# Advanced Semiconductor Engineering, Inc. and Subsidiaries

## Consolidated Financial Statements for the Years Ended December 31, 2012 and 2013 and Report of Independent Registered Public Accounting Firm

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders
Advanced Semiconductor Engineering, Inc.

We have audited the accompanying consolidated balance sheets of Advanced Semiconductor Engineering, Inc. (a corporation incorporated under the laws of the Republic of China) and its subsidiaries (collectively, the "Group") as of January 1, 2012, December 31, 2012 and 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2013, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of January 1, 2012, December 31, 2012 and 2013, and its consolidated financial performance and consolidated cash flows for the years ended December 31, 2012 and 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Our audits also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of the readers.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 8, 2014 expressed an unqualified opinion on the Group's internal control over financial reporting.

Deloitte & Touche
Taipei, Taiwan
Republic of China

April 8, 2014

## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**(Amounts in Thousands)**

| ASSETS | January 1, 2012 NT$ | December 31, 2012 NT$ | December 31, 2013 NT$ | December 31, 2013 US$ (Note 4) |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 23,967,045 | $ 19,993,516 | $ 45,026,371 | $ 1,509,432 |
| Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7) | 706,755 | 4,035,000 | 2,764,269 | 92,667 |
| Available-for-sale financial assets - current (Notes 4 and 8) | 48,794 | 48,266 | 2,376,970 | 79,684 |
| Debt investments with no active market - current (Notes 4 and 10) | 90,825 | 87,120 | - | - |
| Trade receivables, net (Notes 4 and 11) | 30,599,119 | 37,423,491 | 43,235,573 | 1,449,399 |
| Other receivables (Note 4) | 693,016 | 384,613 | 422,345 | 14,158 |
| Current tax assets (Notes 4 and 25) | 101,631 | 243,675 | 150,596 | 5,048 |
| Inventories (Notes 4, 5 and 12) | 13,920,757 | 15,171,042 | 16,281,236 | 545,801 |
| Inventories related to real estate business (Notes 4, 5, 13, 24 and 35) | 16,149,498 | 16,902,018 | 18,589,255 | 623,173 |
| Other financial assets - current (Notes 4 and 35) | 501,363 | 318,885 | 278,375 | 9,332 |
| Other current assets | 2,348,483 | 2,887,951 | 3,051,492 | 102,296 |
| Total current assets | 89,127,286 | 97,495,577 | 132,176,482 | 4,430,990 |
| NON-CURRENT ASSETS | | | | |
| Available-for-sale financial assets - non-current (Notes 4 and 8) | 1,066,368 | 1,096,709 | 1,140,329 | 38,228 |
| Investments accounted for using the equity method (Notes 4 and 14) | 1,105,725 | 1,171,089 | 1,205,158 | 40,401 |
| Property, plant and equipment (Notes 4, 5, 15, 24, 35 and 36) | 112,996,056 | 127,197,774 | 131,497,331 | 4,408,224 |
| Goodwill (Notes 4, 5 and 16) | 10,374,501 | 10,306,823 | 10,347,820 | 346,893 |
| Other intangible assets (Notes 4, 5, 17 and 24) | 2,559,493 | 2,054,446 | 1,605,824 | 53,833 |
| Deferred tax assets (Notes 4, 5 and 25) | 3,637,421 | 3,745,096 | 3,684,702 | 123,523 |
| Other financial assets - non-current (Notes 4 and 35) | 317,957 | 286,160 | 354,993 | 11,901 |
| Long-term prepayments for lease (Note 18) | 3,420,700 | 4,164,062 | 4,072,281 | 136,516 |
| Other non-current assets | 356,834 | 204,854 | 637,163 | 21,360 |
| Total non-current assets | 135,835,055 | 150,227,013 | 154,545,601 | 5,180,879 |
| TOTAL | $ 224,962,341 | $ 247,722,590 | $ 286,722,083 | $ 9,611,869 |

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# ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS
## (Amounts in Thousands)

| LIABILITIES AND EQUITY | January 1, 2012 NT$ | December 31, 2012 NT$ | December 31, 2013 NT$ | December 31, 2013 US$ (Note 4) |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 19) | $ 22,965,133 | $ 36,884,926 | $ 44,618,195 | $ 1,495,749 |
| Financial liabilities at fair value through profit or loss - current (Notes 4, 5 and 7) | 134,274 | 467,148 | 1,853,304 | 62,129 |
| Derivative financial liabilities for hedging - current (Notes 4, 5 and 9) | - | 4,524 | 3,310 | 111 |
| Trade payables | 21,191,923 | 24,226,701 | 28,988,976 | 971,806 |
| Other payables (Note 21) | 15,635,861 | 15,692,194 | 14,758,553 | 494,755 |
| Current tax liabilities (Notes 4 and 25) | 3,405,021 | 3,813,148 | 4,225,390 | 141,649 |
| Advance real estate receipts (Note 4) | 47,667 | 167,017 | 19,248 | 645 |
| Current portion of bonds payable (Notes 4 and 20) | - | - | 731,438 | 24,520 |
| Current portion of long-term borrowings (Notes 19 and 35) | 3,418,799 | 3,167,050 | 5,276,206 | 176,876 |
| Other current liabilities | 1,090,792 | 1,274,263 | 1,585,177 | 53,140 |
| Total current liabilities | 67,889,470 | 85,696,971 | 102,059,797 | 3,421,380 |
| NON-CURRENT LIABILITIES | | | | |
| Derivative financial liabilities for hedging - non-current (Notes 4, 5 and 9) | 58,279 | - | - | - |
| Bonds payable (Notes 4 and 20) | 10,876,538 | 10,804,551 | 20,582,567 | 689,996 |
| Long-term borrowings (Notes 19 and 35) | 39,266,414 | 33,783,165 | 29,580,659 | 991,641 |
| Deferred tax liabilities (Notes 4, 5 and 25) | 1,377,278 | 1,806,903 | 2,663,767 | 89,298 |
| Long-term payables(Note 37) | - | - | 894,150 | 29,975 |
| Accrued pension liabilities (Notes 4, 5 and 22) | 5,000,479 | 5,264,006 | 4,545,960 | 152,396 |
| Other non-current liabilities | 702,904 | 546,562 | 651,171 | 21,829 |
| Total non-current liabilities | 57,281,892 | 52,205,187 | 58,918,274 | 1,975,135 |
| Total liabilities | 125,171,362 | 137,902,158 | 160,978,071 | 5,396,515 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 23) | | | | |
| Share capital | 67,571,325 | 76,047,667 | 78,180,258 | 2,620,860 |
| Capital surplus | 3,976,014 | 5,274,634 | 7,921,375 | 265,551 |
| Retained earnings | | | | |
| Legal reserve | 6,039,239 | 7,411,835 | 8,720,971 | 292,356 |
| Special reserve | 1,272,417 | - | 3,663,930 | 122,827 |
| Unappropriated earnings | 23,915,690 | 22,398,409 | 25,190,778 | 844,478 |
| Total retained earnings | 31,227,346 | 29,810,244 | 37,575,679 | 1,259,661 |
| Other equity | 235,088 | (2,858,749) | (102,554) | (3,438) |
| Treasury shares | (4,731,741) | (1,959,107) | (1,959,107) | (65,676) |
| Equity attributable to owners of the Company | 98,278,032 | 106,314,689 | 121,615,651 | 4,076,958 |
| NON-CONTROLLING INTERESTS (Notes 4 and 23) | 1,512,947 | 3,505,743 | 4,128,361 | 138,396 |
| Total equity | 99,790,979 | 109,820,432 | 125,744,012 | 4,215,354 |
| TOTAL | $ 224,962,341 | $ 247,722,590 | $ 286,722,083 | $ 9,611,869 |

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

## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(Amounts in Thousands Except Earnings Per Share)**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| OPERATING REVENUES (Note 4) | $ 193,972,392 | $ 219,862,446 | $ 7,370,514 |
| OPERATING COSTS (Notes 12, 22 and 24) | 157,342,744 | 177,040,435 | 5,934,979 |
| GROSS PROFIT | 36,629,648 | 42,822,011 | 1,435,535 |
| OPERATING EXPENSES (Notes 22 and 24) | | | |
| Selling and marketing expenses | 2,766,880 | 2,982,789 | 99,993 |
| General and administrative expenses | 8,283,264 | 8,712,862 | 292,084 |
| Research and development expenses | 7,872,422 | 9,064,712 | 303,879 |
| Total operating expenses | 18,922,566 | 20,760,363 | 695,956 |
| Other income and expenses (Notes 24 and 37) | 83,192 | (1,348,246) | (45,198) |
| PROFIT FROM OPERATIONS | 17,790,274 | 20,713,402 | 694,381 |
| NON-OPERATING INCOME AND EXPENSES | | | |
| Other income (Note 24) | 553,088 | 493,884 | 16,557 |
| Other gains and losses (Note 24) | 244,830 | 447,886 | 15,015 |
| Finance costs (Note 24) | (2,042,544) | (2,307,455) | (77,354) |
| Share of the profit of associates (Note 4) | 63,076 | 22,039 | 739 |
| Total non-operating income and expenses | (1,181,550) | (1,343,646) | (45,043) |
| PROFIT BEFORE INCOME TAX | 16,608,724 | 19,369,756 | 649,338 |
| INCOME TAX EXPENSE (Notes 4, 5 and 25) | 2,960,426 | 3,499,595 | 117,318 |
| PROFIT FOR THE YEAR | 13,648,298 | 15,870,161 | 532,020 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit obligation | (818,546) | 412,225 | 13,819 |
| Income tax relating to items that will not be reclassified subsequently | 140,880 | (66,706) | (2,236) |
| | (677,666) | 345,519 | 11,583 |

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## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(Amounts in Thousands Except Earnings Per Share)**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | $ (3,269,623) | $ 2,817,268 | $ 94,444 |
| Unrealized gain on available-for-sale financial assets | 16,539 | 14,839 | 497 |
| Cash flow hedges | 53,755 | 1,245 | 42 |
| Share of other comprehensive income of associates | 55,401 | 55,183 | 1,850 |
| Income tax relating to items that may be reclassified subsequently | (9,138) | (769) | (26) |
| | (3,153,066) | 2,887,766 | 96,807 |
| Other comprehensive income (loss) for the year, net of income tax | (3,830,732) | 3,233,285 | 108,390 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 9,817,566 | $ 19,103,446 | $ 640,410 |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO: | | | |
| Owners of the Company | $ 13,191,617 | $ 15,404,505 | $ 516,410 |
| Non-controlling interests | 456,681 | 465,656 | 15,610 |
| | $ 13,648,298 | $ 15,870,161 | $ 532,020 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO: | | | |
| Owners of the Company | $ 9,420,363 | $ 18,509,604 | $ 620,503 |
| Non-controlling interests | 397,203 | 593,842 | 19,907 |
| | $ 9,817,566 | $ 19,103,446 | $ 640,410 |
| EARNINGS PER SHARE (Note 26) | | | |
| Basic | $ 1.77 | $ 2.05 | $ 0.07 |
| Diluted | $ 1.73 | $ 1.99 | $ 0.07 |
| EARNINGS PER AMERICAN DEPOSIT SHARE (“ADS”) | | | |
| Basic | $ 8.86 | $10.26 | $ 0.34 |
| Diluted | $ 8.65 | $ 9.96 | $ 0.33 |

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

# ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## (Amounts in Thousands)

| | Equity Attributable to Owners of the Company | | | | | | | | | | | | | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | | | Retained Earnings | | | | Other Equity | | | | | | | |
| | Shares (In Thousands) | Amounts | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Total | Exchange Differences on Translating Foreign Operations | Unrealized Gain on Available-for-sale Financial Assets | Cash Flow Hedges | Total | Treasury Shares | Total | | |
| BALANCE AT JANUARY 1, 2012 | 6,755,707 | $ 67,571,325 | $ 3,976,014 | $ 6,039,239 | $ 1,272,417 | $ 23,915,690 | $ 31,227,346 | $ - | $ 283,460 | $ (48,372) | $ 235,088 | $ (4,731,741) | $ 98,278,032 | $ 1,512,947 | $ 99,790,979 |
| Profit for the year ended December 31, 2012 | - | - | - | - | - | 13,191,617 | 13,191,617 | - | - | - | - | - | 13,191,617 | 456,681 | 13,648,298 |
| Other comprehensive income (loss) for the year ended December 31, 2012, net of income tax | - | - | - | - | - | (677,417) | (677,417) | (3,210,248) | 71,794 | 44,617 | (3,093,837) | - | (3,771,254) | (59,478) | (3,830,732) |
| Total comprehensive income (loss) for the year ended December 31, 2012 | - | - | - | - | - | 12,514,200 | 12,514,200 | (3,210,248) | 71,794 | 44,617 | (3,093,837) | - | 9,420,363 | 397,203 | 9,817,566 |
| Appropriation of 2011 earnings | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | 1,372,596 | - | (1,372,596) | - | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | (1,272,417) | 1,272,417 | - | - | - | - | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (4,325,284) | (4,325,284) | - | - | - | - | - | (4,325,284) | - | (4,325,284) |
| Share dividends distributed by the Company | 931,600 | 9,315,995 | - | - | - | (9,315,995) | (9,315,995) | - | - | - | - | - | - | - | - |
| | 931,600 | 9,315,995 | - | 1,372,596 | (1,272,417) | (13,741,458) | (13,641,279) | - | - | - | - | - | (4,325,284) | - | (4,325,284) |
| Cash dividends distributed by subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | (22,799) | (22,799) |
| Cancel of treasury shares | (105,475) | (1,054,750) | (1,427,861) | - | - | (290,023) | (290,023) | - | - | - | - | 2,772,634 | - | - | - |
| Issue of dividends received by subsidiaries from the parent company | - | - | 83,117 | - | - | - | - | - | - | - | - | - | 83,117 | - | 83,117 |
| Changes in capital surplus from investments in associates accounted for using the equity method | - | - | 1,790 | - | - | - | - | - | - | - | - | - | 1,790 | - | 1,790 |
| Partial disposal of interests in subsidiaries and additional acquisition of partially-owned subsidiaries (Notes 23 and 29) | - | - | 2,178,714 | - | - | - | - | - | - | - | - | - | 2,178,714 | 1,443,198 | 3,621,912 |
| Issue of ordinary shares under employee share options | 20,460 | 215,097 | 462,860 | - | - | - | - | - | - | - | - | - | 677,957 | 175,194 | 853,151 |
| BALANCE AT DECEMBER 31, 2012 | 7,602,292 | 76,047,667 | 5,274,634 | 7,411,835 | - | 22,398,409 | 29,810,244 | (3,210,248) | 355,254 | (3,755) | (2,858,749) | (1,959,107) | 106,314,689 | 3,505,743 | 109,820,432 |
| Special reserve under Rule No. 1010012865 issued by the Financial Supervisory Commission (Note 23) | - | - | - | - | 3,353,938 | (3,353,938) | - | - | - | - | - | - | - | - | - |
| Profit for the year ended December 31, 2013 | - | - | - | - | - | 15,404,505 | 15,404,505 | - | - | - | - | - | 15,404,505 | 465,656 | 15,870,161 |
| Other comprehensive income for the year ended December 31, 2013, net of income tax | - | - | - | - | - | 348,904 | 348,904 | 2,684,727 | 70,992 | 476 | 2,756,195 | - | 3,105,099 | 128,186 | 3,233,285 |
| Total comprehensive income for the year ended December 31, 2013 | - | - | - | - | - | 15,753,409 | 15,753,409 | 2,684,727 | 70,992 | 476 | 2,756,195 | - | 18,509,604 | 593,842 | 19,103,446 |
| Issue of ordinary shares for cash (Note 23) | 130,000 | 1,300,000 | 2,093,000 | - | - | - | - | - | - | - | - | - | 3,393,000 | - | 3,393,000 |
| Appropriation of 2012 earnings | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | 1,309,136 | - | (1,309,136) | - | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 309,992 | (309,992) | - | - | - | - | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (7,987,974) | (7,987,974) | - | - | - | - | - | (7,987,974) | - | (7,987,974) |
| | - | - | - | 1,309,136 | 309,992 | (9,607,102) | (7,987,974) | - | - | - | - | - | (7,987,974) | - | (7,987,974) |
| Cash dividends distributed by subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | (99,597) | (99,597) |
| Issue of dividends received by subsidiaries from the parent company | - | - | 153,097 | - | - | - | - | - | - | - | - | - | 153,097 | - | 153,097 |
| Partial disposal of interests in subsidiaries and additional acquisition of partially-owned subsidiaries (Notes 23 and 29) | - | - | (330) | - | - | - | - | - | - | - | - | - | (330) | 27,826 | 27,496 |
| Changes in capital surplus from investments in associates accounted for using the equity method | - | - | 1,457 | - | - | - | - | - | - | - | - | - | 1,457 | - | 1,457 |
| Issue of ordinary shares under employee share options | 55,535 | 832,591 | 399,517 | - | - | - | - | - | - | - | - | - | 1,232,108 | 100,547 | 1,332,655 |
| BALANCE AT DECEMBER 31, 2013 | 7,787,827 | $ 78,180,258 | $ 7,921,375 | $ 8,720,971 | $ 3,663,930 | $ 25,190,778 | $ 37,575,679 | $ (525,521) | $ 426,246 | $ (3,279) | $ (102,554) | $ (1,959,107) | $ 121,615,651 | $ 4,128,361 | $ 125,744,012 |
| US. DOLLARS (Note 4) BALANCE AT DECEMBER 31, 2013 | 7,787,827 | $ 2,620,860 | $ 265,551 | $ 292,356 | $ 122,827 | $ 844,478 | $ 1,259,661 | $ (17,617) | $ 14,289 | $ (110) | $ (3,438) | $ (65,676) | $ 4,076,958 | $ 138,396 | $ 4,215,354 |

