above unlisted shares and mutual funds held by the Company cannot be reliably measured due to the very wide range of reasonable fair value estimates; therefore, the financial assets 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
<u>Current</u>			
Time deposits with original maturity of more than 3 months	<u>\$ 550,280</u>	<u>\$ 294,249</u>	<u>\$ 67,500</u>

The market interest rates of the time deposits with original maturity of more than 3 months were 0.80%-3.20%, 0.95%-1.36% and 0.94%-1.36% per annum as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

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

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Notes receivable</u>			
Notes receivable - operating	<u>\$ 1,491</u>	<u>\$ 2,474</u>	<u>\$ 2,341</u>
<u>Trade receivables</u>			
Trade receivables	\$ 1,722,678	\$ 1,819,473	\$ 1,925,092
Less: Allowance for impairment loss	<u>(2,055)</u>	<u>(1,773)</u>	<u>(4,940)</u>
	<u>\$ 1,720,623</u>	<u>\$ 1,817,700</u>	<u>\$ 1,920,152</u>
<u>Other receivables</u>			
Accrued revenues	\$ 6,450	\$ 1,480	\$ 699
Others	<u>26,638</u>	<u>27,515</u>	<u>12,906</u>
	<u>\$ 33,088</u>	<u>\$ 28,995</u>	<u>\$ 13,605</u>

The average credit period of receivables from sales of goods was 30-60 days. Allowance for impairment loss was recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience with the counterparties and an analysis of their current financial position.

The Company had no receivables that were past due but not impaired as of December 31, 2013, December 31, 2012 and January 1, 2012.

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

	<u>For the Years Ended December 31</u>	
	2013	2012
Balance at January 1	\$ 1,773	\$ 4,940
Add: Impairment losses recognized on receivables	282	-
Less: Impairment losses reversed	<u>-</u>	<u>(3,167)</u>
Balance at December 31	<u>\$ 2,055</u>	<u>\$ 1,773</u>

## 12. INVENTORIES

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Merchandise	\$ 663,909	\$ 525,339	\$ 725,790
Finished goods	579,702	547,142	534,158
Work in progress	140,125	127,830	140,688
Raw materials	447,370	443,893	286,547
Packing materials	<u>41,998</u>	<u>30,437</u>	<u>30,845</u>
	<u>\$ 1,873,104</u>	<u>\$ 1,674,641</u>	<u>\$ 1,718,028</u>

The cost of inventories recognized as cost of goods sold for the year ended December 31, 2013 included \$11,648 thousand loss on write-downs of inventories, \$12,323 thousand loss on abandonment of inventories and \$847 thousand of unallocated overheads. The cost of goods sold for the year ended December 31, 2012 included \$1,432 thousand loss on write-downs of inventories, \$11,873 thousand loss on abandonment of inventories and \$8,159 thousand of unallocated overheads.

## 13. PREPAYMENTS

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Prepayments for imported raw materials	\$ 152,160	\$ 137,223	\$ 152,100
Prepayments for imported finished goods	69,058	24,638	47,073
Prepayments for equipment parts	14,038	12,025	12,405
Prepayments for fuel oil	7,483	5,290	3,962
Other prepaid expenses	18,635	19,286	17,048
Other prepayments	10,141	9,382	18,904
Others	<u>35,474</u>	<u>24,364</u>	<u>15,168</u>
	<u>\$ 306,989</u>	<u>\$ 232,208</u>	<u>\$ 266,660</u>

## 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Investments in subsidiaries	<u>\$ 5,846,479</u>	<u>\$ 4,890,826</u>	<u>\$ 4,090,535</u>
Investments in associates	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,323</u>

a. Investments in subsidiaries

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
<u>Unlisted companies</u>			
Accession Limited	\$ 3,261,273	\$ 3,126,071	\$ 3,188,059
Standard Investment (Cayman) Limited ("Cayman Standard")	1,264,173	851,160	-
Standard Dairy Products Taiwan Limited ("Standard Dairy Products")	536,074	522,787	510,996
Charng Hui Ltd. ("Charng Hui")	561,359	165,415	157,389
Domex Technology Corporation ("Domex Technology")	148,105	148,497	158,734
Standard Beverage Company Limited ("Standard Beverage")	<u>75,495</u>	<u>76,896</u>	<u>75,357</u>
	<u>\$ 5,846,479</u>	<u>\$ 4,890,826</u>	<u>\$ 4,090,535</u>

At the end of the reporting periods, the Company's ownership interests and voting rights in subsidiaries were as follows:

<b>Name of Subsidiary</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Accession Limited	100.0%	100.0%	100.0%
Cayman Standard	100.0%	100.0%	-
Standard Dairy Products	100.0%	100.0%	100.0%
Charng Hui	100.0%	100.0%	100.0%
Domex Technology	52.0%	52.0%	52.0%
Standard Beverage	97.1%	97.1%	97.1%

Accession Limited is engaged in investment. It also acts as the holding company of Shanghai Standard Foods Co., Ltd. ("Shanghai Standard Foods"), which manufactures and sells edible oil and nutritious foods.

Cayman Standard is engaged in investment and acts as the holding company of Standard Corporation (Hong Kong) Limited ("Hong Kong Standard"). Hong Kong Standard is engaged in investment and acts as the holding company of Standard Investment (China) Co., Ltd. ("China Standard Investment"). China Standard Investment is engaged in investment and sells edible oil and nutritious foods and acts as the holding company of Standard Foods (China) Co., Ltd. ("China Standard Foods"), which manufactures and sells edible oil and nutritious foods.

b. Investments in associates

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
<u>Unlisted companies</u>			
Standard Industries, LLC	\$ -	\$ -	\$ 76,323
Renewable Resource Technology (Cayman) Co., Ltd. ("RRT")	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,323</u>

At the end of the reporting periods, the Company's ownership interests and voting rights in associates were as follows:

Name of Associate	December 31, 2013	December 31, 2012	January 1, 2012
Standard Industries, LLC	-	-	50.0%
RRT	-	35.5%	35.5%

The summarized financial information of the Company's associates is set out below:

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets	<u>\$ -</u>	<u>\$ 26,843</u>	<u>\$ 331,671</u>
Total liabilities	<u>\$ -</u>	<u>\$ 64,517</u>	<u>\$ 200,708</u>

	For the Years Ended December 31	
	2013	2012
Revenue	<u>\$ -</u>	<u>\$ 1,465</u>
Profit (loss) for the year	<u>\$ (6,044)</u>	<u>\$ 128,331</u>
Other comprehensive loss	<u>\$ -</u>	<u>\$ (2,126)</u>
Share of profits of associates for the year	<u>\$ -</u>	<u>\$ 55,734</u>
Share of other comprehensive loss of associates for the year	<u>\$ (2,158)</u>	<u>\$ (1,063)</u>

The Company discontinued recognition of its share of losses of certain associates. The Company's share of losses of an associate is limited to its interest in that associate which includes any long-term interests that, in substance, form part of the Company's net investment in the associate. The current year and accumulated amounts of unrecognized share of losses of those associates extracted from the relevant audited financial statements of associates were as follows:

	For the Years Ended December 31	
	2013	2012
Unrecognized share of losses of associates for the year	<u>\$ -</u>	<u>\$ 5,969</u>
Accumulated unrecognized share of losses of associates	<u>\$ -</u>	<u>\$ 12,001</u>

Standard Industries, LLC went into liquidation in September 2012.