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

# ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in Thousands)**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before income tax | $ 16,608,724 | $ 19,369,756 | $ 649,338 |
| Adjustments for: | | | |
| Depreciation expense | 22,473,857 | 24,696,607 | 827,912 |
| Amortization expense | 962,022 | 774,304 | 25,957 |
| Net (gains) losses on fair value change of financial assets and liabilities at fair value through profit or loss | 717,664 | (795,359) | (26,663) |
| Interest expense | 2,004,315 | 2,257,144 | 75,667 |
| Interest income | (322,197) | (212,801) | (7,134) |
| Dividend income | (66,129) | (131,449) | (4,407) |
| Compensation cost of employee share options | 537,461 | 260,801 | 8,743 |
| Share of profit of associates | (63,076) | (22,039) | (739) |
| Impairment loss recognized on financial assets | 23,693 | 196,325 | 6,581 |
| Impairment loss recognized on non-financial assets | 592,972 | 949,015 | 31,814 |
| Compensation cost for the settlement of legal claims | - | 894,150 | 29,975 |
| Others | (263,456) | 451,240 | 15,127 |
| Changes in operating assets and liabilities | | | |
| Financial assets held for trading | 871,970 | 1,122,280 | 37,623 |
| Trade receivables | (6,683,680) | (5,767,254) | (193,337) |
| Other receivables | 252,044 | (6,540) | (219) |
| Inventories | (2,434,715) | (3,241,115) | (108,653) |
| Other current assets | (543,304) | (108,425) | (3,635) |
| Financial liabilities held for trading | (805,635) | (1,011,975) | (33,925) |
| Trade payables | 2,992,599 | 4,722,462 | 158,313 |
| Other payables | (96,222) | 1,068,223 | 35,810 |
| Other current liabilities | 738,146 | 2,796 | 94 |
| Other operating activities items | (695,839) | (191,631) | (6,424) |
| | 36,801,214 | 45,276,515 | 1,517,818 |
| Interest received | 337,819 | 182,164 | 6,107 |
| Dividend received | 121,033 | 176,058 | 5,902 |
| Interest paid | (2,140,357) | (2,200,143) | (73,756) |
| Income tax paid | (2,081,690) | (2,138,639) | (71,694) |
| Net cash generated from operating activities | 33,038,019 | 41,295,955 | 1,384,377 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of financial assets designated as at fair value through profit or loss | (11,624,529) | (53,135,894) | (1,781,290) |
| Proceeds from disposal of financial assets designated as at fair value through profit or loss | 7,788,016 | 55,032,536 | 1,844,872 |
| Purchase of available-for-sale financial assets | (891,233) | (3,474,152) | (116,465) |

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## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in Thousands)**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Proceeds on sale of available-for-sale financial assets | $ 824,343 | $ 1,093,408 | $ 36,655 |
| Cash received from return of capital by available-for-sale financial assets | 34,598 | 27,368 | 917 |
| Purchase of held-to-maturity financial assets | - | (88,169) | (2,956) |
| Proceeds on sale of held-to-maturity financial assets | - | 73,716 | 2,471 |
| Net cash outflow on acquisition of subsidiaries | (261,607) | (250,387) | (8,394) |
| Payments for property, plant and equipment | (39,029,496) | (29,142,719) | (976,960) |
| Proceeds from disposal of property, plant and equipment | 484,800 | 351,546 | 11,785 |
| Payments for intangible assets | (445,951) | (313,110) | (10,496) |
| Proceeds from disposal of intangible assets | 4,309 | - | - |
| Decrease in other financial assets | 217,468 | 4,513 | 151 |
| Increase in other non-current assets | (918,566) | (104,499) | (3,503) |
| Net cash used in investing activities | (43,817,848) | (29,925,843) | (1,003,213) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from short-term borrowings | 13,919,793 | 7,051,874 | 236,402 |
| Proceeds from issue of convertible bonds | - | 11,900,051 | 398,929 |
| Proceeds from long-term borrowings | 13,840,778 | 28,715,694 | 962,645 |
| Repayment of long-term borrowings | (18,969,491) | (31,382,333) | (1,052,039) |
| Dividends paid | (4,242,167) | (7,834,877) | (262,651) |
| Proceeds from issue of ordinary shares | - | 3,393,000 | 113,745 |
| Proceeds from exercise of employee share options | 315,690 | 1,071,854 | 35,932 |
| Increase (decrease) in non-controlling interests | 3,602,439 | (72,101) | (2,417) |
| Other financing activities items | (11,287) | (48,291) | (1,620) |
| Net cash generated from financing activities | 8,455,755 | 12,794,871 | 428,926 |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | (1,649,455) | 867,872 | 29,094 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,973,529) | 25,032,855 | 839,184 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 23,967,045 | 19,993,516 | 670,248 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 19,993,516 | $ 45,026,371 | $ 1,509,432 |

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

(Amounts in Thousands, Unless Stated Otherwise)

## 1. GENERAL INFORMATION

Advanced Semiconductor Engineering, Inc. (the "Company"), a corporation incorporated under the laws of Republic of China (the "ROC"), and its subsidiaries (collectively referred to as the "Group") offer a comprehensive range of semiconductors packaging, testing, and electronic manufacturing services ("EMS").

The Company's ordinary shares have been listed on the Taiwan Stock Exchange (the "TSE") under the symbol "2311". Since September 2000, the ordinary shares of the Company have been traded on the New York Stock Exchange (the "NYSE") under the symbol "ASX" in the form of American Depositary Shares ("ADS"). Its subsidiary, Universal Scientific Industrial (Shanghai) Co., Ltd, have been listed on the Shanghai Stock Exchange (the "SSE") under the symbol "601231".

The functional currency of the Company and the reporting currency of the consolidated financial statements are both New Taiwan dollar (NT$).

## 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issue by the management on April 8, 2014.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) AS ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

The consolidated financial statements are the first IFRSs annual consolidated financial statements prepared for the year ended December 31, 2013. Prior to 2013, the Group prepared and reported its consolidated financial statements in accordance with accounting principles generally accepted in the ROC. The Group's date of transition to IFRSs is January 1, 2012 (the "Transition Date") and the effect of the transition to IFRSs is disclosed in Note 41.

a. New and revised or amended standards and interpretations in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| New, Revised or Amended Standards and Interpretations | | Effective Date Issued by IASB (Note) |
|---|---|---|
| IFRS 9 | Financial Instruments | Tentatively determined as January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date and Transition Disclosures | Tentatively determined as January 1, 2018 |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities | January 1, 2014 |
| IFRS 14 | Regulatory Deferral Accounts | January 1, 2016 |
| Amendment to IAS 19 | Defined Benefit Plans: Employee Contributions | July 1, 2014 |

(Continued)

| New, Revised or Amended Standards and Interpretations | | Effective Date Issued by IASB (Note) |
|---|---|---|
| Amendment to IAS 32 | Offsetting of Financial Assets and Financial Liabilities | January 1, 2014 |
| Amendments 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 |
| IFRSs (Amendments) | Annual Improvements to IFRSs: 2010-2012 Cycle | July 1, 2014 or transactions on or after July 1, 2014 |
| IFRSs (Amendments) | Annual Improvements to IFRSs: 2011-2013 Cycle | July 1, 2014 |

(Concluded)

Note : The aforementioned new, revised or amended standards or interpretations are effective for annual period beginning on or after the effective dates, unless specified otherwise.

b. Significant changes in accounting policy resulted from new, revised and amended standards and interpretations in issue but not yet effective

Except for the following, the Group believes that the adoption of aforementioned new, revised and amended standards or interpretations will not have a material effect on the Group’s accounting policies.

**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” to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the balance sheet date. However, the Group 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.

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity’s risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

The management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

**Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"**

In issuing IFRS 13 "Fair Value Measurement", the IASB made consequential amendments to the disclosure requirements in IAS 36 "Impairment of Assets", introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendments clarify that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

**Annual Improvements to IFRSs: 2010-2012 Cycle**

Several standards including IFRS 2 "Share-Based Payment", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments" were amended in these annual improvements.

The amended IFRS 2 changes the definitions of 'vesting condition' and 'market condition' and adds definitions for "performance condition" and "service condition". The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the Group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

**Annual Improvements to IFRSs: 2011-2013 Cycle**

Several standards including IFRS 3, IFRS 13 and IAS 40 "Investment Property" were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

c. The impact of the application of the IFRSs in issue but not yet effective on the Group’s consolidated financial statements is as follows:

As of the date the consolidated financial statements were authorized for issue, the Group is continuingly assessing the possible impact that the application of the above New IFRSs will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is complete.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The consolidated financial statements have been prepared in accordance with IFRSs as issued by IASB.

b. Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The opening consolidated balance sheets at the Transition Date were prepared in accordance with IFRS 1 “First-Time Adoption of International Financial Reporting Standards”. The applicable IFRSs have been applied retrospectively by the Group except for some aspects where other IFRSs prohibit retrospective application and specified areas where IFRS 1 grants limited exemptions from the requirements of other IFRSs. For the exemptions that the Group elected, refer to Note 41 to the consolidated financial statements.

c. Classification of Current and Non-current Assets and Liabilities

Current assets include cash and cash equivalents and those assets held primarily for trading purposes or to be realized within twelve months after the balance sheet date, unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than twelve months after the balance sheet date. Property, plant and equipment, intangible assets, other than assets classified as current are classified as non-current. Current liabilities are obligations incurred for trading purposes or to be settled within twelve months after the balance sheet date and liabilities that do not have an unconditional right to defer settlement for at least twelve months after the balance sheet date. Liabilities that are not classified as current are classified as non-current.

For the Group’s real estate business, whose operating cycle is longer than one year, the length of the operating cycle is the basis for classifying the Group’s real estate related assets and liabilities as current or non-current.

d. Basis of Consolidation

1) Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

<u>Attribution of total comprehensive income to non-controlling interests</u>

Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

<u>Changes in the Group’s ownership interests in existing subsidiaries</u>

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control over a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2) Subsidiaries included in the consolidated financial statements

| Name of Investee | Main Businesses | Establishment and Operating Location | Percentage of Ownership (%) January 1, 2012 | December 31, 2012 | December 31, 2013 |
|---|---|---|---|---|---|
| A.S.E. Holding Limited | Holding company | Bermuda | 100.0 | 100.0 | 100.0 |
| J & R Holding Limited (J&R Holding) | Holding company | Bermuda | 100.0 | 100.0 | 100.0 |
| Innosource Limited | Holding company | British Virgin Islands | 100.0 | 100.0 | 100.0 |
| Omniquest Industrial Limited | Holding company | British Virgin Islands | 100.0 | 100.0 | 100.0 |
| ASE Marketing & Service Japan Co., Ltd. | Engaged in marketing and sales services | Japan | 100.0 | 100.0 | 100.0 |
| ASE Test, Inc. | Engaged in the testing of semiconductors | Kaohsiung, ROC | 100.0 | 100.0 | 100.0 |
| Power ASE Technology Inc. (Power ASE) | Engaged in the packaging and testing of semiconductors and merged into the Company in May 2012 | Taoyuan, ROC | 99.6 | - | - |
| Yang Ting Tech Co., Ltd. (Yang Ting) | Engaged in the packaging and testing of semiconductors and merged into the Company in August 2013 | Taichung, ROC | - | 100.0 | - |
| Universal Scientific Industrial Co., Ltd. (USI) | Engaged in the manufacturing, processing and sale of computers, computer peripherals and related accessories. | Nantou, ROC | 99.2 | 99.2 | 99.2 |
| Luchu Development Corporation | Engaged in the development of real estate properties | Taipei, ROC | 83.9 | 84.3 | 86.1 |
| Alto Enterprises Limited | Holding company | British Virgin Islands | 100.0 | 100.0 | 100.0 |
| Super Zone Holdings Limited | Holding company | Hong Kong | 100.0 | 100.0 | 100.0 |
| ASE (Kun Shan) Inc. | Engaged in the packaging and testing of semiconductors | Kun Shan, China | 100.0 | 100.0 | 100.0 |
| ASE Investment (Kun Shan) Limited | Holding company and established in June 2012 | Kun Shan, China | - | 100.0 | 100.0 |
| Advanced Semiconductor Engineering (China) Ltd. | Will engage in the packaging and testing of semiconductors | Shanghai, China | 100.0 | 100.0 | 100.0 |
| ASEP Realty Corporation | Liquidated in February 2012 | Philippines | 100.0 | - | - |
| ASE Holding Electronics (Philippines), Incorporated | Liquidated in February 2012 | Philippines | 100.0 | - | - |
| ASE Investment (Labuan) Inc. | Holding company | Malaysia | 100.0 | 100.0 | 100.0 |
| ASE Test Limited (ASE Test) | Holding company | Singapore | 100.0 | 100.0 | 100.0 |
| ASE (Korea) Inc. (ASE Korea) | Engaged in the packaging and testing of semiconductors | Korea | 100.0 | 100.0 | 100.0 |
| J&R Industrial Inc. | Engaged in leasing equipment and investing activity | Kaohsiung, ROC | 100.0 | 100.0 | 100.0 |
| ASE Japan Co., Ltd. (ASE Japan) | Engaged in the packaging and testing of semiconductors | Japan | 100.0 | 100.0 | 100.0 |
| ASE (U.S.) Inc. (ASE US) | After-sales service and sales support | U.S.A. | 100.0 | 100.0 | 100.0 |
| Global Advanced Packaging Technology Limited, Cayman Islands | Holding company | British Cayman Islands | 100.0 | 100.0 | 100.0 |
| ASE WeiHai Inc. | Engaged in the packaging and testing of semiconductors | Shandong, China | 100.0 | 100.0 | 100.0 |
| Suzhou ASEN Semiconductors Co., Ltd. | Engaged in the packaging and testing of semiconductors | Suzhou, China | 60.0 | 60.0 | 60.0 |
| Anstock Limited | Engaged in financing activity | British Cayman Islands | 100.0 | 100.0 | 100.0 |
| ASE Module (Shanghai) Inc. | Will engage in the production and sale of electronic components and printed circuit boards | Shanghai, China | 100.0 | 100.0 | 100.0 |
| ASE (Shanghai) Inc. ("ASE Shanghai") | Engaged in the production of substrates | Shanghai, China | 100.0 | 100.0 | 100.0 |
| ASE Corporation | Holding company | British Cayman Islands | 100.0 | 100.0 | 100.0 |
| ASE Mauritius Inc. | Holding company | Mauritius | 100.0 | 100.0 | 100.0 |
| ASE Labuan Inc. | Holding company | Malaysia | 100.0 | 100.0 | 100.0 |
| ASE Hi-Tech (Shanghai) Inc. | Merged into ASE Shanghai in August 2012 | Shanghai, China | 100.0 | - | - |
| ASE Module (Kunshan) Inc. | Will engage in the production and sale of electronic components | Kun Shan, China | 100.0 | 100.0 | 100.0 |
| Shanghai Ding Hui Real Estate Development Co., Ltd. | Engaged in the development, construction and sale of real estate properties | Shanghai, China | 100.0 | 100.0 | 100.0 |
| Advanced Semiconductor Engineering (HK) Limited | Engaged in the trading of substrates | Hong Kong | 100.0 | 100.0 | 100.0 |
| Shanghai Ding Wei Real Estate Development Co., Ltd. | Engaged in the development, construction and leasing of real estate properties | Shanghai, China | 100.0 | 100.0 | 100.0 |

(Continued)

| Name of Investee | Main Businesses | Establishment and Operating Location | Percentage of Ownership (%) January 1, 2012 | December 31, 2012 | December 31, 2013 |
|---|---|---|---|---|---|
| Shanghai Ding Yu Real Estate Development Co., Ltd. | Engaged in the development, construction and leasing of real estate properties | Shanghai, China | 100.0 | 100.0 | 100.0 |
| Kun Shan Ding Yue Real Estate Development Co., Ltd. | Engaged in the development, construction and leasing of real estate properties and established in February 2012 | Kun Shan, China | - | 100.0 | 100.0 |
| Kun Shan Ding Hong Real Estate Development Co., Ltd | Engaged in the development, construction and leasing of real estate properties and established in February 2012 | Kun Shan, China | - | 100.0 | 100.0 |
| ASE Electronics Inc. | Engaged in the production of substrates | Kaohsiung, ROC | 100.0 | 100.0 | 100.0 |
| ASE Test Holdings, Ltd. | Holding company | British Cayman Islands | 100.0 | 100.0 | 100.0 |
| ASE Holdings (Singapore) Pte Ltd | Holding company | Singapore | 100.0 | 100.0 | 100.0 |
| ASE Test Finance Limited | Engaged in financing activity | Mauritius | 100.0 | 100.0 | 100.0 |
| ASE Singapore Pte. Ltd. | Engaged in the packaging and testing of semiconductors | Singapore | 100.0 | 100.0 | 100.0 |
| ISE Labs, Inc. | Engaged in the testing of semiconductors | U.S.A. | 100.0 | 100.0 | 100.0 |
| ASE Electronics (M) Sdn. Bhd. | Engaged in the packaging and testing of semiconductors | Malaysia | 100.0 | 100.0 | 100.0 |
| ASE Assembly & Test (HK) Limited | Liquidated in December 2012 | Hong Kong | 100.0 | - | - |
| ASE Assembly & Test (Shanghai) Limited | Engaged in the packaging and testing of semiconductors | Shanghai, China | 100.0 | 100.0 | 100.0 |
| Shanghai Wei Yu Hong Xin Semiconductors Inc. | Liquidated in November 2013 | Shanghai, China | 100.0 | 100.0 | - |
| Wuxi Tongzhi Microelectronics Co., Ltd. (Wuxi Tongzhi) | Engaged in the packaging and testing of semiconductors and acquired in May 2013 | Wuxi, China | - | - | 100.0 |
| Huntington Holdings International Co., Ltd. | Holding company | British Virgin Islands | 99.2 | 99.2 | 99.2 |
| Senetex Investment Co., Ltd. | Engaged in investing activity | Nantou, ROC | 99.2 | 99.2 | 99.2 |
| Ta-Chi Investment Co., Ltd. | Engaged in investing activity and liquidated in July 2013 | Nantou, ROC | 99.2 | 99.2 | - |
| Universal Scientific Industrial (UK) Ltd. | After-sales services and liquidated in July 2013 | Britain | 99.2 | 99.2 | - |
| Unitech Holdings International Co., Ltd. | Holding company | British Virgin Islands | 99.2 | 99.2 | 99.2 |
| Real Tech Holdings Limited | Holding company | British Virgin Islands | 99.2 | 99.2 | 99.2 |
| USI International Limited | Liquidated in February 2013 | Hong Kong | 99.2 | 99.2 | - |
| Universal ABIT Holding Co., Ltd. | Holding company | British Cayman Islands | 99.2 | 99.2 | 99.2 |
| Rising Capital Investment Limited | Holding company | British Cayman Islands | 99.2 | 99.2 | 99.2 |
| Rise Accord Limited | Holding company | British Cayman Islands | 99.2 | 99.2 | 99.2 |
| e-Cloud Corporation | Liquidated in December 2013 | Shanghai, China | 99.2 | 99.2 | - |
| Cubuy Corporation | Engaged in the trading of computer systems | Shanghai, China | 99.2 | 99.2 | 99.2 |
| Universal Scientific Industrial (Kunshan) Co., Ltd. | Engaged in the manufacturing and sale of computer assistance system and related peripherals | Kun Shan, China | 99.2 | 99.2 | 99.2 |
| USI Enterprise Limited (“USIE”) | Holding company | Hong Kong | 99.2 | 99.1 | 99.1 |
| Universal Scientific Industrial (Shanghai) Co., Ltd. (“USISH”) | Engaged in the designing, manufacturing and sale of electronic components | Shanghai, China | 99.2 | 88.6 | 88.6 |
| Universal Global Technology Co., Limited | Holding company | Hong Kong | 99.2 | 88.6 | 88.6 |
| Universal Global Technology (Kunshan) Co., Ltd. | Engaged in the designing and manufacturing of electronic components | Kun Shan, China | 99.2 | 88.6 | 88.6 |
| Universal Global Technology (Shanghai) Co., Ltd. | Engaged in the processing and sale of computer and communication peripherals as well as technology import and export business and established in September 2013 | Shanghai, China | - | - | 88.6 |
| Universal Global Technology (Shenzhen) Co., Ltd. | Engaged in the research and manufacturing of computer peripherals | Shenzhen, China | 99.2 | 88.6 | 88.6 |
| Universal Global Industrial Co., Limited | Holding company and engaged in manufacturing, trading and investing activity | Hong Kong | 99.2 | 88.6 | 88.6 |

(Continued)

| Name of Investee | Main Businesses | Establishment and Operating Location | Percentage of Ownership (%) January 1, 2012 | December 31, 2012 | December 31, 2013 |
|---|---|---|---|---|---|
| Universal Global Scientific Industrial Co., Ltd. (UGTW) | Engaged in the manufacturing of components of telecomm and cars and provision of related R&D services | Nantou, ROC | 99.2 | 88.6 | 88.6 |
| USI Manufacturing Service, Inc. | Engaged in the manufacturing and processing of motherboards and wireless network communication and provision of related technical service | U.S.A. | 99.2 | 88.6 | 88.6 |
| Universal Scientific Industrial De Mexico S.A. De C.V. | Engaged in the assembling of motherboards and computer components | Mexico | 99.2 | 88.6 | 88.6 |
| USI Japan Co., Ltd. | Engaged in the manufacturing and sale of computer peripherals, integrated chip and other related accessories | Japan | 99.2 | 88.6 | 88.6 |
| USI@Work, Inc. | After-sale service | U.S.A. | 99.2 | 88.6 | 88.6 |
| USI Electronics (Shenzhen) Co., Ltd. | Engaged in the design, manufacturing and sale of motherboards and computer peripherals | Shenzhen, China | 99.2 | 88.6 | 88.6 |

(Concluded)

e. Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The Group does not apply the acquisition method to account for business combinations involving entities under common control.

f. Foreign Currencies

In preparing the financial statements of each individual group entity, 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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary assets (such as equity instruments) or liabilities measured at fair value are included in profit or loss for the period at the rates prevailing at the balance sheet date except for exchange differences arising on 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at each balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income and accumulated in equity attributed to the owners of the Company and non-controlling interests as appropriate.

In relation to a partial disposal of a subsidiary that includes a foreign operation does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests of the subsidiary and are not recognized in profit or loss.

g. Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

h. Inventories and Inventories Related to Real Estate Business

Inventories, including raw materials (materials received from customers for processing, mainly semiconductor wafers, are excluded from inventories as title and risk of loss remain with the customers), supplies, work in process, finished goods, and materials and supplies in transit are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling prices of inventories less all estimated costs of completion and estimated costs necessary to make the sale. Raw materials and supplies are recorded at moving average cost while work in process and finished goods are recorded at standard cost.

Inventories related to real estate business include land and buildings held for sale, land held for construction, construction in progress and prepayment for land use rights. Land held for development is recorded as land held for construction upon obtaining the title of ownership. The prepayment is recorded as prepayments for land use rights before obtaining the title of ownership. Prior to the completion, the borrowing costs directly attributable to construction in progress are capitalized as part of the cost of the asset. Construction in progress is transferred to land and buildings held for sale upon completion. Land and buildings held for sale, construction in progress and land held for construction are stated at the lower of cost or net realizable value and related write-downs are made by item. The amounts received in advance for real estate properties are first recorded as advance receipts and then recognized as revenue when the construction is completed and the title and significant risk of the real estate properties are transferred to customers. Cost of sales of land and buildings held for sale are recognized based on the ratio of property sold to the total property developed.

i. Investments Accounted for Using the Equity Method

Investments accounted for using the equity method include investments in associates. An associate is an entity over which the Group has significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee without having control over those policies.

The operating results as well as assets and liabilities of associates are incorporated in these consolidated 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 Group’s share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group’s share of equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized.

When a group entity transacts with its associate, unrealized profits and losses resulting from the transactions with the associate are eliminated.

j. Property, Plant and Equipment

Except for land which is stated at cost, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land is not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is recognized in profit or loss.

k. Goodwill

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss, if any.

Goodwill is not amortized but is tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of business combinations.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the cash-generating unit. Any impairment loss for goodwill is recognized directly in profit or loss. A reversal of an impairment loss recognized for goodwill is prohibited in subsequent periods.

l. Other Intangible Assets

Other intangible assets with finite useful lives acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment. Other intangible assets are amortized based on the pattern in which the economic benefits are consumed or using the straight-line method over their estimated useful lives. The estimated useful lives, residual value and amortization methods are reviewed at each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis.

Other intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, other intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment, on the same basis as intangible assets acquired separately.

m. Impairment of Tangible and Intangible Assets Other than Goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill (see above), 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. 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 immediately in profit or loss.

n. Financial Instruments

Financial assets and financial liabilities are recognized when a group entity 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 or deducted from 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 or derecognized on a settlement date basis.

a) Measurement category

The classification of financial assets held by the Group depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

i. Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial assets are either held for trading or they are designated as at FVTPL.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL 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 incorporates 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 (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Available-for-sale financial assets are stated at fair value at each balance sheet date. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency 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 accumulated under the heading of unrealized gain (loss) on available-for-sale financial assets. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the unrealized gain (loss) on available-for-sale financial assets is reclassified to profit or loss.

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

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

iv. Loans and receivables

Loans and receivables including cash and cash equivalents, trade receivables, other receivables, other financial assets and debt investments with no active market are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. 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 assets, the estimated future cash flows of the investments have been affected.

For financial assets carried at amortized cost, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are, further, assessed for impairment on a collective basis. The Group assesses the collectability of receivables based on the Group's past experience of collecting payments and observable changes that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the assets' carrying amounts and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rates. If, in a subsequent period, the amount of the impairment loss decreases and the decreases can be objectively related to an event occurring after the impairment loss recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account through profit or loss. The reversal shall not result in carrying amounts of financial assets that exceed what the amortized cost would have been at the date the impairment is reversed.

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 and accumulated under the heading of unrealized gain (loss) on available-for-sale financial assets.

c) Derecognition of financial assets

The Group 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 entity. 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 and accumulated in equity is recognized in profit or loss.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in 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

Financial liabilities are measured either at amortized cost using the effective interest method or at FVTPL. Financial liabilities measured at FVTPL are held for trading.

Financial liabilities at FVTPL are stated at fair value with any gains or losses, including dividends or interest paid, arising on remeasurement recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4) Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. When the fair value of derivative instruments is positive, they are recognized as financial assets; when the fair value of derivative instruments is negative, they are recognized as financial liabilities.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

5) Convertible Bonds

Convertible bonds issued by the Company that contain liability, conversion option, redemption option and put option (collectively the "Bonds Options") components are classified separately into respective items on initial recognition. The conversion option that will be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the Company's own equity instruments is classified as a conversion option derivative. At the date of offering, both the liability and the Bonds Options components are recognized at fair value.

In subsequent periods, the liability component of the convertible bonds is measured at amortized cost using the effective interest method. The Bonds Options are measured at fair value and the changes in fair value are recognized in profit or loss.

Transaction costs that relate to the offering of the convertible bonds are allocated to the liability and the Bonds Options components in proportion to their relative fair values. Transaction costs relating to the Bonds Options are recognized immediately in profit or loss. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortized using the effective interest method.

o. Hedge Accounting

The Group designates certain hedging instruments as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedges. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The cumulative gains or losses on the hedging instruments that were previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When the forecast transaction is ultimately recognized in profit or loss, the associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss or are included in the initial cost as non-financial assets or non-financial liabilities. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

p. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable take into account of estimated customer returns, rebates and other similar allowances.

1) Sale of goods and real estate properties

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods and real estate properties;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods and real estate properties sold;
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

2) Rendering of services

Service income is recognized when services are rendered.

3) Dividend and interest income

Dividend income from investments and interest income from financial assets are recognized when they are probable that the economic benefits will flow to the Group and the amount of income can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

q. Leasing

<u>The Group as lessor</u>

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

<u>The Group as lessee</u>

Assets held under finance leases are initially recognized as assets of the Group 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 consolidated balance sheets as a finance lease obligation.

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

r. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assists that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

s. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated financial statements and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

t. Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line items, employee benefit expense. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated balance sheets represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

u. Share-based Payment Arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of equity instruments that will eventually vest, with a corresponding increase in capital surplus - employee share options.

At each balance sheet date, the Group reviews its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

v. Taxation

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

1) Current tax

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year the earnings arise and adjusted to the extent that distributions are approved by the shareholders in the following year.

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 consolidated 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, unused loss carry-forward and unused tax credits for purchases of machinery, equipment and technology, 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of deferred tax assets to be utilized. A previously unrecognized deferred tax asset is also reviewed at each balance sheet date 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which assets are realized or the liabilities are settled. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts 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.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

w. U.S. Dollar Amounts

A translation of the consolidated financial statements into U.S. dollars is included solely for the convenience of the readers, and has been translated from New Taiwan dollar (NT$) at the exchange rate as set forth in the statistical release by the U.S. Federal Reserve Board of the United States, which was NT$29.83 to US$1.00 as of December 31, 2013. The translation should not be construed as a representation that the NT$ amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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

In the application of the Group's accounting policies, which are described in Note 4, 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 underlying 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.

### Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from cash-generating units and suitable discount rates in order to calculate its present value. When the actual future cash flows are less than expected, a material impairment loss may arise.

### Impairment of Tangible and Intangible Assets Other than Goodwill

In evaluating the impairment of tangible and intangible assets other than goodwill, the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of its usage patterns and the nature of semiconductor industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges in future periods.

### Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value and the net realizable value of inventory at balance sheet date is determined based on Group's judgments and estimates.

Due to the rapid technology changes, the Group estimates the net realizable value of inventory for obsolescent and unmarketable items at balance sheet date and then writes down the cost of inventories to net realizable value. There may be significant changes in the net realizable value of inventories due to assumptions of future demand within a specific time period.

**Income Taxes**

The realizability of deferred tax assets 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.

**Recognition and Measurement of Defined Benefit Plans**

Accrued pension liabilities and the resulting pension expenses 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.

**Fair value of Derivatives and Other Financial Instruments**

As disclosed in Note 33, the Group's management uses its judgments applying appropriate valuation techniques commonly applied by market practitioners. The assumptions applied are based on observable quoted market prices, foreign exchange rates and interest rates to the extent it is available. The fair value of unquoted equity instruments is estimated based on the assumptions supported by unobservable market prices and interest rates which are disclosed in Note 33. The Group's management believes that the valuation techniques and the assumptions applied are appropriate in determining the fair value of financial instruments.

## 6. CASH AND CASH EQUIVALENTS

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Cash on hand | $ 10,240 | $ 8,721 | $ 40,392 | $ 1,354 |
| Checking accounts and demand deposits | 13,879,155 | 13,575,159 | 38,090,014 | 1,276,903 |
| Cash equivalent - time deposits with original maturity within 3 months | 10,077,650 | 6,409,636 | 6,895,965 | 231,175 |
| | $ 23,967,045 | $ 19,993,516 | $ 45,026,371 | $ 1,509,432 |

Cash equivalents include time deposits that are of a short maturity of three months or less from the date of acquisitions, and are highly liquid, readily convertible to known amounts in cash and the risk of changes in values is insignificant. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

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

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Financial assets designated as at FVTPL | | | | |
| Structured time deposits | $ - | $ 1,644,601 | $ 2,228,643 | $ 74,711 |
| Private-placement convertible bonds | - | - | 100,500 | 3,369 |
| Dual currency deposits | - | 2,178,381 | - | - |
| | - | 3,822,982 | 2,329,143 | 78,080 |
| Financial assets held for trading | | | | |
| Swap contracts | 478,504 | 18,890 | 219,324 | 7,353 |
| Open-end mutual funds | 170,581 | 171,802 | 172,000 | 5,766 |
| Quoted shares | 46,858 | 18,000 | 33,624 | 1,127 |
| Forward exchange contracts | 10,812 | 3,326 | 10,178 | 341 |
| | 706,755 | 212,018 | 435,126 | 14,587 |
| | $ 706,755 | $ 4,035,000 | $ 2,764,269 | $ 92,667 |
| Financial liabilities held for trading | | | | |
| Conversion option, redemption option and put option of convertible bonds (Note 20) | $ - | $ - | $ 1,742,996 | $ 58,431 |
| Swap contracts | 81,450 | 423,366 | 74,170 | 2,486 |
| Forward exchange contracts | 13,944 | 35,883 | 31,315 | 1,050 |
| Cross currency swap contracts | 38,880 | - | 4,180 | 140 |
| Foreign currency option contracts | - | 7,899 | 643 | 22 |
| | $ 134,274 | $ 467,148 | $ 1,853,304 | $ 62,129 |

The Group entered into investment portfolios consisting of structured time deposits and dual currency deposits with banks and invested in private-placement convertible bonds, and all included embedded derivative instruments which are not closely related to the host contracts. The Group designated the entire contracts as financial assets at FVTPL on initial recognition.