In January 2013, the Company sold all of its interest in RRT to a third party for proceeds of \$578 thousand and recognized gain on disposal \$578 thousand.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Leased Assets	Other Equipment	Property in Construction	Total
<u>Cost</u>							
Balance at January 1, 2012	\$ 431,462	\$ 667,471	\$ 1,375,309	\$ 1,664	\$ 148,031	\$ 30,656	\$ 2,654,593
Additions	-	-	65,791	-	9,194	40,972	115,957
Disposals	(35,106)	(21,190)	(20,478)	-	(2,241)	-	(79,015)
Transferred from prepayments for equipment	-	-	124,966	-	1,897	-	126,863
Reclassified	-	38,478	-	-	-	(38,478)	-
Balance at December 31, 2012	<u>\$ 396,356</u>	<u>\$ 684,759</u>	<u>\$ 1,545,588</u>	<u>\$ 1,664</u>	<u>\$ 156,881</u>	<u>\$ 33,150</u>	<u>\$ 2,818,398</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2012	\$ -	\$ 393,038	\$ 1,200,405	\$ 560	\$ 109,145	\$ -	\$ 1,703,148
Disposals	-	(10,438)	(19,683)	-	(2,032)	-	(32,153)
Depreciation expense	-	23,776	56,865	277	14,774	-	95,692
Balance at December 31, 2012	<u>\$ -</u>	<u>\$ 406,376</u>	<u>\$ 1,237,587</u>	<u>\$ 837</u>	<u>\$ 121,887</u>	<u>\$ -</u>	<u>\$ 1,766,687</u>
Carrying amount at January 1, 2012	<u>\$ 431,462</u>	<u>\$ 274,433</u>	<u>\$ 174,904</u>	<u>\$ 1,104</u>	<u>\$ 38,886</u>	<u>\$ 30,656</u>	<u>\$ 951,445</u>
Carrying amount at December 31, 2012	<u>\$ 396,356</u>	<u>\$ 278,383</u>	<u>\$ 308,001</u>	<u>\$ 827</u>	<u>\$ 34,994</u>	<u>\$ 33,150</u>	<u>\$ 1,051,711</u>
<u>Cost</u>							
Balance at January 1, 2013	\$ 396,356	\$ 684,759	\$ 1,545,588	\$ 1,664	\$ 156,881	\$ 33,150	\$ 2,818,398
Additions	-	-	71,347	-	23,740	56,062	151,149
Disposals	-	(139)	(11,510)	-	(3,809)	-	(15,458)
Transferred from prepayment for equipment	-	-	33,885	-	565	-	34,450
Reclassified	-	42,566	-	-	-	(42,566)	-
Balance at December 31, 2013	<u>\$ 396,356</u>	<u>\$ 727,186</u>	<u>\$ 1,639,310</u>	<u>\$ 1,664</u>	<u>\$ 177,377</u>	<u>\$ 46,646</u>	<u>\$ 2,988,539</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2013	\$ -	\$ 406,376	\$ 1,237,587	\$ 837	\$ 121,887	\$ -	\$ 1,766,687
Disposals	-	(139)	(10,154)	-	(3,809)	-	(14,102)
Depreciation expense	-	27,847	72,798	277	18,123	-	119,045
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 434,084</u>	<u>\$ 1,300,231</u>	<u>\$ 1,114</u>	<u>\$ 136,201</u>	<u>\$ -</u>	<u>\$ 1,871,630</u>
Carrying amount at January 1, 2013	<u>\$ 396,356</u>	<u>\$ 278,383</u>	<u>\$ 308,001</u>	<u>\$ 827</u>	<u>\$ 34,994</u>	<u>\$ 33,150</u>	<u>\$ 1,051,711</u>
Carrying amount at December 31, 2013	<u>\$ 396,356</u>	<u>\$ 293,102</u>	<u>\$ 339,079</u>	<u>\$ 550</u>	<u>\$ 41,176</u>	<u>\$ 46,646</u>	<u>\$ 1,116,909</u>

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

<b>Building</b>	
Main buildings	40 years
Electrical and mechanical equipment	8-15 years
Engineering	7-39 years
Others	3-14 years
<b>Equipment</b>	
Main equipment	2-20 years
Engineering	7-20 years
Others	3-15 years
<b>Leased assets</b>	5 years
<b>Other equipment</b>	2-15 years

Refer to Note 31 for the carrying amount of property, plant and equipment pledged by the Company to secure general banking facilities granted to the Company.

## 16. INVESTMENT PROPERTIES

	<u>Completed Investment Property</u>	
	2013	2012
<u>Cost</u>		
Balance at January 1	\$ 141,150	\$ 141,150
Balance at December 31	<u>\$ 141,150</u>	<u>\$ 141,150</u>
<u>Accumulated depreciation and impairment</u>		
Balance at January 1	\$ 12,808	\$ 12,393
Depreciation expense	<u>416</u>	<u>415</u>
Balance at December 31	<u>\$ 13,224</u>	<u>\$ 12,808</u>
Carrying amount at January 1	<u>\$ 128,342</u>	<u>\$ 128,757</u>
Carrying amount at December 31	<u>\$ 127,926</u>	<u>\$ 128,342</u>

The investment properties held by the Company were depreciated using the straight-line method over the following estimated useful life:

Main buildings	40 years
Electrical and mechanical equipment	24-25 years
Engineering	28 years

The fair value of the investment properties was \$284,065 thousand, \$283,927 thousand, and \$283,927 thousand as of December 31, 2013, December 31, 2012, and January 1, 2012. The management of the Company arrived at the fair value amounts by reference to market evidence of transaction prices for similar properties.

## 17. OTHER INTANGIBLE ASSETS

	<u>Computer Software</u>	
	2013	2012
<u>Cost</u>		
Balance at January 1	\$ 163,695	\$ 150,869
Additions	<u>740</u>	<u>12,826</u>
Balance at December 31	<u>\$ 164,435</u>	<u>\$ 163,695</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1	\$ 146,089	\$ 129,793
Amortization expense	<u>14,315</u>	<u>16,296</u>
Balance at December 31	<u>\$ 160,404</u>	<u>\$ 146,089</u>
Carrying amount at January 1	<u>\$ 17,606</u>	<u>\$ 21,076</u>
Carrying amount at December 31	<u>\$ 4,031</u>	<u>\$ 17,606</u>

The above items of other intangible assets were depreciated on a straight-line basis over the following estimated life:

Computer software 2-3 years

## 18. OTHER ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current</u>			
Advances to officers	<u>\$ 16,568</u>	<u>\$ 11,819</u>	<u>\$ 3,908</u>
<u>Non-current</u>			
Prepayments for equipment	\$ 109,956	\$ 41,574	\$ 128,466
Refundable deposits	11,690	12,022	12,418
Others	<u>17,582</u>	<u>9,605</u>	<u>17,244</u>
	<u>\$ 139,228</u>	<u>\$ 63,201</u>	<u>\$ 158,128</u>

## 19. NOTES PAYABLE AND TRADE PAYABLES

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Notes payable</u>			
Notes payable - operating	<u>\$ 938</u>	<u>\$ 1,392</u>	<u>\$ 1,081</u>
<u>Trade payables</u>			
Trade payables	<u>\$ 886,540</u>	<u>\$ 846,331</u>	<u>\$ 853,222</u>

The average credit period of payables for purchases of goods was 3 months. The Company 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
<u>Current</u>			
Other payables			
Payable for purchase of equipment	\$ 70,511	\$ 41,688	\$ 32,964
Payable for commission and rebate	398,186	400,768	390,436
Payable for advertisement	99,088	67,726	125,690
Payable for royalties	24,638	24,721	25,818

(Continued)

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Salaries or bonus	\$ 116,925	\$ 110,072	\$ 113,883
Payable for freight	6,987	7,064	15,396
Payable for employee bonus	23,431	28,200	30,975
Payable for remuneration to directors and supervisors	16,736	20,143	22,125
Payable for insurance	11,215	10,491	9,827
Payable for green recycle fee	6,085	5,899	6,660
Others	<u>98,823</u>	<u>106,668</u>	<u>92,387</u>
	<u>\$ 866,539</u>	<u>\$ 823,440</u>	<u>\$ 866,161</u>
Other liabilities			
Advance receipts from customers	\$ 9,183	\$ 1,910	\$ 6,755
Others	<u>1,191</u>	<u>1,685</u>	<u>1,372</u>
	<u>\$ 10,374</u>	<u>\$ 3,595</u>	<u>\$ 8,127</u>
<u>Non-current</u>			
Other liabilities			
Guarantee deposits	<u>\$ 900</u>	<u>\$ 900</u>	<u>\$ 900</u> (Concluded)

## 21. PROVISIONS

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
<u>Current</u>			
Customer returns	<u>\$ 10,050</u>	<u>\$ 10,805</u>	<u>\$ 11,981</u>
		<b>Customer Returns</b>	
		<b>2013</b>	<b>2012</b>
Balance at January 1		\$ 10,805	\$ 11,981
Addition		92,330	97,474
Usage		<u>(93,085)</u>	<u>(98,650)</u>
Balance at December 31		<u>\$ 10,050</u>	<u>\$ 10,805</u>

The provision for customer returns was the estimated product returns that may occur in the year; the estimate was based on historical experience and other relevant factors. The provision was recognized as a reduction of operating revenue in the periods the related goods were sold.

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Company 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.

### b. Defined benefit plans

The Company 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 Company makes monthly contributions 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 equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the 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 contributions 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 qualified 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	1.750%	1.375%	2.000%
Expected return on plan assets	2.000%	1.875%	2.000%
Expected rate of salary increase	3.000%	3.000%	3.000%

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 were as follows:

	For the Years Ended December 31	
	2013	2012
Current service cost	\$ 5,981	\$ 6,553
Interest cost	5,383	5,559
Expected return on plan assets	<u>(5,252)</u>	<u>(5,603)</u>
	<u>\$ 6,112</u>	<u>\$ 6,509</u>
An analysis by function		
Operating cost	\$ 2,629	\$ 2,496
Marketing expenses	742	895
Administration expenses	2,716	3,089
Research and development expenses	<u>25</u>	<u>29</u>
	<u>\$ 6,112</u>	<u>\$ 6,509</u>

Actuarial losses recognized in other comprehensive income or loss for the years ended December 31, 2013 and 2012 were \$24,967 thousand and \$24,322 thousand, respectively. The cumulative amount of actuarial losses recognized in other comprehensive income or loss as of December 31, 2013 and 2012 was \$49,289 thousand and \$24,322 thousand, respectively.

The amounts included in the Company's balance sheets in respect of its obligations under its defined benefit plans were as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Present value of funded defined benefit obligation	\$ 402,473	\$ 391,505	\$ 370,576
Fair value of plan assets	<u>(261,184)</u>	<u>(275,624)</u>	<u>(277,044)</u>
Accrued pension liabilities	<u>\$ 141,289</u>	<u>\$ 115,881</u>	<u>\$ 93,532</u>

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

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Opening defined benefit obligation	\$ 391,505	\$ 370,576
Current service cost	5,981	6,553
Interest cost	5,383	5,559
Actuarial losses	23,090	21,338
Benefits paid	<u>(23,486)</u>	<u>(12,521)</u>
Closing defined benefit obligation	<u>\$ 402,473</u>	<u>\$ 391,505</u>

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

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Opening fair value of plan assets	\$ 275,624	\$ 277,044
Expected return on plan assets	5,252	5,603
Actuarial losses	(1,877)	(2,984)
Contributions from the employer	5,671	8,482
Benefits paid	<u>(23,486)</u>	<u>(12,521)</u>
Closing fair value of plan assets	<u>\$ 261,184</u>	<u>\$ 275,624</u>

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

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Bank deposits	23%	25%	24%
Equity instruments	45%	37%	41%
Debt instruments	31%	37%	35%
Others	<u>1%</u>	<u>1%</u>	<u>-</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Company 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:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Present value of defined benefit obligation	<u>\$ 402,473</u>	<u>\$ 391,505</u>	<u>\$ 370,576</u>
Fair value of plan assets	<u>\$ 261,184</u>	<u>\$ 275,624</u>	<u>\$ 277,044</u>
Deficit	<u>\$ 141,289</u>	<u>\$ 115,881</u>	<u>\$ 93,532</u>
Experience adjustments on plan liabilities	<u>\$ 47,188</u>	<u>\$ 21,338</u>	<u>\$ -</u>
Experience adjustments on plan assets	<u>\$ (1,877)</u>	<u>\$ (2,984)</u>	<u>\$ -</u>

The Company expects to make a contribution of \$5,557 thousand and \$5,671 thousand, respectively, to the defined benefit plans in 2014 and 2013.

## 23. EQUITY

### a. Common stock

#### 1) Ordinary shares

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Number of shares authorized (in thousands)	<u>680,000</u>	<u>580,000</u>	<u>480,000</u>
Shares authorized	<u>\$ 6,800,000</u>	<u>\$ 5,800,000</u>	<u>\$ 4,800,000</u>
Number of shares issued and fully paid (in thousands)	<u>661,132</u>	<u>574,897</u>	<u>463,627</u>
Shares issued	<u>\$ 6,611,319</u>	<u>\$ 5,748,973</u>	<u>\$ 4,636,269</u>

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

#### 2) Global depositary receipts

As of December 31, 2013, a total of 563,529.8 Global Depositary Receipts (“GDRs”) (representing 2,817,649 shares of the Company’s common stock), each GDR representing five shares of the Company’s common stock, were traded on the Euro MTF Market of the Luxembourg Stock Exchange. Holders of the GDRs may request at any time that the shares represented by the GDRs be transferred to them.

b. Capital surplus

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Treasury share transactions	<u>\$ 43,620</u>	<u>\$ 35,240</u>	<u>\$ 27,130</u>

Under the Company Law, the capital surplus recognized in treasury share transactions may be used to offset a deficit. In addition, when the Company has no deficit, such capital surplus may be transferred to capital (limited to a certain percentage of the Company's paid in capital in a year) or distributed in cash.

c. Retained earnings and dividend policy

According to the Company's revised Articles of Incorporation, effective on June 14, 2013, the following shall be appropriated from the annual net income (less any deficit):

- 1) 10% thereof as legal reserve;
- 2) Special reserve provided or reversed in accordance with the regulations;
- 3) Bonus to employees at no less than 1% and remuneration to directors and supervisors at 1% of the remainder; and
- 4) 30% to 100% of the sum of the remainder and prior years' unappropriated earnings as dividends.

The Company's Articles of Incorporation also prescribe that 30% to 100% of dividends shall be paid in cash; however, if the Company has major investment plans for which external funds are not available, the percentage may be lowered to 5% to 20%.

For the years ended December 31, 2013 and 2012, the bonus to employees was \$23,431 thousand and \$28,200 thousand, respectively, and the remuneration to directors and supervisors was \$16,736 thousand and \$20,143 thousand, respectively. The bonus to employees was 1.4% and the remuneration to directors and supervisors was 1% of the net income for the respective years, minus the legal reserve to be appropriated. Material differences between such 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 were 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 company should appropriate to a special reserve an amount equal to the total of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the company’s use of exemptions under IFRS 1. However, at the date of transition 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 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 deficit in subsequent years. No appropriation of earnings shall be made until any shortage of the aforementioned special reserve used to offset deficit is appropriated in subsequent years if the company has earnings and the original need to appropriate a special reserve is not eliminated.

Unrealized revaluation increment in the amount of \$23,134 thousand was transferred to retained earnings. The Company had a decrease in retained earnings of \$38,623 thousand that resulted from all IFRSs adjustments; therefore, no special reserve was appropriated.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company’s paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2012 and 2011 had been approved in the shareholders’ meetings on June 14, 2013 and June 6, 2012, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share</b>	
	<b>For the Years Ended</b>		<b>(NT\$)</b>	
	<b>December 31</b>		<b>For the Years Ended</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Legal reserve	\$ 223,806	\$ 245,836		
Cash dividends	1,149,794	1,112,704	\$ 2.0	\$ 2.4
Stock dividends	862,346	1,112,704	1.5	2.4

Bonus to employees and remuneration to directors and supervisors for 2012 and 2011 approved in the shareholders’ meetings on June 14, 2013 and June 6, 2012, respectively, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Bonus to employees - cash	\$ 28,200	\$ 30,975
Remuneration of directors and supervisors	20,143	22,125

The appropriations of earnings for 2012 were proposed according to the Company’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 Standards in the Republic of China (“ROC GAAP”), and by reference to the balance sheet as of December 31, 2012, which was prepared in accordance with the Regulations.

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.

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

d. Other equity items

1) Exchange differences on translating foreign operations

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Balance at January 1	\$ 34,912	\$ 154,322
Exchange differences arising on translating foreign operations	236,193	(142,804)
Income tax related to gains arising on translating net assets of foreign operations	(40,154)	24,277
Share of exchange difference of associates accounted for using the equity method	-	(1,063)
Income tax related to share of exchange difference of associates accounted for using the equity method	-	180
Disposal of share of exchange difference of associates accounted for using equity method	(2,158)	-
Income tax related to disposal of share of exchange difference of associates accounted for using equity method	<u>367</u>	<u>-</u>
Balance at December 31	<u>\$ 229,160</u>	<u>\$ 34,912</u>

2) Unrealized gain (loss) on available-for-sale financial assets

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Balance at January 1	\$ 21,665	\$ (3,688)
Unrealized gain arising on revaluation of available-for-sale financial assets	3,930	5,037
Cumulative (gain)/loss reclassified to profit or loss on sale of available-for-sale financial assets	(1,615)	(1,708)
Share of unrealized gain on revaluation of available-for-sale financial assets of subsidiaries accounted for using the equity method	(16,283)	25,371
Income tax related to share of unrealized gain on revaluation of available-for-sale financial asset of subsidiaries accounted for using equity method	<u>3,090</u>	<u>(3,347)</u>
Balance at December 31	<u>\$ 10,787</u>	<u>\$ 21,665</u>

e. Treasury shares

<b>Purpose of Buy-back</b>	<b>Shares Held by Subsidiaries (In Thousands of Shares)</b>
Number of shares at January 1, 2012	3,379
Increase during the year	<u>811</u>
Number of shares at December 31, 2012	<u>4,190</u>
Number of shares at January 1, 2013	4,190
Increase during the year	<u>629</u>
Number of shares at December 31, 2013	<u>4,819</u>

For the purpose of maintaining the Company's credit and shareholders' equity, the Company's shares held by its subsidiaries at the end of the reporting periods were as follows:

<b>Name of Subsidiary</b>	<b>Number of Shares Held (In Thousands of Shares)</b>	<b>Carrying Amount</b>	<b>Market Price</b>
<u>December 31, 2013</u>			
Chang Hui	4,819	\$ <u>21,182</u>	\$ <u>448,167</u>
<u>December 31, 2012</u>			
Chang Hui	4,190	\$ <u>21,182</u>	\$ <u>333,108</u>
<u>January 1, 2012</u>			
Chang Hui	3,379	\$ <u>21,182</u>	\$ <u>310,874</u>

The subsidiaries holding treasury shares, however, retain shareholders' rights, except the rights to participate in any share issuance for cash and to vote.