At each balance sheet date, the outstanding swap contracts not accounted for hedge accounting were as follows:

| Currency | Maturity Period | Notional Amount (In Thousands) |
|---|---|---|
| January 1, 2012 | | |
| Sell NT$/Buy US$ | 2012.01-2012.12 | NT$19,936,501/US$677,600 |
| Sell US$/Buy NT$ | 2012.01-2012.03 | US$96,500/NT$2,854,357 |
| Sell US$/Buy JPY | 2012.01-2012.12 | US$72,260/JPY5,600,000 |
| Sell US$/Buy EUR | 2012.01 | US$1,992/EUR1,500 |

(Continued)

| Currency | Maturity Period | Notional Amount (In Thousands) |
|---|---|---|
| December 31, 2012 | | |
| Sell NT$/Buy US$ | 2013.01-2013.12 | NT$29,616,245/US$1,011,500 |
| Sell US$/Buy NT$ | 2013.01-2013.04 | US$182,500/NT$5,315,035 |
| Sell US$/Buy JPY | 2013.01-2013.02 | US$63,961/JPY5,280,000 |
| Sell US$/Buy CNY | 2013.06 | US$40,000/CNY251,940 |
| December 31, 2013 | | |
| Sell NT$/Buy US$ | 2014.01-2014.12 | NT$31,707,176/US$1,075,000 |
| Sell US$/Buy NT$ | 2014.01-2014.02 | US$46,500/NT$1,377,874 |
| Sell US$/Buy JPY | 2014.02 | US$53,965/JPY5,550,000 |
| Sell US$/Buy CNY | 2014.01-2014.06 | US$60,000/CNY368,148 |

(Concluded)

At each balance sheet date, the outstanding forward exchange contracts not accounted for hedge accounting were as follow:

| Currency | Maturity Period | Notional Amount (In Thousands) |
|---|---|---|
| January 1, 2012 | | |
| Sell US$/Buy JPY | 2012.01 | US$31,500/JPY2,454,249 |
| Sell US$/Buy NT$ | 2012.01-2012.03 | US$68,000/NT$2,055,270 |
| Sell US$/Buy MYR | 2012.01-2012.03 | US$16,000/MYR50,522 |
| Sell US$/Buy EUR | 2012.01 | US$2,354/EUR1,800 |
| Sell US$/Buy KRW | 2012.01 | US$42,000/KRW48,435,800 |
| Sell US$/Buy SGD | 2012.01-2012.02 | US$5,500/SGD7,141 |
| Sell EUR/Buy US$ | 2012.01-2012.02 | EUR1,500/US$2,046 |
| December 31, 2012 | | |
| Sell US$/Buy JPY | 2013.01-2013.02 | US$35,297/JPY2,945,751 |
| Sell US$/Buy CNY | 2013.01-2013.04 | US$37,000/CNY232,230 |
| Sell US$/Buy MYR | 2013.01-2013.02 | US$8,000/MYR24,549 |
| Sell US$/Buy EUR | 2013.01 | US$1,444/EUR1,128 |
| Sell US$/Buy KRW | 2013.01 | US$18,000/KRW19,368,700 |
| Sell US$/Buy SGD | 2013.01-2013.03 | US$9,500/SGD11,594 |
| Sell EUR/Buy US$ | 2013.01-2013.02 | EUR500/US$658 |
| Sell NT$/Buy US$ | 2013.02 | NT$29,104/US$1,000 |
| December 31, 2013 | | |
| Sell US$/Buy NT$ | 2014.01-2014.02 | US$51,000/NT$1,521,484 |
| Sell US$/Buy CNY | 2014.01-2014.04 | US$88,220/CNY537,100 |
| Sell US$/Buy MYR | 2014.01-2014.02 | US$8,500/MYR27,508 |
| Sell US$/Buy KRW | 2014.01 | US$4,000/KRW4,253,000 |
| Sell US$/Buy SGD | 2014.01-2014.02 | US$9,500/SGD11,870 |
| Sell US$/Buy JPY | 2014.01-2014.03 | US$28,950/JPY3,003,944 |
| Sell NT$/Buy US$ | 2014.03 | NT$294,370/US$10,000 |

At each balance sheet date, the outstanding cross currency swap contracts not accounted for hedge accounting were as follows:

| Notional Amount (In Thousands) | Maturity Period | Range of Interest Rates Paid | Range of Interest Rates Received |
|---|---|---|---|
| January 1, 2012 | | | |
| US$30,000/NT$869,400 | 2012.08 | 0.29 | 0.94-0.96 |
| December 31, 2013 | | | |
| NT$598,600/USD20,000 | 2014.07 | (0.19) | 0.16 |

At each balance sheet date, the outstanding foreign currency option contracts not accounted for hedge accounting were as follows:

| Currency | Maturity Period | Notional Amount (In Thousands) |
|---|---|---|
| December 31, 2012 | | |
| Sell US$ Put/NT$ Call | 2015.05 (Note) | US$4,000/NT$111,400 |
| Sell US$ Put/NT$ Call | 2015.05 (Note) | US$4,000/NT$111,100 |
| Buy US$ Call/NT$ Put | 2015.05 (Note) | US$2,000/NT$55,700 |
| Buy US$ Call/NT$ Put | 2015.05 (Note) | US$2,000/NT$55,550 |
| December 31, 2013 | | |
| Sell US$ Put/NT$ Call | 2016.03 (Note) | US$4,000/NT$113,400 |
| Buy US$ Call/NT$ Put | 2016.03 (Note) | US$2,000/NT$56,700 |

Note : The contracts will be settled once a month and the counterparty has the right to early terminate the contracts. The aforementioned outstanding contracts as of December 31, 2012 were all early settled.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Open-end mutual funds | $ - | $ - | $ 2,321,826 | $ 77,835 |
| Limited partnership | 447,112 | 518,452 | 583,441 | 19,559 |
| Quoted ordinary shares | 197,052 | 301,146 | 328,656 | 11,018 |
| Unquoted ordinary shares (Note 10) | 384,193 | 257,948 | 199,051 | 6,673 |
| Private-placement ordinary shares | 24,827 | 67,146 | 69,655 | 2,335 |
| Unquoted preferred shares | 61,978 | 283 | 14,670 | 492 |
| | 1,115,162 | 1,144,975 | 3,517,299 | 117,912 |
| Current | 48,794 | 48,266 | 2,376,970 | 79,684 |
| Non-current | $ 1,066,368 | $ 1,096,709 | $ 1,140,329 | $ 38,228 |

At the Transition Date, the Group designated the unquoted shares and limited partnership of NT$893,283 thousand previously classified as financial assets carried at cost as available-for-sale financial assets. (Note 41)

In 2012 and 2013, the Group assessed its investees' financial conditions as well as future operating performance and charged an impairment loss of NT$23,693 thousand and NT$106,916 thousand (US$3,584 thousand), respectively.

## 9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

The Group entered into interest rate swap contracts as cash flow hedge to mitigate exposures to future cash flow fluctuations resulting from interest rate changes relating to the Group's borrowings.

At each balance sheet date, the outstanding interest rate swap contracts of the Group were as follows:

| Maturity Period | Notional Amount (In Thousands) | Interest Rates Paid (%) | Interest Rates Received (%) | Expected Period for Future Cash Flow | Expected Period for the Recognition of Gains or Losses from Hedging |
|---|---|---|---|---|---|
| January 1, 2012 | | | | | |
| 2013.03 | NT$ 5,220,000 | 2.45-2.48 | 0.861 | 2012-2013 | 2012-2013 |
| 2013.03 | NT$ 2,392,500 | 0.96-0.99 | 0.861 | 2012-2013 | 2012-2013 |
| December 31, 2012 | | | | | |
| 2013.03 | NT$ 1,740,000 | 2.45-2.48 | 0.887 | 2013 | 2013 |
| 2013.03 | NT$ 797,500 | 0.96-0.99 | 0.887 | 2013 | 2013 |
| December 31,2013 | | | | | |
| 2014.04 | CNY 240,000 | 2.00 | 1.05-2.80 | 2014 | 2014 |

All interest rate swap contracts exchanging floating interest rates for fixed interest rates were designated as cash flow hedges in order to reduce the Group's cash flow exposure to floating interest rates on borrowings. The interest rate swaps and the interest payments on the borrowings occur simultaneously and the amounts accumulated in equity are reclassified to profit or loss over the period that the floating rate interest payments on the borrowings affect profit or loss. (Note 23e)

## 10. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

In October 2009, the Group invested in a 3-year unsecured convertible corporate bond issued by SiPhoton, Inc. with a face value of US$3,000 thousand and warrants and the coupon rate was 3.00%. The maturity of debt host contract of the investment was extended twice to October 2015. In 2011, the Group exercised the warrants to purchase 545 thousand shares at US$1,500 thousand and recorded the investment as available-for-sale financial assets - non-current (Note 8).

In 2013, the Group assessed SiPhoton, Inc.'s financial condition and wrote off the entire carrying amount of the investment in SiPhoton, Inc. of NT$89,409 thousand (US$2,997 thousand) and NT$44,704 thousand (US$1,499 thousand) in debt investments with no active market - current and available-for-sale financial assets - non-current (Note 8), respectively, and recognized an impairment loss under the line item other gains and losses in the consolidated statement of comprehensive income.

## 11. TRADE RECEIVABLES, NET

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Trade receivables | $ 30,727,988 | $ 37,503,628 | $ 43,303,693 | $ 1,451,683 |
| Less: Allowance for doubtful debts | 128,869 | 80,137 | 68,120 | 2,284 |
| Trade receivables, net | $ 30,599,119 | $ 37,423,491 | $ 43,235,573 | $ 1,449,399 |

a. Trade receivables

The Group's average credit terms were during 30 to 90 days. Allowance for doubtful debts is assessed by reference to the collectability of receivables by evaluating the account aging, historical experience and current financial condition of customers.

The concentration of credit risk was minor due to the fact that the customer base was large.

Age of receivables that are past due but not impaired

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Less than 30 days | $ 1,979,697 | $ 2,263,353 | $ 4,090,787 | $ 137,137 |
| 31 to 90 days | 337,481 | 160,528 | 195,741 | 6,562 |
| More than 91 days | 16,214 | 4,654 | 1,585 | 53 |
| Total | $ 2,333,392 | $ 2,428,535 | $ 4,288,113 | $ 143,752 |

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

Except for those impaired, the Group had not provided an allowance for doubtful debts on trade receivables at each balance sheet date since there has not been a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements over these balances nor did it have a legal right to offset against any amounts owed by the Group to counterparties.

Movement in the allowance for doubtful debts

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ 128,869 | $ 80,137 | $ 2,687 |
| Impairment losses reversed | (44,095) | (9,893) | (332) |
| Amount written off as uncollectible | (2,122) | (757) | (25) |
| Effect of foreign currency exchange differences | (2,515) | (1,367) | (46) |
| Balance at December 31 | $ 80,137 | $ 68,120 | $ 2,284 |

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to NT$70,750 thousand, NT$34,225 thousand and NT$26,885 thousand (US$901 thousand) as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively. The impairment recognized represents the difference between the carrying amounts of these trade receivables and the present value of the expected proceeds from settlements.

Age of impaired trade receivables

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Not past due | $ 24 | $ 2,959 | $ - | $ - |
| Less than 30 days | 842,867 | 1,950,379 | 11,501 | 385 |
| 31 to 90 days | 234,053 | 131,772 | 109,376 | 3,667 |
| More than 91 days | 139,615 | 43,722 | 115,203 | 3,862 |
| Total | $ 1,216,559 | $ 2,128,832 | $ 236,080 | $ 7,914 |

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

b. Transfers of financial assets

Factored trade receivables of the Group were as follows:

| Counterparties | Receivables Sold (In Thousands) | Amounts Collected (In Thousands) | Advances Received At Year-end (In Thousands) | Interest Rates on Advances Received (%) | Credit Line (In Thousands) |
|---|---|---|---|---|---|
| Year ended December 31, 2012 | | | | | |
| Citi bank | US$278,498 | US$201,854 | US$ 76,644 | 1.06 | US$ 92,000 |
| Year ended December 31, 2013 | | | | | |
| Citi bank | US$258,660 | US$202,532 | US$ 56,128 | 1.06 | US$ 92,000 |

Pursuant to the factoring agreement, losses from commercial disputes (such as sales returns and discounts) should be borne by the Group, while losses from credit risk should be borne by the banks. In the commencement of the factoring agreement in 2010, the Company also issued promissory notes to the banks for commercial disputes which remained undrawn since. The promissory noted amounted to US$27,000 thousand in 2012 and 2013, respectively. There were no significant losses from commercial disputes in the past and the Group did not expect any significant commercial dispute losses in the foreseeable future.

## 12. INVENTORIES

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Finished goods | $ 3,616,381 | $ 4,509,187 | $ 4,863,676 | $ 163,046 |
| Work in process | 1,563,509 | 1,696,739 | 1,701,257 | 57,032 |
| Raw materials | 7,715,521 | 7,885,749 | 8,766,638 | 293,887 |
| Supplies | 515,069 | 622,605 | 573,588 | 19,229 |
| Raw materials and supplies in transit | 510,277 | 456,762 | 376,077 | 12,607 |
| | $ 13,920,757 | $ 15,171,042 | $ 16,281,236 | $ 545,801 |

The cost of inventories recognized as operating costs for the years ended December 31, 2012 and 2013 were NT$156,785,228 thousand and NT$176,637,295 thousand (US$5,921,465 thousand), respectively, which included write-downs of inventories at NT$519,431 thousand and NT$453,468 thousand (US$15,202 thousand), respectively.

## 13. INVENTORIES RELATED TO REAL ESTATE BUSINESS

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Land and buildings held for sale | $ 633,078 | $ 323,910 | $ 16,764 | $ 562 |
| Construction in progress | 11,753,404 | 11,924,683 | 13,676,668 | 458,487 |
| Land held for construction | 1,616,743 | 1,616,743 | 1,682,735 | 56,411 |
| Prepayments for land use rights | 2,146,273 | 3,036,682 | 3,213,088 | 107,713 |
| | $ 16,149,498 | $ 16,902,018 | $ 18,589,255 | $ 623,173 |

Land and buildings held for sale located in Shanghai Zhangjiang was successively completed and sold. Construction in progress is mainly located on Caobao Road and Hutai Road in Shanghai, China. The capitalized borrowing costs for the years ended December 31, 2012 and 2013 is disclosed in Note 24d.

As of January 1, 2012, December 31, 2012 and December 31, 2013, inventories related to real estate business of NT$15,085,680 thousand, NT$16,578,108 thousand and NT$18,572,491 thousand (US$622,611 thousand), respectively, are expected to be recovered longer than twelve months.

Refer to Note 35 for the carrying amount of inventories related to real estate business that had been pledged by the Group to secure bank borrowings.

## 14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates accounted for using the equity method consisted of the following:

| | | | Carrying Amount | | | |
|---|---|---|---|---|---|---|
| | | Establish-ment and | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
| Name of Associate | Main Business | Operating Location | NT$ | NT$ | NT$ | US$ (Note 4) |
| Listed company | | | | | | |
| Hung Ching Development & Construction Co. ("HCDC") | Engaged in the development, construction and leasing of real estate properties | ROC | $1,095,324 | $1,112,351 | $ 1,152,153 | $ 38,624 |
| Unlisted companies | | | | | | |
| Hung Ching Kwan Co. ("HCK") | Engaged in the leasing of real estate properties | ROC | 310,550 | 358,887 | 353,154 | 11,839 |
| StarChips Technology Inc. ("SCT") | Engaged in design, manufacturing and sale of LED driver IC | ROC | 47,856 | 47,856 | 47,856 | 1,604 |
| | | | 1,453,730 | 1,519,094 | 1,553,163 | 52,067 |

(Continued)

| Name of Associate | Main Business | Establish-ment and Operating Location | Carrying Amount January 1, 2012 NT$ | December 31, 2012 NT$ | December 31, 2013 NT$ | December 31, 2013 US$ (Note 4) |
|---|---|---|---|---|---|---|
| | Less: Deferred gain on transfer of land | | $ 300,149 | $ 300,149 | $ 300,149 | $ 10,062 |
| | Accumulated impairment - SCT | | 47,856 | 47,856 | 47,856 | 1,604 |
| | | | $ 1,105,725 | $ 1,171,089 | $ 1,205,158 | $ 40,401 |

(Concluded)

At each balance sheet date, the percentage of ownership held by the Group in HCDC, HCK and SCT was all 26.2%, 27.3% and 33.3%, respectively.

As of January 1, 2012, December 31, 2012 and December 31, 2013, the fair values of publicly traded investment accounted for using the equity method were measured on the closing price at NT$775,517 thousand, NT$895,619 thousand and NT$1,242,199 thousand (US$41,643 thousand), respectively , which is a level 1 input in terms of IFRS13.

Aggregate information of associates that are not individually material was summarized as follows:

| | Years Ended December 31 2012 NT$ | 2013 NT$ | 2013 US$ (Note 4) |
|---|---|---|---|
| The Group's share of profits (Note 1) | $ 78,947 | $ 76,783 | $ 2,574 |
| The Group's share of other comprehensive income, net of income tax | $ 55,401 | $ 56,485 | $ 1,894 |
| The Group's share of total comprehensive income | $ 134,348 | $ 133,268 | $ 4,468 |

Note 1: Unrealized profits and losses were excluded.

The Group's share of profit and other comprehensive income of associates for the years ended December 31, 2012 and 2013 was based on the associates' financial statements prepared in accordance with IFRSs.