## 24. NET PROFIT

Net profit includes:

a. Other income

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Operating lease rental income		
Investment properties	\$ <u>3,240</u>	\$ <u>3,139</u>

(Continued)

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Interest income		
Bank deposits	\$ 19,938	\$ 10,687
Available-for-sale financial assets	<u>-</u>	<u>386</u>
	<u>19,938</u>	<u>11,073</u>
Dividends	<u>7,101</u>	<u>155,416</u>
	<u>\$ 30,279</u>	<u>\$ 169,628</u>
		(Concluded)

b. Other gains and losses

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Gain on disposal of property, plant and equipment	\$ 426	\$ 54,519
Gain on disposal of associates	2,193	1,708
Net foreign exchange gains/(losses)	23,927	(424)
Net gain/(loss) arising on financial assets designated as at fair value through profit or loss	58,004	(9,917)
Impairment loss arising on financial assets measured at cost	(15,190)	(8,941)
Others	<u>15,031</u>	<u>13,648</u>
	<u>\$ 84,391</u>	<u>\$ 50,593</u>

c. Finance costs

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Interest on bank loans	\$ 821	\$ -
Interest on obligations under finance leases	<u>108</u>	<u>148</u>
	<u>\$ 929</u>	<u>\$ 148</u>

d. Impairment loss on financial assets (reversal of impairment losses)

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Trade receivables	\$ 282	\$ (3,167)
Financial assets measured at cost	<u>15,190</u>	<u>8,941</u>
	<u>\$ 15,472</u>	<u>\$ 5,774</u>

e. Depreciation and amortization

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Property, plant and equipment	\$ 119,045	\$ 95,692
Investment property	416	415
Intangible assets (included in operating costs/operating expense)	<u>24,628</u>	<u>29,412</u>
	<u>\$ 144,089</u>	<u>\$ 125,519</u>
 An analysis of deprecation by function		
Operating costs	\$ 81,609	\$ 63,339
Operating expenses	37,436	32,353
Non-operating income and expense	<u>416</u>	<u>415</u>
	<u>\$ 119,461</u>	<u>\$ 96,107</u>
 An analysis of amortization by function		
Operating costs	\$ 9,291	\$ 11,101
Selling and marketing expenses	2,522	3,154
General and administrative expenses	<u>12,815</u>	<u>15,157</u>
	<u>\$ 24,628</u>	<u>\$ 29,412</u>

f. Operating expenses directly related to investment properties

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Direct operating expenses of investment properties that generated rental income	<u>\$ 416</u>	<u>\$ 415</u>

g. Employee benefits expense

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Post-employment benefits (see Note 22)		
Defined contribution plans	\$ 22,825	\$ 21,620
Defined benefit plans	<u>6,112</u>	<u>6,509</u>
	28,937	28,129
Termination benefits	1,303	1,964
Other employee benefits	<u>854,669</u>	<u>822,796</u>
Total employee benefits expense	<u>\$ 884,909</u>	<u>\$ 852,889</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 426,451	\$ 399,095
Operating expenses	<u>458,458</u>	<u>453,794</u>
	<u>\$ 884,909</u>	<u>\$ 852,889</u>

h. Gain or loss on foreign currency exchange

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Foreign exchange gains	\$ 56,507	\$ 10,731
Foreign exchange losses	<u>(32,580)</u>	<u>(11,155)</u>
Net gains (losses)	<u>\$ 23,927</u>	<u>\$ (424)</u>

i. Impairment losses on non-financial assets

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Inventories (included in operating costs)	<u>\$ 11,648</u>	<u>\$ 1,432</u>

## 25. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Current tax		
In respect of the current year	\$ 341,970	\$ 430,447
Income tax expense of unappropriated earnings	212	-
In respect of prior periods	<u>4,875</u>	<u>31,091</u>
	347,057	461,538
Deferred tax		
In respect of the current year	<u>749</u>	<u>2,003</u>
Income tax expense recognized in profit or loss	<u>\$ 347,806</u>	<u>\$ 463,541</u>

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

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Profit before tax	<u>\$ 2,207,388</u>	<u>\$ 2,704,671</u>
Income tax expense calculated at the statutory rate	\$ 375,256	\$ 459,794
Nondeductible expenses in determining taxable income	9,402	29,049
Tax-exempt income	(41,939)	(56,393)
Additional income tax on unappropriated earnings	212	-
Adjustments for prior years' tax	<u>4,875</u>	<u>31,091</u>
Income tax expense recognized in profit or loss	<u>\$ 347,806</u>	<u>\$ 463,541</u>

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

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

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<u>Deferred tax</u>		
In respect of the current year		
Translation of foreign operations	\$ 40,154	\$ (24,277)
Actuarial gains and losses on defined benefit plan	(4,244)	(4,135)
Share of other comprehensive income of subsidiaries and associates	<u>(3,090)</u>	<u>3,167</u>
	<u>32,820</u>	<u>(25,245)</u>
Arising on income and expenses reclassified from equity to profit or loss:		
On disposal of exchange difference of associates	<u>(367)</u>	<u>-</u>
	<u>(367)</u>	<u>-</u>
Total income tax recognized in other comprehensive income	<u>\$ 32,453</u>	<u>\$ (25,245)</u>

c. Current tax assets and liabilities

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Current tax liabilities			
Income tax payable	<u>\$ 107,503</u>	<u>\$ 212,420</u>	<u>\$ 213,845</u>

d. Deferred tax assets and liabilities

For the year ended December 31, 2013

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Loss on foreign investment	\$ 212,794	\$ 2,842	\$ -	\$ 215,636
Defined benefit obligation	19,150	64	4,244	23,458
Deferred sales return and allowance	5,911	(201)	-	5,710
Allowance for inventory loss	3,074	1,980	-	5,054
Available-for-sale financial assets	-	-	44	44
Others	<u>9,122</u>	<u>(2,561)</u>	<u>-</u>	<u>6,561</u>
	<u>\$ 250,051</u>	<u>\$ 2,124</u>	<u>\$ 4,288</u>	<u>\$ 256,463</u>

(Continued)

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reverse for land value increment tax	\$ 33,685	\$ -	\$ -	\$ 33,685
Exchange difference on foreign operations	7,151	-	39,787	46,938
Available-for-sale financial assets	3,046	-	(3,046)	-
Others	<u>-</u>	<u>2,873</u>	<u>-</u>	<u>2,873</u>
	<u>\$ 43,882</u>	<u>\$ 2,873</u>	<u>\$ 36,741</u>	<u>\$ 83,496</u> (Concluded)

For the year ended December 31, 2012

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Loss on foreign investment	\$ 216,407	\$ (3,613)	\$ -	\$ 212,794
Defined benefit obligation	14,989	26	4,135	19,150
Deferred sales return and allowance	6,037	(126)	-	5,911
Allowance for inventory loss	2,831	243	-	3,074
Available-for-sale financial assets	301	-	(301)	-
Others	<u>7,655</u>	<u>1,467</u>	<u>-</u>	<u>9,122</u>
	<u>\$ 248,220</u>	<u>\$ (2,003)</u>	<u>\$ 3,834</u>	<u>\$ 250,051</u>

Deferred tax liabilities

Temporary differences				
Reverse for land value increment tax	\$ 33,685	\$ -	\$ -	\$ 33,685
Exchange difference on foreign operations	31,608	-	(24,457)	7,151
Available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>3,046</u>	<u>3,046</u>
	<u>\$ 65,293</u>	<u>\$ -</u>	<u>\$ (21,411)</u>	<u>\$ 43,882</u>

e. Information about tax-exemption

As of December 31, 2013, profits attributable to the following expansion projects were exempted from income tax for a five-year period:

<u>Expansion Project</u>	<u>Tax-exemption Period</u>
Expansion of 2009	From 2011 to 2015

f. Integrated income tax

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Unappropriated earnings			
Unappropriated earnings generated before January 1, 1998	\$ -	\$ 1,963	\$ 1,963
Unappropriated earnings generated on and after January 1, 1998	<u>2,326,179</u>	<u>2,724,545</u>	<u>2,972,575</u>
	<u>\$ 2,326,179</u>	<u>\$ 2,726,508</u>	<u>\$ 2,974,538</u>
Imputation credit accounts	<u>\$ 355,688</u>	<u>\$ 320,408</u>	<u>\$ 343,187</u>

Under the Income Tax Law, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Company are calculated based on the creditable ratio as of the date of dividend distribution. Because the Company is unable to predict the amount of the imputation credits to be transferred from investees before the dividend distribution date, the creditable ratio for distribution of earnings of 2013 can not be reasonably estimated. The creditable ratio for distribution of earnings of 2012 was 19.61%.

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 IFRSs

g. Income tax assessments

The tax returns through 2010 have been assessed by the tax authorities.

## 26. EARNINGS PER SHARE

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on July 23, 2013. This adjustment caused the basic and diluted after-tax earnings per share for the year ended December 31, 2012 to decrease from \$3.92 to \$3.41 both.

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

### Net Profit for the Year

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Profit for the period attributable to owners of the Company	\$ 1,859,582	\$ 2,241,130
Effect of potentially dilutive ordinary shares:		
Bonus issue to employees	<u>-</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 1,859,582</u>	<u>\$ 2,241,130</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Weighted average number of ordinary shares in computation of basic earnings per share	656,313	656,313
Effect of potentially dilutive ordinary shares:		
Bonus issue to employees	<u>412</u>	<u>633</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>656,725</u>	<u>656,946</u>

If the Company has the option to settle bonuses paid to employees in cash or shares, the Company assumes 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 effect is dilutive. 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. OPERATING LEASE ARRANGEMENTS

### a. The Company as lessee

Operating leases relate to leases of office and parking lot with lease terms between 1 and 5 years. The Company does not have a bargain purchase option to acquire the leased office and parking lot at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 31, 2012</b>
Not later than 1 year	\$ 18,317	\$ 18,188	\$ 18,637
Later than 1 year and not later than 5 years	5,239	21,506	7,892
Later than 5 years	<u>-</u>	<u>-</u>	<u>1,190</u>
	<u>\$ 23,556</u>	<u>\$ 39,694</u>	<u>\$ 27,719</u>

The lease payment recognized in profit or loss for the current period was as follows:

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Minimum lease payment	<u>\$ 28,042</u>	<u>\$ 26,551</u>

b. The Company as lessor

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

The future minimum lease payments of non-cancellable operating lease were as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Not later than 1 year	\$ 1,350	\$ 3,240	\$ 1,250
Later than 1 year and not later than 5 years	<u>-</u>	<u>1,350</u>	<u>-</u>
	<u>\$ 1,350</u>	<u>\$ 4,590</u>	<u>\$ 1,250</u>

## 28. CAPITAL MANAGEMENT

The Company's capital management objective is to ensure financial resources are available and operating plans are in place for working capital, capital expenditures, research and development expenses, refund liabilities and dividend disbursement, etc. The Company manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

## 29. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value measurements recognized in the Company's 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. 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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available-for-sale financial assets				
Listed shares				
Equity securities	\$ 18,699	\$ -	\$ -	\$ 18,699
Mutual funds	<u>13,001</u>	<u>-</u>	<u>-</u>	<u>13,001</u>
	<u>\$ 31,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,700</u>

December 31, 2012

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss				
Non-derivative financial assets held for trading				
Listed shares				
Equity securities	<u>\$ 95,525</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,525</u>
Available-for-sale financial assets				
Listed shares				
Equity securities	\$ 17,233	\$ -	\$ -	\$ 17,233
Mutual funds	<u>300,043</u>	<u>-</u>	<u>-</u>	<u>300,043</u>
	<u>\$ 317,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317,276</u>

January 1, 2012

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available-for-sale financial assets				
Listed shares				
Equity securities	\$ 16,448	\$ -	\$ -	\$ 16,448
Debt investment	30,130	-	-	30,130
Mutual funds	<u>121,220</u>	<u>-</u>	<u>-</u>	<u>121,220</u>
	<u>\$ 167,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,798</u>

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2013 and 2012.

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) The fair values of other financial assets and financial liabilities (excluding those described above) 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
<u>Financial assets</u>			
Fair value through profit or loss			
Held for trading	\$ -	\$ 95,525	\$ -
Loans and receivables (1)	2,998,207	3,036,458	2,938,959
Available-for-sale financial assets (2)	128,963	437,338	318,702
<u>Financial liabilities</u>			
Amortized cost (3)	888,893	850,553	857,215

- 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.
- 2) The balances included the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances included financial liabilities measured at amortized cost, which comprise notes payable, trade payables, finance lease payables, and other financial liabilities.

c. Financial risk management objectives and policies

The Company's major financial instruments include cash and cash equivalents, equity investments, mutual funds, debt investments with no active market, trade receivables, and trade payables. The Company's Corporate Treasury function provides services to the business, coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze 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.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (1) below) and interest rates (see (2) below).

a) Foreign currency risk

The Company's foreign currency risk arises from its foreign currency monetary assets and liabilities. The Company watches out for the fluctuation of market exchange rates, and takes appropriate actions to manage the exchange rate risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities exposed to foreign currency risk at the end of the reporting period are set out in Note 34.

### Sensitivity analysis

The Company was mainly exposed to the RMB and USD.

The following table details the Company's sensitivity to a 3% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. A change of 3% is the sensitivity rate 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 and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 3% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with New Taiwan dollars weakening 3% against the relevant currency. For a 3% strengthening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	<b>RMB</b>		<b>USD</b>	
	<b>For the Years Ended December 31</b>		<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Profit or loss	\$ 13,541 (i)	\$ 1 (i)	\$ 867 (ii)	\$ 8,436 (ii)

- i. This was mainly attributable to the exposure of outstanding RMB bank deposits, which were not hedged at the end of the reporting period.
- ii. This was mainly attributable to the exposure of outstanding USD bank deposits and trade payables, which were not hedged at the end of the reporting period.

The Company's sensitivity about foreign currency increased during the current year mainly due to the increase in RMB bank deposits.

#### b) Interest rate risk

The Company was exposed to interest rate risk because the Company held deposits at fixed rate and repurchase agreements collateralized by bonds. The Company pays attention to the fluctuations of exchange rates in the market, and takes appropriate actions to manage the exchange rate risk.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting periods were as follows.

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Fair value interest rate risk			
Financial assets	\$ 946,752	\$ 751,703	\$ 604,620
Financial liabilities	1,415	2,183	2,912

#### c) Other price risk

The Company was exposed to equity price risk due to its investments in listed equity securities and mutual funds. The Company has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

### Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the year ended December 31, 2012 would have increased/decreased by \$955 thousand, as a result of the changes in fair value of held-for-trading investments which have been impaired, and the pre-tax other comprehensive income for the years ended December 31, 2013 and 2012 would increase/decrease by \$317 thousand and \$3,173 thousand, respectively, as a result of the changes in fair value of available-for-sale shares.

The Company's sensitivity to prices decreased during the current year mainly due to the decreases in financial assets at fair value through profit or loss and available-for-sale financial assets.

#### 2) Credit risk

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

In order to minimize credit risk, management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts.

The Company's concentration of credit risk of 74%, 71% and 74% in total trade receivables as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively, was related to the Company's four largest customers.