## 15. PROPERTY, PLANT AND EQUIPMENT

The carrying amounts of each class of property, plant and equipment were as follows:

| | January 1, 2012 NT$ | December 31, 2012 NT$ | December 31, 2013 NT$ | December 31, 2013 US$ (Note 4) |
|---|---|---|---|---|
| Land | $ 3,309,074 | $ 3,274,086 | $ 3,295,758 | $ 110,485 |
| Buildings and improvements | 37,713,916 | 41,175,593 | 44,766,601 | 1,500,724 |
| Machinery and equipment | 61,979,152 | 73,198,517 | 75,085,182 | 2,517,103 |
| Transportation equipment | 94,184 | 87,360 | 82,228 | 2,756 |
| Furniture and fixtures | 1,281,742 | 1,200,100 | 1,243,556 | 41,688 |
| Leased assets and leasehold improvement | 145,647 | 83,291 | 14,304 | 480 |
| Construction in progress and machinery in transit | 8,472,341 | 8,178,827 | 7,009,702 | 234,988 |
| | $ 112,996,056 | $ 127,197,774 | $ 131,497,331 | $ 4,408,224 |

## For the year ended December 31, 2012

| | Land | Buildings and improvements | Machinery and equipment | Transportation equipment | Furniture and fixtures | Leased assets and leasehold improvement | Construction in progress and machinery in transit | Total |
|---|---|---|---|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ |
| **Cost** | | | | | | | | |
| Balance at January 1, 2012 | $ 3,309,074 | $ 57,156,997 | $ 178,376,359 | $ 291,694 | $ 5,360,029 | $ 540,841 | $ 8,472,341 | $ 253,507,335 |
| Additions | - | 5,668,397 | 24,602,273 | 25,344 | 366,786 | 56,612 | 8,257,413 | 38,976,825 |
| Disposals | - | (91,760) | (12,721,889) | (21,695) | (264,301) | (16,166) | (248,402) | (13,364,213) |
| Reclassification | - | 1,744,929 | 6,558,800 | 6,184 | 197,816 | (355,518) | (8,141,020) | 11,191 |
| Acquisitions through business combinations | - | 67,194 | 319,175 | - | - | - | - | 386,369 |
| Effect of foreign currency exchange differences | (34,988) | (1,063,018) | (3,160,750) | (7,150) | (224,617) | (14,292) | (161,505) | (4,666,320) |
| Balance at December 31, 2012 | $ 3,274,086 | $ 63,482,739 | $ 193,973,968 | $ 294,377 | $ 5,435,713 | $ 211,477 | $ 8,178,827 | $ 274,851,187 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| Balance at January 1, 2012 | $ - | $ 19,443,081 | $ 116,397,207 | $ 197,510 | $ 4,078,287 | $ 395,194 | $ - | $ 140,511,279 |
| Depreciation expense | - | 3,340,498 | 18,500,676 | 29,379 | 519,168 | 84,136 | - | 22,473,857 |
| Impairment losses recognized (reversed) | - | 27,974 | 45,567 | - | - | - | - | 73,541 |
| Disposals | - | (183,311) | (12,564,694) | (15,514) | (162,264) | (13,878) | - | (12,939,661) |
| Reclassification | - | (10,317) | 360,098 | (123) | (20,884) | (326,297) | - | 2,477 |
| Acquisitions through business combinations | - | 2,540 | 117,927 | - | - | - | - | 120,467 |
| Effect of foreign currency exchange differences | - | (313,319) | (2,081,330) | (4,235) | (178,694) | (10,969) | - | (2,588,547) |
| Balance at December 31, 2012 | $ - | $ 22,307,146 | $ 120,775,451 | $ 207,017 | $ 4,235,613 | $ 128,186 | $ - | $ 147,653,413 |

## For the year ended December 31, 2013

| | Land | Buildings and improvements | Machinery and equipment | Transportation equipment | Furniture and fixtures | Leased assets and leasehold improvement | Construction in progress and machinery in transit | Total |
|---|---|---|---|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ |
| **Cost** | | | | | | | | |
| Balance at January 1,2013 | $ 3,274,086 | $ 63,482,739 | $ 193,973,968 | $ 294,377 | $ 5,435,713 | $ 211,477 | $ 8,178,827 | $ 274,851,187 |
| Additions | - | 5,447,913 | 14,484,611 | 22,920 | 285,276 | 10,645 | 6,792,707 | 27,044,072 |
| Disposals | - | (412,648) | (9,479,630) | (42,581) | (154,622) | - | (38,565) | (10,128,046) |
| Reclassification | - | 758,850 | 7,661,570 | 4,935 | 241,193 | (103,337) | (8,638,840) | (75,629) |
| Acquisitions through business combinations | - | 5,106 | 278,862 | 114 | 121,994 | - | - | 406,076 |
| Effect of foreign currency exchange differences | 21,672 | 1,311,577 | 1,432,524 | 8,806 | 43,747 | 3,932 | 715,573 | 3,537,831 |
| Balance at December 31,2013 | $ 3,295,758 | $ 70,593,537 | $ 208,351,905 | $ 288,571 | $ 5,973,301 | $ 122,717 | $ 7,009,702 | $ 295,635,491 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| Balance at January 1,2013 | $ - | $ 22,307,146 | $ 120,775,451 | $ 207,017 | $ 4,235,613 | $ 128,186 | $ - | $ 147,653,413 |
| Depreciation expense | - | 3,555,865 | 20,486,896 | 26,766 | 566,575 | 60,505 | - | 24,696,607 |
| Impairment losses recognized (reversed) | - | (15,754) | 508,894 | - | 2,407 | - | - | 495,547 |
| Disposals | - | (368,707) | (9,285,927) | (34,810) | (131,561) | - | - | (9,821,005) |
| Reclassification | - | (24,797) | 58,448 | 2,016 | 35,491 | (83,242) | - | (12,084) |
| Acquisitions through business combinations | - | 2,473 | 108,365 | 4 | 36,814 | - | - | 147,656 |
| Effect of foreign currency exchange differences | - | 370,710 | 614,596 | 5,350 | (15,594) | 2,964 | - | 978,026 |
| Balance at December 31,2013 | $ - | $ 25,826,936 | $ 133,266,723 | $ 206,343 | $ 4,729,745 | $ 108,413 | $ - | $ 164,138,160 |

| | Land | Buildings and improvements | Machinery and equipment | Transportation equipment | Furniture and fixtures | Leased assets and leasehold improvement | Construction in progress and machinery in transit | Total |
|---|---|---|---|---|---|---|---|---|
| | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) |
| **Cost** | | | | | | | | |
| Balance at January 1,2013 | $ 109,758 | $ 2,128,151 | $ 6,502,647 | $ 9,868 | $ 182,223 | $ 7,089 | $ 274,182 | $ 9,213,918 |
| Additions | - | 182,632 | 485,572 | 768 | 9,563 | 357 | 227,715 | 906,607 |
| Disposals | - | (13,833) | (317,788) | (1,427) | (5,183) | - | (1,295) | (339,526) |
| Reclassification | - | 25,439 | 256,841 | 165 | 8,086 | (3,464) | (289,602) | (2,535) |
| Acquisitions through business combinations | - | 171 | 9,348 | 4 | 4,090 | - | - | 13,613 |
| Effect of foreign currency exchange differences | 727 | 43,968 | 48,023 | 295 | 1,466 | 133 | 23,988 | 118,600 |
| Balance at December 31,2013 | $ 110,485 | $ 2,366,528 | $ 6,984,643 | $ 9,673 | $ 200,245 | $ 4,115 | $ 234,988 | $ 9,910,677 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| Balance at January 1,2013 | $ - | $ 747,809 | $ 4,048,792 | $ 6,940 | $ 141,992 | $ 4,296 | $ - | $ 4,949,829 |
| Depreciation expense | - | 119,204 | 686,788 | 897 | 18,994 | 2,029 | - | 827,912 |
| Impairment losses recognized (reversed) | - | (528) | 17,060 | - | 80 | - | - | 16,612 |
| Disposals | - | (12,360) | (311,295) | (1,167) | (4,410) | - | - | (329,232) |

(Continued)

| | Land | Buildings and improvements | Machinery and equipment | Transportation equipment | Furniture and fixtures | Leased assets and leasehold improvement | Construction in progress and machinery in transit | Total |
|---|---|---|---|---|---|---|---|---|
| | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) |
| Reclassification | $ - | $ (831) | $ 1,959 | $ 68 | $ 1,190 | $ (2,791) | $ - | $ (405) |
| Acquisitions through business combinations | - | 83 | 3,633 | - | 1,234 | - | - | 4,950 |
| Effect of foreign currency exchange differences | - | 12,427 | 20,603 | 179 | (523) | 101 | - | 32,787 |
| Balance at December 31,2013 | $ - | $ 865,804 | $ 4,467,540 | $ 6,917 | $ 158,557 | $ 3,635 | $ - | $ 5,502,453 |

(Concluded)

A portion of property, plant and equipment was unable to be used for the Group's production due to technical obsolescence. After adopting discounted cash flow analysis and individual assessments, the Group recognized an impairment loss of NT$73,541 thousand and NT$495,547 thousand (US$16,612 thousand) under the line item of other income and expenses in the consolidated statements of comprehensive income for the years ended December 31, 2012 and 2013, respectively. The recoverable amount of a portion of impaired property, plant and equipment is determined through a fair value less cost to sell calculation which is based on the recent quoted prices of assets with similar age and obsolescence that provided by the vendors in secondary market. The other portion of impaired property, plant and equipment is determined on the basis of their value in use which the discount rate 12.4% per annum is applied.

Each class of property, plant and equipment was depreciated on a straight-line basis over the following useful lives:

| | |
|---|---|
| Buildings and improvements | |
| Main plant buildings | 10-40 years |
| Cleanrooms | 10-20 years |
| Others | 3-20 years |
| Machinery and equipment | 2-10 years |
| Transportation equipment | 2-7 years |
| Furniture and fixtures | 2-20 years |
| Leased assets and leasehold improvements | 2-10 years |

The capitalized borrowing costs for the years ended December 31, 2012 and 2013 is disclosed in Note 24d.

Refer to Note 35 for the carrying amount of property, plant and equipment that had been pledged by the Group to secure bank borrowings.

## 16. GOODWILL

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Cost | | | |
| Balance at January 1 | $ 12,363,497 | $ 12,295,819 | $ 412,197 |
| Additions through business combinations (Note 28) | 1,454 | - | - |
| Reclassification | (3,823) | - | - |
| Effect of foreign currency exchange differences | (65,309) | 40,997 | 1,374 |
| Balance at December 31 | $ 12,295,819 | $ 12,336,816 | $ 413,571 |
| Accumulated impairment | | | |
| Balance at January 1 and December 31 | $ (1,988,996) | $ (1,988,996) | $ (66,678) |

a. Allocating goodwill to cash-generating units

The carrying amount of goodwill allocated to cash-generating units was as follows:

| Cash-generating units | January 1, 2012 NT$ | December 31, 2012 NT$ | December 31, 2013 NT$ | December 31, 2013 US$ (Note 4) |
|---|---|---|---|---|
| Testing segment | $ 7,794,894 | $ 7,748,579 | $ 7,777,268 | $ 260,720 |
| Others | 2,579,607 | 2,558,244 | 2,570,552 | 86,173 |
| | $ 10,374,501 | $ 10,306,823 | $ 10,347,820 | $ 346,893 |

b. Impairment assessment

At the end of each year, the Group performs impairment assessment by reviewing the recoverable amounts based on value in use. In assessing value in use, the estimated 5-year future cash flows are discounted to their present value using annual discount rates of 8.80%-10.76%, 8.47%-10.78% and 9.56%-11.80% as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively, that reflect the risks specific to each cash-generating unit.

Cash flow projection is based on the expected operating revenue, gross profit, capital expenditure and the growth of other operating costs. The Group's capital expenditure is based on the forecast of market demands, capacity strategy and improvement of manufacturing process.

For the years ended December 31, 2012 and 2013, the Group did not recognize impairment loss on goodwill.

## 17. OTHER INTANGIBLE ASSETS

The carrying amounts of each class of other intangible assets were as follows:

| | January 1, 2012 NT$ | December 31, 2012 NT$ | December 31, 2013 NT$ | December 31, 2013 US$ (Note 4) |
|---|---|---|---|---|
| Patents | $ 487,755 | $ 244,374 | $ 35,751 | $ 1,198 |
| Acquired specific technology | 456,698 | 231,322 | 88,674 | 2,973 |
| Customer relationships | 982,763 | 802,415 | 654,821 | 21,952 |
| Computer software and others | 632,277 | 776,335 | 826,578 | 27,710 |
| | $ 2,559,493 | $ 2,054,446 | $ 1,605,824 | $ 53,833 |

For the year ended December 31, 2012

| | Patents NT$ | Acquired Specific Technology NT$ | Customer Relationships NT$ | Computer Software and Others NT$ | Total NT$ |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at January 1, 2012 | $ 1,029,944 | $ 1,113,947 | $ 1,579,015 | $ 3,146,432 | $ 6,869,338 |
| Additions | 3,611 | - | - | 442,340 | 445,951 |

(Continued)

| | Patents | Acquired Specific Technology | Customer Relationships | Computer Software and Others | Total |
|---|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ | NT$ |
| Disposals | $ - | $ - | $ - | $ (33,149) | $ (33,149) |
| Reclassification | 235 | - | - | 4,035 | 4,270 |
| Acquisitions through business combinations | - | - | - | 1,721 | 1,721 |
| Effect of foreign currency exchange differences | (15,257) | - | - | (39,067) | (54,324) |
| Balance at December 31, 2012 | $ 1,018,533 | $ 1,113,947 | $ 1,579,015 | $ 3,522,312 | $ 7,233,807 |
| Accumulated amortization | | | | | |
| Balance at January 1, 2012 | $ 542,189 | $ 657,249 | $ 596,252 | $ 2,514,155 | $ 4,309,845 |
| Amortization expense | 245,477 | 225,376 | 180,348 | 310,821 | 962,022 |
| Disposals | - | - | - | (28,840) | (28,840) |
| Reclassification | 16 | - | - | 13,466 | 13,482 |
| Acquisitions through business combinations | - | - | - | 1,112 | 1,112 |
| Effect of foreign currency exchange differences | (13,523) | - | - | (64,737) | (78,260) |
| Balance at December 31, 2012 | $ 774,159 | $ 882,625 | $ 776,600 | $ 2,745,977 | $ 5,179,361 |

(Concluded)

For the year ended December 31, 2013

| | Patents | Acquired Specific Technology | Customer Relationships | Computer Software and Others | Total |
|---|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ | NT$ |
| Cost | | | | | |
| Balance at January 1, 2013 | $ 1,018,533 | $ 1,113,947 | $ 1,579,015 | $ 3,522,312 | $ 7,233,807 |
| Additions | - | - | - | 313,110 | 313,110 |
| Disposals | - | - | - | (11,294) | (11,294) |
| Reclassification | - | - | - | (8,684) | (8,684) |
| Acquisitions through business combinations | - | - | - | 3,508 | 3,508 |
| Effect of foreign currency exchange differences | 3,217 | - | - | 29,841 | 33,058 |
| Balance at December 31, 2013 | $ 1,021,750 | $ 1,113,947 | $ 1,579,015 | $ 3,848,793 | $ 7,563,505 |
| Accumulated amortization | | | | | |
| Balance at January 1, 2013 | $ 774,159 | $ 882,625 | $ 776,600 | $ 2,745,977 | $ 5,179,361 |
| Amortization expense | 210,900 | 142,648 | 147,594 | 273,162 | 774,304 |
| Disposals | - | - | - | (11,294) | (11,294) |
| Reclassification | - | - | - | 25 | 25 |

(Continued)

| | Patents | Acquired Specific Technology | Customer Relationships | Computer Software and Others | Total |
|---|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ | NT$ |
| Acquisitions through business combinations | $ - | $ - | $ - | $ 688 | $ 688 |
| Effect of foreign currency exchange differences | 940 | - | - | 13,657 | 14,597 |
| Balance at December 31, 2013 | $ 985,999 | $ 1,025,273 | $ 924,194 | $ 3,022,215 | $ 5,957,681 |

(Concluded)

| | Patents | Acquired Specific Technology | Customer Relationships | Computer Software and Others | Total |
|---|---|---|---|---|---|
| | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) |
| Cost | | | | | |
| Balance at January 1, 2013 | $ 34,144 | $ 37,344 | $ 52,934 | $ 118,080 | $ 242,502 |
| Additions | - | - | - | 10,496 | 10,496 |
| Disposals | - | - | - | (379) | (379) |
| Reclassification | - | - | - | (291) | (291) |
| Acquisitions through business combinations | - | - | - | 118 | 118 |
| Effect of foreign currency exchange differences | 108 | - | - | 1,000 | 1,108 |
| Balance at December 31, 2013 | $ 34,252 | $ 37,344 | $ 52,934 | $ 129,024 | $ 253,554 |
| Accumulated amortization | | | | | |
| Balance at January 1, 2013 | $ 25,952 | $ 29,589 | $ 26,034 | $ 92,054 | $ 173,629 |
| Amortization expense | 7,070 | 4,782 | 4,948 | 9,157 | 25,957 |
| Disposals | - | - | - | (379) | (379) |
| Reclassification | - | - | - | 1 | 1 |
| Acquisitions through business combinations | - | - | - | 23 | 23 |
| Effect of foreign currency exchange differences | 32 | - | - | 458 | 490 |
| Balance at December 31, 2013 | $ 33,054 | $ 34,371 | $ 30,982 | $ 101,314 | $ 199,721 |

Each class of other intangible assets, except a portion of customer relationships amortized based on the pattern in which the economic benefits are consumed, were amortized on the straight-line basis over the following useful lives:

| | |
|---|---|
| Patents | 5-15 years |
| Acquired specific technology | 5 years |
| Customer relationships | 11 years |
| Computer software and others | 2-32 years |

## 18. LONG-TERM PREPAYMENTS FOR LEASE

Long-term prepayments for lease mainly represent land use right located in China with period for use from 50 to 60 years. As of January 1, 2012, December 31, 2012 and December 31, 2013, the carrying amount of the land use right which the Group was in the process of obtaining the certificates was NT$1,085,067 thousand, NT$1,504,642 thousand and NT$1,541,453 thousand (US$51,675 thousand), respectively.