#### 3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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 Company had available unutilized bank loan facilities in the amounts of \$2,487,465 thousand, \$2,832,320 thousand and \$2,993,575 thousand as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

The following table details the Company'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 Company can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2013

	<b>Weighted Average Effective Interest Rate (%)</b>	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing		\$ 79,832	\$ 159,665	\$ 718,492	\$ 900
Finance lease liabilities	5.44	<u>73</u>	<u>146</u>	<u>604</u>	<u>685</u>
		<u>\$ 79,905</u>	<u>\$ 159,811</u>	<u>\$ 719,096</u>	<u>\$ 1,585</u>

December 31, 2012

	<b>Weighted Average Effective Interest Rate (%)</b>	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing		\$ 74,118	\$ 148,235	\$ 667,058	\$ 900
Finance lease liabilities	5.44	<u>73</u>	<u>146</u>	<u>657</u>	<u>1,539</u>
		<u>\$ 74,191</u>	<u>\$ 148,381</u>	<u>\$ 667,715</u>	<u>\$ 2,439</u>

January 1, 2012

	<b>Weighted Average Effective Interest Rate (%)</b>	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing		\$ 73,939	\$ 147,878	\$ 665,450	\$ 900
Finance lease liabilities	5.44	<u>73</u>	<u>146</u>	<u>657</u>	<u>2,385</u>
		<u>\$ 74,012</u>	<u>\$ 148,024</u>	<u>\$ 666,107</u>	<u>\$ 3,285</u>

### 30. TRANSACTIONS WITH RELATED PARTIES

The transactions between the Company and its related parties, other than those disclosed in other notes, are summarized as follows:

a. Business transactions

Related Parties Types	Sales of Goods		Purchases of Goods	
	For the Years Ended December 31		For the Years Ended December 31	
	2013	2012	2013	2012
Subsidiaries	\$ <u>1,092,091</u>	\$ <u>917,697</u>	\$ <u>721,552</u>	\$ <u>692,363</u>

Sales to related parties and purchases from related parties were made at the Company's usual list prices.

Related Parties Types	December 31, 2013	December 31, 2012	January 1, 2012
<u>Receivables from related parties</u>			
Subsidiaries	\$ <u>104,049</u>	\$ <u>91,091</u>	\$ <u>86,344</u>
<u>Payables to related parties</u>			
Subsidiaries	\$ <u>-</u>	\$ <u>647</u>	\$ <u>-</u>

The outstanding trade payables to related parties are unsecured. The outstanding trade receivables from related parties are unsecured. No expense was recognized for the years ended December 31, 2013 and 2012 for allowance for impairment of trade receivables with respect to the amounts owed by related parties.

b. Other receivables from related parties

Related Parties Types	December 31, 2013	December 31, 2012	January 1, 2012
<u>Other receivables</u>			
Subsidiaries	\$ <u>2,120</u>	\$ <u>804</u>	\$ <u>640</u>

c. Property, plant and equipment disposed of

Related Parties Types	For the Years Ended December 31			
	2013		2012	
	Price	Gain (Loss) on Disposal	Price	Gain (Loss) on Disposal
Subsidiaries	\$ <u>1,108</u>	\$ <u>16</u>	\$ <u>-</u>	\$ <u>-</u>

d. Royalty revenues

<b>Related Parties Types</b>	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Subsidiaries	<u>\$ 2,659</u>	<u>\$ 2,453</u>

e. Compensation of key management personnel

	<b>For the Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Short-term employee benefits	\$ 21,642	\$ 24,187
Post-employment benefits	<u>717</u>	<u>725</u>
	<u>\$ 22,359</u>	<u>\$ 24,912</u>

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

### 31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Properties, plant and equipment	<u>\$ 256,594</u>	<u>\$ 271,132</u>	<u>\$ 286,634</u>

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2013 were as follows:

- a. The Company has entered into a license agreement with The Quaker Oats Company (“Quaker”) for a period ending July 11, 2024. The agreement provides that the Company may use Quaker’s trademark, and process, manufacture, market and sell Quaker baby cereal, oatmeal, fruit cereal, ready-to-eat cereal, sesame paste, milk powder and other cereal products in the ROC. In consideration of the above, the Company shall pay Quaker royalties at an agreed percentage of net sales (as defined).
- b. Unused letters of credit of approximately US\$700 thousand and JPY88,000 thousand.
- c. Commitments for purchase of properties of approximately \$92,000 thousand.

### 33. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On March 26, 2014, the board of directors of the Company determined the investment projects in mainland China. The Company will invest US\$35,000 thousand in Cayman Standard, and Cayman Standard will invest US\$35,000 thousand in Hong Kong Standard. Hong Kong Standard will invest US\$35,000 thousand in China Standard Investment. Then China Standard Investment will invest US\$15,000 thousand in China Standard Foods.

### 34. 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

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 1,030	29.81 (USD:NTD)	\$ 30,692
RMB	91,761	4.92 (RMB:NTD)	451,372
EUR	1	41.09 (EUR:NTD)	34
AUD	5,781	26.59 (AUD:NTD)	<u>153,686</u>
			<u>\$ 635,784</u>
Non-monetary items			
USD	1,895	29.81 (USD:NTD)	<u>\$ 56,486</u>
<u>Financial liabilities</u>			
Monetary items			
USD	60	29.81 (USD:NTD)	\$ 1,798
EUR	482	41.09 (EUR:NTD)	19,808
AUD	704	26.59 (AUD:NTD)	<u>18,713</u>
			<u>\$ 40,319</u>

December 31, 2012

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 9,833	29.04 (USD:NTD)	\$ 285,545
RMB	10	4.62 (RMB:NTD)	47
EUR	1,001	38.49 (EUR:NTD)	38,516
AUD	59	30.17 (AUD:NTD)	<u>1,767</u>
			<u>\$ 325,875</u>
Non-monetary items			
USD	9,009	29.04 (USD:NTD)	<u>\$ 261,638</u>
<u>Financial liabilities</u>			
Monetary items			
USD	149	29.04 (USD:NTD)	\$ 4,335
EUR	34	38.49 (EUR:NTD)	1,309
AUD	423	30.17 (AUD:NTD)	<u>12,769</u>
			<u>\$ 18,413</u>

January 1, 2012

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 9,021	30.28 (USD:NTD)	\$ 273,083
RMB	10	4.81 (RMB:NTD)	48
EUR	546	39.18 (EUR:NTD)	21,393
AUD	53	30.74 (AUD:NTD)	<u>1,621</u>
			<u>\$ 296,145</u>
Non-monetary items			
USD	6,820	30.28 (USD:NTD)	<u>\$ 206,522</u>
<u>Financial liabilities</u>			
Monetary items			
USD	288	30.28 (USD:NTD)	\$ 8,728
EUR	69	39.18 (EUR:NTD)	2,701
AUD	508	30.74 (AUD:NTD)	<u>15,616</u>
			<u>\$ 27,045</u>

### 35. FIRST-TIME ADOPTION OF THE REGULATIONS

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

#### 1) Reconciliation of balance sheet as of January 1, 2012

ROC GAAP		Effect of Transition		The Regulations		
Item	Amount	Presentation Difference	Recognition and Measurement Difference	Amount	Item	Note
Current assets						
Cash and cash equivalents	\$ 915,877	\$ (67,500)	\$ -	\$ 848,377	Cash and cash equivalents	5) a)
Available-for-sale financial assets - current	167,798	-	-	167,798	Available-for-sale financial assets - current	
-	-	67,500	-	67,500	Debt investments with no active market	5) a)
Notes receivable	2,341	-	-	2,341	Notes receivable	
Accounts receivable, net	1,908,171	11,981	-	1,920,152	Trade receivables from unrelated parties	5) b)
Accounts receivable - a related party	86,344	-	-	86,344	Trade receivables from related parties	
Other receivables	13,605	-	-	13,605	Other receivables	
Other receivables - a related party	640	-	-	640	Other receivables - related parties	
Inventories	1,718,028	-	-	1,718,028	Inventories	
Prepaid expenses	48,012	-	-	48,012	Prepayments	
Prepayments	218,648	-	-	218,648	Prepayments	

(Continued)