## 19. BORROWINGS

a. Short-term borrowings

Short-term borrowings mainly represented unsecured revolving bank loans with annual interest rates at 0.96%-7.32%, 0.80%-6.93%, 0.80%-6.30% as of January1, 2012, December 31, 2012 and December 31, 2013, respectively.

b. Long-term borrowings

As of December 31, 2013, the long-term borrowings with fixed interest rates were NT$706,562 thousand (US$23,686 thousand) with annual interest rates at 2.50%-6.15%. The fixed interest rate long-term borrowings will be repayable through April 2015 to May 2015. The others were floating interest rate borrowings and consisted of the followings:

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Specified purpose loans | $ 8,460,200 | $ 3,034,810 | $ 16,080 | $ 539 |
| Working capital bank loans | 33,636,543 | 33,535,197 | 33,797,768 | 1,133,013 |
| Mortgage loans | 643,106 | 428,079 | 395,177 | 13,248 |
| | 42,739,849 | 36,998,086 | 34,209,025 | 1,146,800 |
| Less: Unamortized arrangement fee | 54,636 | 47,871 | 58,722 | 1,969 |
| | 42,685,213 | 36,950,215 | 34,150,303 | 1,144,831 |
| Less: Current portion | 3,418,799 | 3,167,050 | 5,276,206 | 176,876 |
| | $ 39,266,414 | $ 33,783,165 | $ 28,874,097 | $ 967,955 |

1) Specified purpose loans

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Syndicated bank loan led by Citi bank - repaid in March 2013, annual interest rate was 2.08% and 2.06% as of January 1, 2012 and December 31, 2012, respectively. | $ 7,612,500 | $ 2,537,500 | $ - | $ - |

(Continued)

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Others, repayable in October 2015 and annual interest rates were 1.78%-2.15%, 1.76%-1.97% and 6.15% as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively. | $ 847,700 | $ 497,310 | $ 16,080 | $ 539 |
| | $ 8,460,200 | $ 3,034,810 | $ 16,080 | $ 539 |

(Concluded)

2) Working capital bank loans

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Syndicated bank loans - repayable through June 2014 to July 2018, annual interest rates were 1.05%-1.54%, 0.96%-1.95% and 0.90%-2.28% as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively | | | | |
| ASE Inc. | $ 14,466,000 | $ 10,121,143 | $ 10,026,021 | $ 336,105 |
| Subsidiaries | 2,670,255 | 1,472,328 | 1,511,114 | 50,658 |
| Others - repayable through January 2014 to July 2018, annual interest rates were 0.95%-6.05%, 0.90%-6.15% and 1.04%-4.43% as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively | | | | |
| ASE Inc. | 7,576,400 | 15,193,680 | 16,839,885 | 564,529 |
| Subsidiaries | 8,923,888 | 6,748,046 | 5,420,748 | 181,721 |
| | $ 33,636,543 | $ 33,535,197 | $ 33,797,768 | $ 1,133,013 |

Pursuant to the above loan agreements, the Group should maintain certain financial covenants including current ratio, debt ratio, tangible net assets and interest coverage ratio. Such financial ratios are calculated based on the Group's annual audited consolidated financial statements or semi-annual reviewed consolidated financial statements or subsidiaries' annual audited financial statements under local GAAP. As of January 1, 2012, December 31, 2012 and December 31, 2013, the Group was in compliance with all of the loan covenants.

3) Mortgage loans

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Repayable through January 2014 to June 2018, annual interest rates were 1.36%-2.42%, 1.40%-1.44% and 1.40%-7.20% as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively | | | | |
| UGTW | $ 583,106 | $ 428,079 | $ 299,850 | $ 10,052 |
| Other subsidiaries | 60,000 | - | 95,327 | 3,196 |
| | $ 643,106 | $ 428,079 | $ 395,177 | $ 13,248 |

As of January 1, 2012, December 31, 2012 and December 31, 2013, loans of NT$9,208,143 thousand, NT$5,557,386 thousand and NT$5,962,343 thousand (US$199,877 thousand), respectively, would mature within one year. The Group, however, had sufficient long term credit facility obtained before January 1, 2012, December 31, 2012 and December 31, 2013, respectively, to refinance the loans on a long-term basis, and therefore such balances were not classified as current portion of long-term borrowings.

## 20. BONDS PAYABLE

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Secured domestic bonds - secured by banks | | | | |
| Repayable at maturity in August 2016; interest due annually with annual interest rate 1.45% | $ 8,000,000 | $ 8,000,000 | $ 8,000,000 | $ 268,186 |
| Unsecured convertible overseas bonds | - | - | 11,922,000 | 399,665 |
| Secured overseas bonds - secured by the Company | | | | |
| CNY150,000 thousand, repayable at maturity in September 2014; interest due semi-annually with annual interest rate 3.13% | 720,730 | 693,024 | 733,282 | 24,582 |

(Continued)

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| CNY500,000 thousand, repayable at maturity in September 2016; interest due semi-annually with annual interest rate 4.25% | $ 2,402,435 | $ 2,310,079 | $ 2,444,275 | $ 81,940 |
| | 11,123,165 | 11,003,103 | 23,099,557 | 774,373 |
| Less: Unamortized issuance cost | 246,627 | 198,552 | 220,793 | 7,401 |
| Discounts on bonds payable | - | - | 1,564,759 | 52,456 |
| | 10,876,538 | 10,804,551 | 21,314,005 | 714,516 |
| Less: Current portion | - | - | 731,438 | 24,520 |
| | $ 10,876,538 | $ 10,804,551 | $ 20,582,567 | $ 689,996 |

(Concluded)

In September 2013, the Company offered the third unsecured convertible overseas bonds (the "Bonds") in US$400,000 thousand. The Bonds is zero coupon bonds with the maturity of 5 years, in denominations of US$200 thousand or in any integral multiples thereof. Each holder of the Bonds has the right at any time on or after October 16, 2013 and up to (and including) August 26, 2018, except during legal lock-up period, to convert Bonds into newly issued listed common shares at the conversion price NT$33.085, determined on the basis of a fixed exchange rate of US$1 to NT$29.956. The conversion price will be adjusted in accordance with the conversion provisions due to anti-dilution clause. As of December 31, 2013, the conversion price was NT$33.05 (US$1.11).

The Bonds may be redeemed at the option of the Company, in whole or in part, at any time on or after the third anniversary of the offering date provided that (1) the closing price, translated into U.S. dollars, of the common shares for a period of 20 consecutive trading days is at least 130% of the conversion price, (2) at least 90% in aggregate principal amount of the Bonds originally outstanding has been redeemed, repurchased and canceled or converted, or (3) the Company is required to pay additional taxes on the Bonds as a result of certain changes in tax laws in the ROC.

Each holder shall have the right to request the Company repurchase all or any portion of the principal amount thereof of a holder's Bonds (1) on or after the third anniversary of the offering date, (2) in the event of a change of control, or (3) in the event of delisting.

The Bonds contained a debt host contract, recognized as bonds payable, and the Bonds Options aggregately recognized as financial liabilities at FVTPL. The effective interest rate of the debt host contract was 3.16% and the aggregate fair value of the Bonds Options was NT$1,667,950 thousand (US$55,915 thousand) on initial recognition.

## 21. OTHER PAYABLES

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Payables for property, plant and equipment | $ 5,699,504 | $ 5,291,348 | $ 3,408,603 | $ 114,268 |
| Accrued salary and bonus | 3,288,844 | 3,974,619 | 4,414,581 | 147,991 |

(Continued)

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Accrued bonus to employees and remuneration to directors and supervisors | $ 1,719,333 | $ 1,457,758 | $ 1,778,422 | $ 59,618 |
| Others | 4,928,180 | 4,968,469 | 5,156,947 | 172,878 |
| | $ 15,635,861 | $ 15,692,194 | $ 14,758,553 | $ 494,755 |

(Concluded)

## 22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

1) The Group adopts the pension plan under the ROC Labor Pension Act ("LPA"), which is a government-managed defined contribution plan, for its ROC resident employees. Based on the LPA, the Group makes monthly contributions to employees' individual pension accounts at 6% of their monthly salaries.

2) The subsidiaries located in China, U.S.A., Malaysia, Singapore and Mexico also make contributions at various ranges according to relevant local regulations.

b. Defined benefit plans

1) The Company and its subsidiaries in Taiwan joined the defined benefit pension plan under the ROC Labor Standards Law ("LS Law"). Pension benefits are calculated on the basis of the length of service and average monthly salaries of the last six months before retirement. The Company and its subsidiaries in Taiwan make contributions based on a certain percentage of their domestic employees monthly salaries to a pension fund administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

2) ASE Japan has a pension plan under which eligible employees with more than ten years of service are entitled to receive pension benefits based on their length of service and salaries at the time of termination of employment. ASE Japan makes contributions based on a certain amount of pension cost to employees.

   ASE Korea also has a pension plan under which eligible employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with ASE Korea, based on their length of service and salaries at the time of termination. ASE Korea makes contributions based on a certain percentage of pension cost to an external financial institution administered by the management and in the names of employees.

3) ASE Inc., ASE Test, Inc. and ASE Electronics maintain pension plans for executive managers. Pension costs under the plans were NT$34,571 thousand and NT$4,950 thousand (US$166 thousand) for the years ended December 31, 2012 and 2013, respectively. Pension payments were NT$37,642 thousand and NT$2,666 thousand (US$89 thousand) for the years ended December 31, 2012 and 2013, respectively. As of January 1, 2012, December 31, 2012 and December 31, 2013, accrued pension liabilities for executive managers were NT$209,299 thousand, NT$206,228 thousand and NT$208,512 thousand (US$6,990 thousand), respectively.

4) The present value of the defined benefit obligation and the related current service cost and past service cost were measured using the projected unit credit method.

Except the pension plans for executive managers, the key assumptions used for the actuarial valuations were as follow:

| | January 1, 2012 | December 31, 2012 | December 31, 2013 |
|---|---|---|---|
| Discount rates | 0.25%-5.38% | 0.23%-4.26% | 0.20%-4.94% |
| Expected rates of salary increase | 2.00%-5.54% | 2.00%-5.07% | 0.00%-5.05% |

5) Amounts recognized in consolidated statements of comprehensive income in respect of the defined benefit plans excluding those for executive managers were as follows:

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Service cost | | | |
| Current service cost | $ 297,861 | $ 347,629 | $ 11,654 |
| Net interest expense | 97,574 | 77,799 | 2,608 |
| Components of defined benefit costs recognized in profit or loss | 395,435 | 425,428 | 14,262 |
| Remeasurement on the net defined benefit liability | | | |
| Return on plan assets (excluding amounts included in net interest expense) | 8,212 | 16,983 | 569 |
| Actuarial losses (gains) arising from changes in financial assumptions | 360,188 | (465,360) | (15,600) |
| Actuarial losses arising from experience adjustments | 365,389 | 35,839 | 1,201 |
| Actuarial losses arising from changes in demographic assumptions | 84,757 | 313 | 11 |
| Components of defined benefit costs recognized in other comprehensive (income) loss | 818,546 | (412,225) | (13,819) |
| Total | $ 1,213,981 | $ 13,203 | $ 443 |

The pension costs for the years ended December 31, 2012 and 2013 were as follows:

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Operating cost | $ 314,219 | $ 337,069 | $ 11,300 |
| Selling and marketing expenses | 10,555 | 10,181 | 341 |
| General and administrative expenses | 36,502 | 43,381 | 1,454 |
| Research and development expenses | 34,159 | 34,797 | 1,167 |
| | $ 395,435 | $ 425,428 | $ 14,262 |

6) The amounts included in the consolidated balance sheets arising from the Group's obligation in respect of its defined benefit plans excluding those for executive managers were as follows:

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Present value of funded defined benefit obligation | $ 6,664,941 | $ 7,751,862 | $ 7,472,145 | $ 250,491 |
| Fair value of plan assets | (1,961,355) | (2,682,803) | (3,118,804) | (104,553) |
| Present value of unfunded defined benefit obligation | 4,703,586 | 5,069,059 | 4,353,341 | 145,938 |
| Recorded under others payables | (10,939) | (16,183) | (15,893) | (532) |
| Recorded under prepaid pension cost | 98,533 | 4,902 | - | - |
| Accrued pension liability | $ 4,791,180 | $ 5,057,778 | $ 4,337,448 | $ 145,406 |

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ 6,664,941 | $ 7,751,862 | $ 259,868 |
| Current service cost | 297,861 | 347,629 | 11,654 |
| Interest cost | 153,044 | 156,157 | 5,235 |
| Remeasurement loss (gain) | | | |
| Actuarial losses (gains) arising from changes in financial assumptions | 360,188 | (465,360) | (15,600) |
| Actuarial losses arising from experience adjustments | 365,389 | 35,839 | 1,201 |
| Actuarial losses arising from changes in demographic assumptions | 84,757 | 313 | 11 |
| Benefits paid from the pension fund | (96,901) | (154,608) | (5,183) |
| Benefits paid from the Group | (29,365) | (99,025) | (3,320) |
| Exchange differences on foreign plans | (48,052) | (100,662) | (3,375) |
| Balance at December 31 | $ 7,751,862 | $ 7,472,145 | $ 250,491 |

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ 1,961,355 | $ 2,682,803 | $ 89,936 |
| Interest income | 55,470 | 78,358 | 2,627 |
| Return on plan assets (excluding amounts included in net interest expense) | (8,212) | (16,983) | (569) |
| Contributions from plan by employer | 734,864 | 470,592 | 15,776 |
| Benefits paid | (96,901) | (154,608) | (5,183) |

(Continued)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Exchange differences on foreign plans | $ 36,227 | $ 58,642 | $ 1,966 |
| Balance at December 31 | $ 2,682,803 | $ 3,118,804 | $ 104,553 |

(Concluded)

7) The fair value of the plan assets by major categories at each balance sheet date was as follows:

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Cash and cash equivalents | $ 564,775 | $ 1,015,150 | $ 1,140,149 | $ 38,222 |
| Debt instruments | 691,250 | 718,730 | 1,031,863 | 34,591 |
| Equity instruments | 521,823 | 662,060 | 802,066 | 26,888 |
| Others | 183,507 | 286,863 | 144,726 | 4,852 |
| Total | $ 1,961,355 | $ 2,682,803 | $ 3,118,804 | $ 104,553 |

Under the ROC LS Law, the government is responsible for the administration of the funds and determination of the investment strategies and policies. Furthermore, under the local regulations, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks. The government is responsible for any shortfall in the event that the rate of return is less than the required rate of return. Since the plan assets are held in a commingled fund which is operated and managed by the government's designated authorities, the Group does not have any right to intervene in the fund's investment.

The management of ASE Korea is responsible for the administration of the fund and determination of the investment strategies according to related regulations. ASE Korea is responsible for the shortfall between the fund and the defined benefit obligation.

8) Significant actuarial assumptions for the determination of the defined obligation excluding those for executive managers are discount rate and expected rates of salary increase. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at each balance sheet date, while holding all other assumptions constant.

If the discount rate is 0.5% higher or lower, the defined benefit obligation would decrease by NT$429,981 thousand (US$14,414 thousand) or increase by NT$467,197 thousand (US$15,662 thousand), respectively. If the expected salary growth increases or decreases by 0.5%, the defined benefit obligation would increase by NT$456,773 thousand (US$15,313 thousand) or decrease by NT$421,586 thousand (US$14,133 thousand), respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at each balance sheet date, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated balance sheets.

As of December 31, 2013, the average duration of the defined benefit obligation excluding those for executive managers of the Group was 11 to 27 years.

Maturity profile of defined benefit obligation was as follows:

| Fiscal Year Ending | Expected Benefit Payments NT$ | US$ (Note 4) |
|---|---|---|
| December 31, 2014 | $ 262,095 | $ 8,786 |
| December 31, 2015 | 311,534 | 10,444 |
| December 31, 2016 | 297,179 | 9,962 |
| December 31, 2017 | 359,688 | 12,058 |
| December 31, 2018 | 407,644 | 13,666 |
| December 31, 2019 and thereafter | 11,536,008 | 386,725 |

The Group expects to make contributions of NT$376,660 thousand (US$12,627 thousand) to the defined benefit plans excluding those for executive managers in the next year starting from January 1, 2014.

## 23. EQUITY

a. Share capital

Ordinary shares

| | January 1, 2012 | December 31, 2012 | December 31, 2013 |
|---|---|---|---|
| Numbers of shares authorized (in thousands) | 9,500,000 | 9,500,000 | 9,600,000 |
| Numbers of shares reserved (in thousands) | | | |
| Employee share options | 800,000 | 800,000 | 800,000 |
| Numbers of shares registered (in thousands) | 6,753,563 | 7,594,150 | 7,756,004 |
| Numbers of shares subscribed in advance (in thousands) | 2,144 | 8,142 | 31,823 |
| Number of shares issued and fully paid (in thousands) | 6,755,707 | 7,602,292 | 7,787,827 |

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Shares authorized | $ 95,000,000 | $ 95,000,000 | $ 96,000,000 | $ 3,218,237 |
| Shares reserved | | | | |
| Employee share options | $ 8,000,000 | $ 8,000,000 | $ 8,000,000 | $ 268,186 |
| Shares registered | $ 67,535,632 | $ 75,941,496 | $ 77,560,040 | $ 2,600,068 |
| Shares subscribed in advance | 35,693 | 106,171 | 620,218 | 20,792 |
| Shares issued | $ 67,571,325 | $ 76,047,667 | $ 78,180,258 | $ 2,620,860 |

The holders of issued ordinary shares with a par value at $10 per share are entitled the right to vote and receive dividends, except the shares held by the Group's subsidiaries which are not entitled the right to vote. As of December 31, 2013, there were 100,000 thousand ordinary shares included in the authorized shares had not completed the share registration process.

In July 2013, the Board of Directors approved the issue of 130,000 thousand ordinary shares for cash capital increase at NT$26.1 (US$0.87) per share. The aforementioned cash capital increase has been approved by the Financial Supervisory Commission in the ROC and effectively registered on August 15, 2013. The record date of the cash capital increase was October 2, 2013 and the Company has completed the registration formalities.

American Depositary Receipts

The Company issued ADSs and each ADS represents five ordinary shares. As of January 1, 2012, December 31, 2012 and December 31, 2013, 89,126 thousand, 105,431 thousand and 96,649 thousand ADSs were outstanding and represented approximately 445,628 thousand, 527,154 thousand and 483,243 thousand ordinary shares of the Company, respectively.

b. Capital surplus

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Arising from the excess of the consideration received over the carrying amounts of the subsidiaries' net assets | $ - | $ 2,178,714 | $ 2,178,384 | $ 73,027 |
| Arising from issuance of ordinary shares | 1,615,449 | 1,704,700 | 4,134,295 | 138,595 |
| Arising from employee share options | 957,933 | 1,306,310 | 1,369,232 | 45,901 |
| Arising from treasury share transactions | 1,402,632 | 83,117 | 236,214 | 7,919 |
| Arising from share of changes in capital surplus of associates | - | 1,793 | 3,250 | 109 |
| | $ 3,976,014 | $ 5,274,634 | $ 7,921,375 | $ 265,551 |

As of December 31, 2013, capital surplus arising from issuance of ordinary shares of NT$3,626 thousand (US$122 thousand) represented the reclassification arising from the unexercised portion for employees' subscription on cash capital increase of the Company (Note 27c).

The premium from ordinary shares issued in excess of par, including the premium from issuance of ordinary shares, treasury share transactions and carrying amount of expired options, may be used to offset deficits; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital up to a certain percentage of the Company's capital surplus each year.

The capital surplus arising from investments accounted for using the equity method and employee share options may not be used for any purpose.

c. Retained earnings and dividend policy

The amendments to Articles of Incorporation of ASE Inc. (the "Articles") were approved by the shareholders in June 2013 providing that annual net income shall be distributed in the following order:

1) Replenishment of deficits;

2) 10.0% as legal reserve;

3) Special reserve appropriated or reversed in accordance with laws or regulations set forth by the authorities concerned;

4) An amount equal to the excess of the income from investments accounted for using the equity method over cash dividends as special reserve;

5) Addition or deduction of realized gains or losses on equity instruments at fair value through other comprehensive income;

6) Not more than 1.0% of the remainder, from 1) to 5), as compensation to directors and supervisors;

7) Between 7.0% to 11.0% of the remainder, from 1) to 5), as bonus to employees, of which 7.0% shall be distributed in accordance with the employee bonus plan and the excess shall be distributed to specified employees at the Board of Directors' discretion; and

8) Any remainder from above as dividends to shareholders.

Employees to whom referred in 7) above include employees of subsidiaries that meet certain conditions, which are to be determined by the Board of Directors.

The Company is currently in the mature growth stage. To meet the capital needs for business development now and in the future and satisfy the shareholders' demand for cash inflows, the Company shall use residual dividend policy to distribute dividends, of which the cash dividend is not lower than 30% of the total dividend distribution, with the remainder to be distributed in stock. A distribution plan is also to be made by the Board of Directors and passed for resolution in the shareholders' meeting.

For the year ended December 31, 2012 and 2013, the accrued bonus to employees of the Company was NT$1,178,222 thousand and NT$1,586,672 thousand (US$53,190 thousand), respectively, and the accrued compensation to directors and supervisors of the Company was NT$235,645 thousand and NT$144,243 thousand (US$4,836 thousand), respectively. The accrued bonus to employees and compensation to directors and supervisors represented 11% and 1%, respectively, of net income (net of the bonus and compensation) for the year ended December 31, 2013 under the new Articles and 10% and 2%, respectively, of net income (net of the bonus and compensation) for the year ended December 31, 2012 under the former Articles. Material differences between such estimated amounts and the amounts proposed by the Board of Directors on or before the consolidated 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 consolidated 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 closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the shareholders' meeting.

In accordance with local regulations, 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 prior to January 1, 2012 shall be made. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

In accordance with local regulations, a company should appropriate to a special reserve of an amount that was the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the company's adoption of the exemptions under IFRS 1. The special reserve appropriated as above may be reversed in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed.

In accordance with local regulations, the excess of carrying amount over fair value of treasury shares held by the Group's subsidiaries shall be also transferred from unappropriated earnings to a special reserve in proportion to the shareholdings owned by the Company. The special reserve appropriated as above may be reversed to retained earnings to the extent of the increase in the fair value.

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

The appropriations of earnings for 2011 and 2012 resolved at the Company's annual shareholders' meetings in June 2012 and June 2013, respectively, and the appropriation of 2013 earnings approved by the Company's Board of Directors in April 2014 and to be resolved by the Company's annual shareholders' meeting were as follows:

| | Appropriation of Earnings | | | | Dividends Per Share | | | |
|---|---|---|---|---|---|---|---|---|
| | For Year 2011 | For Year 2012 | For Year 2013 | | For Year 2011 | For Year 2012 | For Year 2013 | |
| | NT$ | NT$ | NT$ | US$ (Note 4) | NT$ (in dollars) | NT$ (in dollars) | NT$ (in dollars) | US$ (Note 4) (in dollars) |
| Legal reserve | $ 1,372,596 | $ 1,309,136 | $ 1,568,907 | $ 52,595 | | | | |
| Special reserve | - | 309,992 | - | - | | | | |
| Cash dividends | 4,325,284 | 7,987,974 | 10,156,005 | 340,463 | $ 0.65 | $ 1.05 | $ 1.30 | $ 0.04 |
| Share dividends | 9,315,995 | - | - | - | 1.40 | - | - | - |
| | $ 15,013,875 | $ 9,607,102 | $ 11,724,912 | $ 393,058 | $ 2.05 | $ 1.05 | $ 1.30 | $ 0.04 |

Reversal of special reserve at NT$309,992 thousand (US$10,392 thousand) for Year 2013 was also approved by the Company's Board of Directors in April 2014 and to be resolved by the Company's annual shareholders' meeting.

The bonus to employees and the remuneration to directors and supervisors for 2011 and 2012 distributed in cash were also resolved in the aforementioned shareholders' meetings. In addition to the 2013 earnings appropriation listed above, the Board of Directors also approved to distribute the bonus to employees and remuneration to directors and supervisors in cash. The information was as follows:

| | For Year 2011 | For Year 2012 | For Year 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note4) |
| Bonus to employees | $ 1,235,336 | $ 1,147,223 | $ 1,587,300 | $ 53,212 |
| Remuneration to directors and supervisors | 246,000 | 228,000 | 144,000 | 4,827 |

The differences between the resolved amounts of the bonus to employees and remuneration to directors and supervisors and the accrued amounts reflected in the consolidated financial statements for the year ended December 31, 2011 and 2012 were deemed changes in estimates. The difference was NT$153,758 thousand and NT$38,644 thousand (US$1,295 thousand) and had been adjusted in earnings for the year ended December 31, 2012 and 2013, respectively.

The appropriations of earnings, bonus to employees and remuneration to directors and supervisors for 2012 were approved 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 accounting principles generally accepted in the ROC.

Information regarding the appropriations of earnings, the bonus to employees and the remuneration to directors and supervisors approved by the Company's Board of Directors and resolved by the shareholders' meeting is available on the Market Observation Post System website of the TSE.

d. Special reserve appropriated in accordance with the local regulations

On January 1, 2013, the Company appropriated to the special reserve of NT$3,353,938 thousand (US$112,435 thousand) relating to the exchange differences on translating foreign operations transferred to retained earnings in accordance with the local regulations.

e. Others equity items

1) Exchange differences on translating foreign operations

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ - | $ (3,210,248) | $ (107,618) |
| Exchange differences arising on translating foreign operations | (3,210,032) | 2,685,647 | 90,032 |
| Share of exchange difference of associates accounted for using the equity method | (216) | (920) | (31) |
| Balance at December 31 | $ (3,210,248) | $ (525,521) | $ (17,617) |

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

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ 283,460 | $ 355,254 | $ 11,909 |
| Unrealized gain arising on revaluation of available-for-sale financial assets | 16,340 | 14,985 | 502 |
| Cumulative gain reclassified to profit or loss on disposal of available-for-sale financial assets | (163) | (96) | (3) |
| Share of unrealized gain on available-for-sale financial assets of associates accounted for using the equity method | 55,617 | 56,103 | 1,881 |
| Balance at December 31 | $ 355,254 | $ 426,246 | $ 14,289 |

3) Cash flow hedges

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ (48,372) | $ (3,755) | $ (126) |
| Gain (loss) arising on changes in the fair value of hedging instruments - Interest rate swap contracts | 877 | (2,597) | (87) |

(Continued)

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Cumulative gains or losses arising on changes in fair value of hedging instruments reclassified to profit or loss - Interest rate swap contracts | $ 52,878 | $ 3,842 | $ 129 |
| Income tax related to cash flow hedges | (9,138) | (769) | (26) |
| Balance at December 31 | $ (3,755) | $ (3,279) | $ (110) |

(Concluded)

f. Treasury shares

| | Balance at January 1 (in thousand shares) | Addition (in thousand shares) | Retirement/ Decrease (in thousand shares) | Balance at December 31 (in thousand shares) |
|---|---|---|---|---|
| Year ended December 31, 2012 | | | | |
| Shares held by subsidiaries | 127,981 | 17,902 | - | 145,883 |
| Repurchase under share buyback plan | 105,475 | - | 105,475 | - |
| | 233,456 | 17,902 | 105,475 | 145,883 |
| Year ended December 31, 2013 | | | | |
| Shares held by subsidiaries | 145,883 | - | - | 145,883 |

The Company's shares held by its subsidiaries at each balance sheet date were as follows:

| | Shares Held By Subsidiaries (in thousand shares) | Carrying amount NT$ | Carrying amount US$ (Note 4) | Fair Value (Level 1) NT$ | Fair Value (Level 1) US$ (Note 4) |
|---|---|---|---|---|---|
| January 1, 2012 | | | | | |
| ASE Test | 77,377 | $ 1,380,721 | | $ 2,004,060 | |
| J&R Holding | 40,972 | 381,709 | | 1,061,186 | |
| ASE Test, Inc. | 9,632 | 196,677 | | 249,456 | |
| | 127,981 | $ 1,959,107 | | $ 3,314,702 | |
| December 31, 2012 | | | | | |
| ASE Test | 88,200 | $ 1,380,721 | | $ 2,222,652 | |
| J&R Holding | 46,704 | 381,709 | | 1,176,935 | |
| ASE Test, Inc. | 10,979 | 196,677 | | 276,665 | |
| | 145,883 | $ 1,959,107 | | $ 3,676,252 | |

(Continued)

| December 31, 2013 | Shares Held By Subsidiaries (in thousand shares) | Carrying amount NT$ | Carrying amount US$ (Note 4) | Fair Value (Level 1) NT$ | Fair Value (Level 1) US$ (Note 4) |
|---|---|---|---|---|---|
| ASE Test | 88,200 | $ 1,380,721 | $ 46,287 | $ 2,443,153 | $ 81,902 |
| J&R Holding | 46,704 | 381,709 | 12,796 | 1,293,694 | 43,369 |
| ASE Test, Inc. | 10,979 | 196,677 | 6,593 | 304,112 | 10,195 |
| | 145,883 | $ 1,959,107 | $ 65,676 | $ 4,040,959 | $ 135,466 |

(Concluded)

The Company issued ordinary shares in connection with its merger with its subsidiaries. The shares held by its subsidiaries were reclassified from investments accounted for using the equity method to treasury shares on the proportion owned by the Company. Treasury shares increased 17,902 thousand shares due to the Company's distribution of stock dividends during 2012.

Under the Securities and Exchange Act in the ROC, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and voting. The subsidiaries holding treasury shares, however, retain shareholders' rights except the rights to participate in any share issuance for cash and voting.

g. Non-controlling interests

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ 1,512,947 | $ 3,505,743 | $ 117,524 |
| Attributable to non-controlling interests: | | | |
| Share of profit for the year | 456,681 | 465,656 | 15,610 |
| Exchange difference on translating foreign operations | (59,591) | 131,621 | 4,412 |
| Unrealized gain (loss) on available-for-sale financial assets | 362 | (50) | (2) |
| Additional non-controlling interests arising from partial disposal of subsidiaries (Note 29) | 1,454,165 | - | - |
| Purchase of non-controlling interests (Note 29) | (10,967) | - | - |
| Cash capital increase of subsidiary (Note 29) | - | 27,826 | 933 |
| Non-controlling interest relating to outstanding vested share options held by the employees of subsidiaries | 175,194 | 100,547 | 3,371 |
| Defined benefit plan actuarial losses | (249) | (3,385) | (113) |
| Cash dividends to non-controlling interests | (22,799) | (99,597) | (3,339) |
| Balance at December 31 | $ 3,505,743 | $ 4,128,361 | $ 138,396 |

## 24. PROFIT BEFORE INCOME TAX

a. Other income and expenses

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Rental income | $ 58,552 | $ 63,130 | $ 2,116 |
| Gains on disposal of property, plant and equipment and other assets | 18,743 | 127,375 | 4,270 |
| Impairment loss on property, plant and equipment | (73,541) | (495,547) | (16,612) |
| Loss on damages and claims | (121,831) | (1,058,810) | (35,495) |
| Others | 201,269 | 15,606 | 523 |
| | $ 83,192 | $ (1,348,246) | $ (45,198) |

b. Other income

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Interest income - mainly from bank deposits | $ 322,197 | $ 212,801 | $ 7,134 |
| Government subsidy | 164,762 | 149,634 | 5,016 |
| Dividends income | 66,129 | 131,449 | 4,407 |
| | $ 553,088 | $ 493,884 | $ 16,557 |

c. Other gains and losses

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Net gains (losses) arising on financial instruments held for trading | $ (761,276) | $ 615,207 | $ 20,624 |
| Net gains on financial assets designated as at FVTPL | 43,612 | 180,152 | 6,039 |
| Foreign exchange gains or losses, net | 965,404 | (276,201) | (9,259) |
| Impairment loss on financial assets | (23,693) | (196,325) | (6,581) |
| Bargain purchase gain | - | 28,860 | 967 |
| Others | 20,783 | 96,193 | 3,225 |
| | $ 244,830 | $ 447,886 | $ 15,015 |

d. Finance costs

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Total interest expense for financial liabilities measured at amortized cost | $ 2,200,276 | $ 2,433,868 | $ 81,591 |
| Less: Amounts included in the cost of qualifying assets | | | |
| Inventories related to real estate business | (46,476) | (42,999) | (1,441) |
| Property, plant and equipment | (202,363) | (137,567) | (4,612) |
| | 1,951,437 | 2,253,302 | 75,538 |
| Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss | 52,878 | 3,842 | 129 |
| Other finance costs | 38,229 | 50,311 | 1,687 |
| | $ 2,042,544 | $ 2,307,455 | $ 77,354 |