ROC GAAP	Effect of Transition				The Regulations	Note
	Item	Amount	Presentation Difference	Recognition and Measurement Difference		
Deferred income tax assets - current	\$ 16,064	\$ (16,064)	\$ -	\$ -	-	5) c)
Other current assets	3,908	-	-	3,908	Other current assets	
Total current assets	5,099,436	(4,083)	-	5,095,353		
Long-term investments						
Financial assets carried at cost - non-current	150,904	-	-	150,904	Financial assets carried at cost - non-current	
Long-term stock investments accounted for using equity method	4,182,031	-	(15,173)	4,166,858	Investments accounted for using equity method	5) l)
Total long-term investments	4,332,935	-	(15,173)	4,317,762		
Properties, net	1,079,911	(128,466)	-	951,445	Property, plant and equipment	5) d)
	-	128,757	-	128,757	Investment properties	5) e)
Intangible assets						
Computer software, net	21,076	-	-	21,076	Computer software	
Other assets						
Properties for lease, net	128,757	(128,757)	-	-	-	5) e)
Refundable deposits	12,418	-	-	12,418	Other noncurrent assets	
Deferred charges, net	17,244	(17,244)	-	-	-	5) f)
Deferred income tax assets - noncurrent	188,227	47,672	12,321	248,220	Deferred tax assets	5) c) and j)
Other noncurrent assets	-	145,710	-	145,710	Other noncurrent assets	5) d) and f)
Total other assets	346,646	47,381	12,321	406,348		
Total	\$ 10,880,004	\$ 43,589	\$ (2,852)	\$ 10,920,741	Total	
Current liabilities						
Notes payable	\$ 1,081	\$ -	\$ -	1,081	Notes payable	
Accounts payable	853,222	-	-	853,222	Trade payables	
Income tax payable, net of prepaid income tax	213,845	-	-	213,845	Current tax liabilities	
Accrued expenses	819,260	-	-	819,260	Other payables	
Other payables	46,901	-	-	46,901	Other payables	
Obligations under capital leases - current	728	-	-	728	Finance lease payables - current	
	-	11,981	-	11,981	Provisions - current	5) b)
Other current liabilities	8,127	-	-	8,127	Other current liabilities	
Total current liabilities	1,943,164	11,981	-	1,955,145		
Long-term liabilities						
Obligations under capital leases - noncurrent	2,184	-	-	2,184	Finance lease payables - noncurrent	
Reserves						
Reserve for land value increment tax	33,685	(33,685)	-	-	-	5) g)
Other liabilities						
Accrued pension liabilities	21,053	-	72,479	93,532	Accrued pension cost	5) j)
Deposits received	900	-	-	900	Deposits received	
Deferred income tax liabilities - noncurrent	-	65,293	-	65,293	Deferred tax liabilities	5) c) and g)
Total other liabilities	21,953	65,293	72,479	159,725		
Total liabilities	2,000,986	43,589	72,479	2,117,054		
Equity						
Common stock	4,636,269	-	-	4,636,269	Common stock	
Capital surplus						
Treasury stock transactions	27,130	-	-	27,130	Treasury share transactions	
Long-term stock investments	13,574	(13,574)	-	-	-	5) l)
Total capital surplus	40,704	(13,574)	-	27,130		
Retained earnings						
Legal reserve	1,036,298	\$ -	\$ -	1,036,298	Legal reserve	
Unappropriated earnings	3,013,161	36,708	(75,331)	2,974,538	Unappropriated earnings	5) h), i) and j)
Total retained earnings	4,049,459	36,708	(75,331)	4,010,836		
Others						
Cumulative translation adjustments	154,322	-	-	154,322	Foreign currency translation reserve	
Unrealized gain (loss) on available-for-sale financial assets	(3,688)	-	-	(3,688)	Unrealized gain (loss) on available-for-sale financial assets	
Revaluation increment	23,134	(23,134)	-	-	-	5) h)
Treasury stock	(21,182)	-	-	(21,182)	Treasury share	
Total others	152,586	(23,134)	-	129,452		
Total stockholders' equity	8,879,018	-	(75,331)	8,803,687	Total equity	
Total	\$ 10,880,004	\$ 43,589	\$ (2,852)	\$ 10,920,741	Total	

(Concluded)

2) Reconciliation of balance sheet as of December 31, 2012

ROC GAAP		Effect of Transition		The Regulations		Note
		Presentation Difference	Recognition and Measurement Difference			
Item	Amount			Amount		
<b>Current assets</b>						
Cash and cash equivalents	\$ 1,095,394	\$ (294,249)	\$ -	\$ 801,145	Cash and cash equivalents	5) a)
Financial assets at fair value through profit or loss - current	95,525	-	-	95,525	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	317,276	-	-	317,276	Available-for-sale financial assets - current	
	-	294,249	-	294,249	Debt investments with no active market	5) a)
Notes receivable	2,474	-	-	2,474	Notes receivable	
Accounts receivable, net	1,806,895	10,805	-	1,817,700	Trade receivables from unrelated parties	5) b)
Accounts receivable - a related party	91,091	-	-	91,091	Trade receivables from related parties	
Other receivables	28,995	-	-	28,995	Other receivables	
Other receivables - a related party	804	-	-	804	Other receivables - related parties	
Inventories	1,674,641	-	-	1,674,641	Inventories	
Prepaid expenses	51,634	-	-	51,634	Prepayments	
Prepayments	180,574	-	-	180,574	Prepayments	
Deferred income tax assets - current	18,107	(18,107)	-	-	-	5) c)
Other current assets	11,819	-	-	11,819	Other current assets	
<b>Total current assets</b>	<b>5,375,229</b>	<b>(7,302)</b>	<b>-</b>	<b>5,367,927</b>		
<b>Long-term investments</b>						
Financial assets carried at cost - noncurrent	120,062	-	-	120,062	Financial assets carried at cost - noncurrent	
Long-term stock investments accounted for under equity method	4,902,769	-	(11,943)	4,890,826	Investments accounted for under equity method	5) l)
<b>Total long-term investments</b>	<b>5,022,831</b>	<b>-</b>	<b>(11,943)</b>	<b>5,010,888</b>		
Properties, net	1,093,285	(41,574)	-	1,051,711	Property, plant and equipment	5) d)
	-	128,342	-	128,342	Investment properties	5) e)
<b>Intangible assets</b>						
Computer software, net	17,606	-	-	17,606	Computer software	
<b>Other assets</b>						
Properties for lease, net	128,342	(128,342)	-	-	-	5) e)
Refundable deposits	12,022	-	-	12,022	Refundable deposits	
Deferred charges, net	9,605	(9,605)	-	-	-	5) f)
Deferred income tax assets - noncurrent	205,750	28,304	15,997	250,051	Deferred tax assets	5) c) and j)
Other noncurrent assets	-	51,179	-	51,179	Other noncurrent assets	5) d) and f)
<b>Total other assets</b>	<b>355,719</b>	<b>(58,464)</b>	<b>15,997</b>	<b>313,252</b>		
<b>Total</b>	<b>\$ 11,864,670</b>	<b>\$ 21,002</b>	<b>\$ 4,054</b>	<b>\$ 11,889,726</b>	<b>Total</b>	
<b>Current liabilities</b>						
Notes payable	\$ 1,392	\$ -	\$ -	\$ 1,392	Notes payable	
Accounts payable	846,331	-	-	846,331	Trade payables to unrelated parties	
Accounts payable - related parties	647	-	-	647	Trade payables to related parties	
Income tax payable, net of prepaid income tax	212,420	-	-	212,420	Current tax liabilities	
Accrued expenses	764,183	-	-	764,183	Other payables	
Other payables	59,257	-	-	59,257	Other payables	
Obligations under capital leases - current	728	-	-	728	Finance lease payables - current	
	-	10,805	-	10,805	Provisions - current	5) b)
Other current liabilities	3,595	-	-	3,595	Other current liabilities	
<b>Total current liabilities</b>	<b>1,888,553</b>	<b>10,805</b>	<b>-</b>	<b>1,899,358</b>		
<b>Long-term liabilities</b>						
Obligations under capital leases - noncurrent	1,455	-	-	1,455	Finance lease payables - noncurrent	
<b>Reserves</b>						
Reserve for land value increment tax	33,685	(33,685)	-	-		5) g)

(Continued)

ROC GAAP		Effect of Transition		The Regulations		Note
		Presentation Difference	Recognition and Measurement Difference	Amount	Item	
Item	Amount			Amount		
Other liabilities						
Accrued pension liabilities	\$ 21,776	\$ -	\$ 94,105	\$ 115,881	Accrued pension liabilities	5) j)
Deposits received	900	-	-	900	Deposits received	
Deferred income tax liabilities - noncurrent	-	43,882	-	43,882	Deferred tax liabilities	5) c) and g)
Total other liabilities	<u>22,676</u>	<u>43,882</u>	<u>94,105</u>	<u>160,663</u>		
Total liabilities	<u>1,946,369</u>	<u>21,002</u>	<u>94,105</u>	<u>2,061,476</u>		
Equity						
Common stock	<u>5,748,973</u>	-	-	<u>5,748,973</u>	Common stock	
Capital surplus						
Treasury stock transactions	35,240	-	-	35,240	Treasury share transactions	
Long-term stock investments	<u>13,574</u>	<u>(13,574)</u>	-	-	-	5) i)
Total capital surplus	<u>48,814</u>	<u>(13,574)</u>	-	<u>35,240</u>		
Retained earnings						
Legal reserve	1,282,134	-	-	1,282,134	Legal reserve	
Unappropriated earnings	<u>2,779,979</u>	<u>36,708</u>	<u>(90,179)</u>	<u>2,726,508</u>	Unappropriated earnings	5) h), i), and j)
Total retained earnings	<u>4,062,113</u>	<u>36,708</u>	<u>(90,179)</u>	<u>4,008,642</u>		
Others						
Cumulative translation adjustments	34,912	-	-	34,912	Foreign currency translation reserve	
Net loss not recognized as pension cost	(128)	-	128	-	-	5) l)
Unrealized gain (loss) on available-for-sale financial assets	21,665	-	-	21,665	Unrealized gain (loss) on available-for-sale financial assets	
Revaluation increment	23,134	(23,134)	-	-	-	5) h)
Treasury stock	<u>(21,182)</u>	-	-	<u>(21,182)</u>	Treasury share	
Total others	<u>58,401</u>	<u>(23,134)</u>	<u>128</u>	<u>35,395</u>		
Total stockholders' equity	<u>9,918,301</u>	-	<u>(90,051)</u>	<u>9,828,250</u>	Total equity	
Total	<u>\$ 11,864,670</u>	<u>\$ 21,002</u>	<u>\$ 4,054</u>	<u>\$ 11,889,726</u>	Total	

(Concluded)

## 3) Reconciliation of statement of comprehensive income for the year ended December 31, 2012

ROC GAAP		Effect of Transition		The Regulations		Note
		Presentation Difference	Recognition and Measurement Difference	Amount	Item	
Item	Amount			Amount		
Net sales	\$ 12,162,799	\$ (1,151,664)	\$ -	\$ 11,011,135	Net sales	5) k)
Cost of goods sold	<u>7,282,651</u>	-	( 1,896)	<u>7,280,755</u>	Cost of goods sold	5) j)
Gross profit	<u>4,880,148</u>	<u>(1,151,664)</u>	<u>1,896</u>	<u>3,730,380</u>	Gross profit	
Operating expenses					Operating expenses	
Selling	2,352,142	(1,151,664)	(800)	1,199,678	Selling and marketing	5) j) and k)
General and administrative	251,163	-	-	251,163	General and administrative	
Research and development	66,967	-	-	66,967	Research and development	
Total operating expenses	<u>2,670,272</u>	<u>(1,151,664)</u>	<u>(800)</u>	<u>1,517,808</u>		
Income from operations	<u>2,209,876</u>	-	<u>2,696</u>	<u>2,212,572</u>	Operating income	
Non-operating income and gains						
Interest income	11,073	-	-	11,073	Interest income	
Investment income recognized under equity method investees, net	271,196	-	830	272,026	Share of the profit or loss of subsidiaries and associates	5) l)
Dividend income	155,416	-	-	155,416	Dividend income	
Gain on disposal of properties and properties for lease	64,180	-	-	64,180	Gain on disposal of properties and properties for lease	
Gain on disposal of investments, net	1,708	-	-	1,708	Gain on disposal of investments, net	
Rent revenue	3,167	-	-	3,167	Rent revenue	
Gain on reversal of bad debts	<u>16,963</u>	-	-	<u>16,963</u>	Gain on reversal of bad debts	
Total non-operating income and gains	<u>523,703</u>	-	<u>(830)</u>	<u>524,533</u>	Non-operating income and gains	

(Continued)

ROC GAAP		Effect of Transition		The Regulations		Note
		Presentation Difference	Recognition and Measurement Difference			
Item	Amount			Amount		
Non-operating expenses and losses					Non-operating expenses and losses	
Interest expense	\$ 148	\$ -	\$ -	\$ 148	Financial costs	
Loss on disposal of properties and properties for lease	9,661	-	-	9,661	Loss on disposal of properties and properties for lease	
Foreign exchange loss, net	424	-	-	424	Foreign exchange loss, net	
Impairment loss on financial assets carried at cost	8,941	-	-	8,941	Impairment loss on financial assets carried at cost	
Valuation gain on financial assets, net	9,917	-	-	9,917	Valuation gain on financial assets at fair value through profit or loss	
Others	3,343	-	-	3,343	Others	
Total non-operating expenses and losses	32,434	-	-	32,434		
Income before income tax	\$ 2,701,145	\$ -	\$ 3,526	\$ 2,704,671	Profit before income tax	
Income tax expense	463,083	-	458	463,541	Income tax expense	5) j)
Net income	\$ 2,238,062	\$ -	\$ 3,068	2,241,130	Net profit for the year	
				(142,804)	Exchange differences on translating foreign operations	
				3,329	Unrealized gain on available-for-sale financial assets	
				(24,322)	Actuarial loss arising from defined benefit plans	
				26,579	Share of other comprehensive income of subsidiaries and associates	
				25,245	Income tax relating to the components of other comprehensive income	
				(111,973)	Other comprehensive income for the period, net of income tax	
				\$ 2,129,157	Comprehensive income for the year	

(Concluded)

#### 4) Exemptions

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

##### Investments in subsidiaries and associates

The Company 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 Company elected to take the optional exemption for the shared-based payment transactions granted and vested before the date of transition.

##### Deemed cost

For certain freehold lands, the Company 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 Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of the date of transition. In addition, the Company elected to apply the exemption disclosure requirement, in which the experience adjustments are determined for each accounting period prospectively from the transition date.

The effect of the abovementioned optional exemptions elected by the Company was stated in the following Note 5 - Explanations of significant reconciling items in the transition to the Regulations.

### 5) Explanations of significant reconciling items in the transition to the Regulations

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

#### a) 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 investment with no active market.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from time deposits with deposit terms of over three months to debt investment with no active market - current were \$294,249 thousand and \$67,500 thousand, respectively.

#### b) 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 (classified under current liabilities).

As of December 31, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and others to provisions were \$10,805 thousand and \$11,981 thousand, respectively.

#### c) Deferred income tax assets/liabilities and valuation allowance for deferred tax assets

Under ROC GAAP, deferred tax assets and liabilities are classified as current or noncurrent 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 noncurrent based on the expected length of time before they are realized or settled. Under the Regulations, deferred tax assets and liabilities are classified as noncurrent assets or 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, 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 noncurrent deferred income tax liabilities and assets. Under the Regulations, an entity should offset deferred income tax assets and deferred income tax liabilities only if:

- i. The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and,
- ii. 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 noncurrent assets were \$18,107 thousand and \$16,064 thousand, respectively, deferred tax assets and deferred tax liabilities were adjusted for an increase of \$10,197 thousand and \$31,608 thousand, respectively.

d) 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 noncurrent assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from prepayments for property, plant and equipment to other noncurrent assets were \$41,574 thousand and \$128,466 thousand, respectively.

e) Investment property

Under ROC GAAP, leased assets are classified under properties or other assets. Under the Regulations, the assets for lease or for capital appreciation 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 \$128,342 thousand and \$128,757 thousand, respectively.

f) Reclassification of deferred charges

Under ROC GAAP, deferred charges are classified as other assets. Under the Regulations, deferred charges are reclassified as properties, intangible assets, prepaid expenses and long-term prepaid expenses according to their nature.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred charges to long-term prepaid expenses (classified under other noncurrent assets) were \$9,605 thousand and \$17,244 thousand, respectively.

g) 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 \$33,685 thousand.

h) 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 \$23,134 thousand.

i) 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 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 Company and subsidiaries to apply the rule retrospectively; therefore, the Company and subsidiaries reclassified capital surplus as retained earnings. As of December 31, 2012 and January 1, 2012, the amounts of capital surplus reclassified to retained earnings were both \$13,574 thousand.

j) 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 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 Company should carry out actuarial valuation on defined benefit plans and 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.

As of December 31, 2012 and January 1, 2012, accrued pension cost was adjusted for an increase of \$94,105 thousand and \$72,749 thousand, respectively; deferred income tax assets were adjusted for an increase of \$15,977 thousand and \$12,321 thousand, respectively; pension cost was adjusted for a decrease of \$2,696 thousand and tax expense was adjusted for an increase of \$458 thousand for the year ended December 31, 2012.

k) Revenue recognition

The rewards, sponsorships and subvention for customers are operating expenses. Under the Regulations, the amounts of sales revenues equal to the rewards, sponsorships and subsidies for customers are deducted from gross sales.

For the year ended December 31, 2012, the amount reclassified from operating expenses to the amount deducted from gross sales was \$1,151,664 thousand.

l) Investment accounted for using equity method

Investment in subsidiaries is accounted for using equity method. The Company evaluates the material difference between current accounting policies and the Regulations, and the main difference is the adjustment of employee benefit.

As of December 31, 2012 and January 31, 2012, the investment accounted for using equity method was decreased by \$11,943 thousand and \$15,173 thousand; deferred pension cost was adjusted for decrease of \$128 thousand and zero, respectively. Share of profit of subsidiaries was adjusted for an increase of \$830 thousand for the year ended December 31, 2012.

6) Explanation of material adjustments to the statement of cash flows.

The Company partially acquired of 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 \$894,615 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 \$294,249 thousand and \$67,500 thousand as of December 31, 2012 and January 1, 2012, respectively, held by the Company 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 Company of \$11,854 thousand and \$155,416 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.