Information relating to the capitalized borrowing costs was as follows:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2012 | 2013 |
| Annual interest capitalization rates | | |
| Inventories related to real estate business | 5.23%-7.22% | 5.90%-7.21% |
| Property, plant and equipment | 1.62%-5.88% | 1.54%-6.15% |

e. Depreciation and amortization

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Property, plant and equipment | $ 22,473,857 | $ 24,696,607 | $ 827,912 |
| Intangible assets | 962,022 | 774,304 | 25,957 |
| Total | $ 23,435,879 | $ 25,470,911 | $ 853,869 |
| Summary of depreciation by function | | | |
| Operating costs | $ 20,880,124 | $ 23,025,115 | $ 771,878 |
| Operating expenses | 1,593,733 | 1,671,492 | 56,034 |
| | $ 22,473,857 | $ 24,696,607 | $ 827,912 |
| Summary of amortization by function | | | |
| Operating costs | $ 508,869 | $ 397,976 | $ 13,341 |
| Operating expenses | 453,153 | 376,328 | 12,616 |
| | $ 962,022 | $ 774,304 | $ 25,957 |

f. Employee benefits expense

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Post-employment benefits (Note 22) | | | |
| Defined contribution plans | $ 1,095,039 | $ 1,324,178 | $ 44,391 |
| Defined benefit plans | 430,006 | 430,378 | 14,428 |
| | 1,525,045 | 1,754,556 | 58,819 |
| Equity-settled share-based payments | 537,461 | 260,801 | 8,743 |
| Salary, incentives and bonus | 30,139,149 | 34,032,023 | 1,140,865 |
| Other employee benefits | 4,703,034 | 5,211,948 | 174,722 |
| | $ 36,904,689 | $ 41,259,328 | $ 1,383,149 |
| Summary of employee benefits expense by function | | | |
| Operating costs | $ 24,802,599 | $ 28,053,492 | $ 940,446 |
| Operating expenses | 12,102,090 | 13,205,836 | 442,703 |
| | $ 36,904,689 | $ 41,259,328 | $ 1,383,149 |

## 25. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of income tax expense were as follows:

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Current income tax | | | |
| In respect of the current year | $ 2,595,070 | $ 2,594,114 | $ 86,963 |
| Income tax expense of unappropriated earnings | 33,131 | 209,616 | 7,027 |
| In respect of prior years | 6,747 | (91,633) | (3,072) |
| | 2,634,948 | 2,712,097 | 90,918 |
| Deferred income tax | | | |
| In respect of the current year | 453,692 | 821,592 | 27,543 |
| Effect of foreign currency exchange differences | (134,722) | (62,285) | (2,088) |
| Others | 6,508 | 28,191 | 945 |
| | 325,478 | 787,498 | 26,400 |
| Income tax expense recognized in profit or loss | $ 2,960,426 | $ 3,499,595 | $ 117,318 |

A reconciliation of income tax expense calculated at the statutory rate and income tax expense recognized in profit or loss was as follows:

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Profit before income tax | $ 16,608,724 | $ 19,369,756 | $ 649,338 |
| Income tax expense calculated at the statutory rate | $ 3,392,253 | $ 3,684,109 | $ 123,503 |
| Nontaxable income in determining taxable income | (14,379) | (172,322) | (5,777) |
| Tax-exempt income | (312,587) | (373,113) | (12,508) |
| Additional income tax on unappropriated earnings | 33,131 | 558,042 | 18,707 |
| Loss carry-forward and income tax credits currently used | (852,351) | (684,309) | (22,940) |
| Remeasurement of deferred income tax assets, net | 318,953 | 341,863 | 11,461 |
| Adjustments for prior years' tax | 6,747 | (91,633) | (3,072) |
| Land value increment tax | 388,659 | 236,958 | 7,944 |
| Income tax expense recognized in profit or loss | $ 2,960,426 | $ 3,499,595 | $ 117,318 |

For the years ended December 31, 2012 and 2013, the Group applied a tax rate of 17% for entities subject to the Income Tax Law of the ROC; for the subsidiaries located in China, the applied tax rate was 25%; and for other jurisdictions, the Group measures taxes by using the applicable tax rate for each individual jurisdiction.

b. Income tax expense recognized in other comprehensive income

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Deferred income tax | | | |
| Actuarial gains or losses on defined benefit plan | $ 140,880 | $ (66,706) | $ (2,236) |
| Fair value changes of hedging instruments for cash flow hedges | (9,138) | (769) | (26) |
| | $ 131,742 | $ (67,475) | $ (2,262) |

c. Current tax assets and liabilities

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Current tax assets | | | | |
| Tax refund receivable | $ 28,143 | $ 187,570 | $ 92,430 | $ 3,098 |
| Prepaid income tax | 73,488 | 56,105 | 58,166 | 1,950 |
| | $ 101,631 | $ 243,675 | $ 150,596 | $ 5,048 |

(Continued)

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Current tax liabilities | | | | |
| Income tax payable | $ 3,405,021 | $ 3,813,148 | $ 4,225,390 | $ 141,649 |

(Concluded)

d. Deferred tax assets and liabilities

The Group offset certain deferred tax assets and deferred tax liabilities which met the offset criteria.

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

| | Balance at January 1 | Profit or Loss | Other Comprehensive Income | Additions through Business Combinations | Exchange Differences | Balance at December 31 |
|---|---|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ |
| Year ended December 31, 2012 | | | | | | |
| Temporary differences | | | | | | |
| Property, plant and equipment | $ (476,385) | $ (482,679) | $ - | $ - | $ (18,224) | $ (977,288) |
| Defined benefit obligation | 919,981 | (1,192) | 140,880 | - | (62,151) | 997,518 |
| Cash flow hedges | 9,907 | - | (9,138) | - | - | 769 |
| FVTPL financial instruments | (60,846) | 122,337 | - | - | 8 | 61,499 |
| Others | 430,077 | 59,003 | - | 95 | (43,271) | 445,904 |
| | 822,734 | (302,531) | 131,742 | 95 | (123,638) | 528,402 |
| Loss carry-forward | 203,114 | 179,909 | - | - | (2,329) | 380,694 |
| Investment credits | 1,234,295 | (198,961) | - | 2,518 | (8,755) | 1,029,097 |
| Others | - | (3,895) | - | 3,895 | - | - |
| | $ 2,260,143 | $ (325,478) | $ 131,742 | $ 6,508 | $ (134,722) | $ 1,938,193 |
| Year ended December 31, 2013 | | | | | | |
| Temporary differences | | | | | | |
| Property, plant and equipment | $ (977,288) | $ (730,743) | $ - | $ - | $ 23,415 | $ (1,684,616) |
| Defined benefit obligation | 997,518 | (16,526) | (66,706) | - | (59,746) | 854,540 |
| Cash flow hedges | 769 | - | (769) | - | - | - |
| FVTPL financial instruments | 61,499 | (73,832) | - | - | 4 | (12,329) |
| Others | 445,904 | 336,473 | - | - | (14,633) | 767,744 |
| | 528,402 | (484,628) | (67,475) | - | (50,960) | (74,661) |
| Loss carry-forward | 380,694 | (117,007) | - | - | 6,344 | 270,031 |
| Investment credits | 1,029,097 | (185,863) | - | - | (17,669) | 825,565 |
| | $ 1,938,193 | $ (787,498) | $ (67,475) | $ - | $ (62,285) | $ 1,020,935 |

| | Balance at January 1 | Profit or Loss | Other Comprehensive Income | Additions through Business Combinations | Exchange Differences | Balance at December 31 |
|---|---|---|---|---|---|---|
| | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) | US$ (Note 4) |
| Year ended December 31, 2013 | | | | | | |
| Temporary differences | | | | | | |
| Property, plant and equipment | $ (32,762) | $ (24,497) | $ - | $ - | $ 785 | $ (56,474) |
| Defined benefit obligation | 33,440 | (554) | (2,236) | - | (2,003) | 28,647 |
| Cash flow hedges | 26 | - | (26) | - | - | - |
| FVTPL financial instruments | 2,062 | (2,475) | - | - | - | (413) |
| Others | 14,948 | 11,280 | - | - | (491) | 25,737 |
| | 17,714 | (16,246) | (2,262) | - | (1,709) | (2,503) |
| Loss carry-forward | 12,762 | (3,923) | - | - | 213 | 9,052 |
| Investment credits | 34,499 | (6,231) | - | - | (592) | 27,676 |
| | $ 64,975 | $ (26,400) | $ (2,262) | $ - | $ (2,088) | $ 34,225 |

e. Items for which no deferred tax assets have been recognized

Unrecognized deferred tax assets related to loss carry-forward, investment credits and deductible temporary differences were summarized as follows:

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Loss carry-forward | $ 393,365 | $ 592,364 | $ 669,410 | $ 22,441 |
| Investment credits | 193,703 | 483,151 | 91,536 | 3,068 |
| Deductible temporary differences | 427,894 | 571,696 | 901,580 | 30,224 |
| | $ 1,014,962 | $ 1,647,211 | $ 1,662,526 | $ 55,733 |

The unrecognized loss carry-forward will expire through 2023 and the unrecognized investment credits will expire through 2017.

f. Information about unused loss carry-forward, unused investment credits, tax-exemption and other tax relief

As of December 31, 2013, the unused loss carry-forward comprised of:

| Year of Expiry | NT$ | US$ (Note 4) |
|---|---|---|
| 2014 | $ 77,210 | $ 2,588 |
| 2015 | 87,741 | 2,941 |
| 2016 | 125,379 | 4,203 |
| 2017 | 340,695 | 11,421 |
| 2018 | 272,995 | 9,152 |
| 2019 and thereafter | 35,421 | 1,188 |
| | $ 939,441 | $ 31,493 |

As of December 31, 2013, unused investment credits comprised of:

| Laws and Statutes | Tax Credit Source | Remaining Creditable Amount | | Expiry Year |
|---|---|---|---|---|
| | | NT$ | US$ (Note 4) | |
| Statute for Upgrading Industries | Purchase of machinery and equipment | $ 819,756 | $ 27,481 | 2015 and thereafter |
| | Research and development expenditures | 5,295 | 177 | 2015 |
| | Others | 92,050 | 3,086 | 2017 |
| | | $ 917,101 | $ 30,744 | |

As of December 31, 2013, profits attributable to the following expansion projects were exempted from income tax for a 3-year or 5-year period:

| | Tax-exemption Period |
|---|---|
| Construction and expansion of 2004 by the Company | 2012.01 to 2016.12 |
| Construction and expansion of 2005 by the Company | 2012.01 to 2016.12 |

(Continued)

| | Tax-exemption Period |
|---|---|
| Construction and expansion of 2007 by Power ASE | 2013.01 to 2015.12 |
| Construction and expansion of 2005 by ASE Test Inc. | 2011.01 to 2015.12 |
| Construction and expansion of 2005 by ASE Electronics Inc. | 2012.01 to 2016.12 |

(Concluded)

In addition, the Group had additional 5 unused construction and expansion projects.

Some China subsidiaries qualify as high technology enterprises which entitle them to a reduced income tax rate of 15% and also make them eligible to deduct certain times of research and development expenses from their taxable income.

g. Unrecognized deferred tax liabilities associated with investments

As of January 1, 2012, December 31, 2012 and December 31, 2013, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were NT$8,038,671 thousand, NT$8,362,597 thousand and NT$9,326,560 thousand (US$312,657 thousand), respectively.

h. Integrated income tax

As of January 1, 2012, December 31, 2012 and December 31, 2013, unappropriated earnings were all generated on and after January 1, 1998. As of January 1, 2012, December 31, 2012 and December 31, 2013, the balance of the Imputation Credit Account ("ICA") was NT$502,789 thousand, NT$598,571 thousand and NT$733,341 thousand (US$24,584 thousand), respectively.

The creditable ratio for the distribution of earnings of 2012 and 2013 was 6.95% and 5.28% (estimated), respectively.

Under the Integrated Income Tax System, ROC resident shareholders are allowed a tax credit for their proportionate share of the income tax paid in the ROC by the Company on earnings generated after January 1, 1998. Non-resident shareholders are allowed only a tax credit from the 10% income tax on undistributed earnings, which can be used to reduce the withholding income tax on dividends. An ICA is maintained by the Company for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of dividend distribution. The expected creditable ratio for the 2013 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

According to legal interpretation No. 10204562810 announced by the Taxation Administration of the Ministry of Finance in the ROC, 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.

i. Income tax returns of ASE Inc. and its subsidiaries in Taiwan have been examined by authorities through 2010 and through 2010 and 2011, respectively. ASE Inc. and some of its subsidiaries in Taiwan disagreed with the result of examinations relating to its income tax returns for 2004 through 2010 and applied for appeal procedures. The related income tax expenses in the years resulting from the examinations have been accrued in respective tax years.

## 26. EARNINGS PER SHARE

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

Profit for the year

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Profit for the year attributable to owners of the Company | $ 13,191,617 | $ 15,404,505 | $ 516,410 |
| Effect of potentially dilutive ordinary shares: | | | |
| Employee share options issued by subsidiaries | (102,587) | (131,756) | (4,417) |
| Convertible bonds | - | 156,193 | 5,236 |
| Earnings used in the computation of diluted earnings per share | $ 13,089,030 | $ 15,428,942 | $ 517,229 |

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

| | For the Years Ended December 31 | |
|---|---|---|
| | 2012 | 2013 |
| Weighted average number of ordinary shares in computation of basic earnings per share | 7,445,469 | 7,508,539 |
| Effect of potentially dilutive ordinary shares: | | |
| Convertible bonds | - | 117,085 |
| Employee share options | 70,057 | 67,081 |
| Bonus to employees | 52,695 | 54,926 |
| Weighted average number of ordinary shares in computation of diluted earnings per share | 7,568,221 | 7,747,631 |

For purposes of the ADS calculation, the denominator represents the above-mentioned weighted average outstanding shares divided by five (one ADS represents five ordinary shares). The numerator was the same.

The Group is able to settle the bonus to employees by cash or shares. The Group presumed that the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of ordinary shares outstanding used in the computation of diluted earnings per share if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders approve the number of shares to be distributed to employees at their meeting in the following year.

## 27. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plans of the Company and its subsidiaries

In order to attract, retain and reward employees, ASE Inc. has four employee share option plans for full-time employees of the Group. Each unit represents the right to purchase one ordinary share of ASE Inc. when exercised. Under the terms of the plans, share options are granted at an exercise price equal to or not less than the closing price of the ordinary shares listed on the TSE at the grant date. The option rights of these plans are valid for 10 years, non-transferable and exercisable at certain percentages subsequent to the second anniversary of the grant date. For any subsequent changes in the Company's capital structure, the exercise price is accordingly adjusted.

**ASE Inc. Option Plans**

Information about share options was as follows:

| | For the Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2013 | |
| | Number of Options (In Thousands) | Weighted Average Exercise Price Per Share (NT$) | Number of Options (In Thousands) | Weighted Average Exercise Price Per Share (NT$) |
| Balance at January 1 | 371,034 | $22.8 | 344,332 | $20.3 |
| Options forfeited | (6,233) | 22.6 | (3,307) | 20.7 |
| Options expired | (9) | 5.5 | (10) | 7.4 |
| Options exercised | (20,460) | 15.4 | (55,535) | 19.3 |
| Balance at December 31 | 344,332 | 20.3 | 285,480 | 20.5 |
| Options exercisable, end of year | 243,930 | 20.1 | 228,685 | 20.4 |

The weighted average share prices at the dates of exercise of share options for the years ended December 31, 2012 and 2013 was NT$25.2 and NT$26.2 (US$0.88), respectively.

Information about the Company's outstanding share options at each balance sheet date was as follows:

| | Range of Exercise Price Per Share (NT$) | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|
| January 1, 2012 | $ 7.0 | 1.0 |
| | 10.3-15.4 | 2.6 |
| | 23.3-25.8 | 7.4 |
| December 31, 2012 | 8.4-13.5 | 1.6 |
| | 20.4-22.6 | 6.4 |
| December 31, 2013 | 11.1-13.5 | 0.6 |
| | 20.4-22.6 | 5.4 |

**ASE Mauritius Inc. Option Plan**

ASE Mauritius Inc. has an employee share option plan for full-time employees of the Group which granted 30,000 thousand units in December 2007. Under the terms of the plan, each unit represents the right to purchase one ordinary share of ASE Mauritius Inc. when exercised. The option rights of the plan are valid for 10 years, non-transferable and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about share options was as follows:

| | For the Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2013 | |
| | Number of Options (In Thousands) | Exercise Price Per Share (US$) | Number of Options (In Thousands) | Exercise Price Per Share (US$) |
| Balance at January 1 | 28,770 | $1.7 | 28,595 | $1.7 |
| Options forfeited | (175) | 1.7 | (50) | 1.7 |
| Balance at December 31 | 28,595 | 1.7 | 28,545 | 1.7 |
| Options exercisable, end of year | 28,575 | 1.7 | 28,545 | 1.7 |

As of January 1, 2012, December 31, 2012 and December 31, 2013, the share options were all vested and the remaining contractual life was 6 years, 5 years and 4 years, respectively.

**USIE Option Plans**

The terms of the plans issued by USIE were the same with those of the Company's option plans.

Information about share options was as follows:

| | For the Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2013 | |
| | Number of Options (In Thousands) | Weighted Average Exercise Price Per Share (US$) | Number of Options (In Thousands) | Weighted Average Exercise Price Per Share (US$) |
| Balance at January 1 | 35,462 | $2.1 | 34,966 | $2.1 |
| Options forfeited | (283) | 2.1 | (27) | 2.9 |
| Options exercised | (213) | 1.5 | - | - |
| Balance at December 31 | 34,966 | 2.1 | 34,939 | 2.1 |
| Options exercisable, end of year | 22,252 | 1.7 | 28,281 | 2.0 |

Information on USIE's outstanding share options at each balance sheet date was as follows:

| | Range of Exercise Price Per Share (US$) | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|
| January 1, 2012 | $ 1.5 | 6.0 |
| | 2.4-2.9 | 8.9 |
| December 31, 2012 | 1.5 | 5.0 |
| | 2.4-2.9 | 7.8 |

(Continued)

| | Range of Exercise Price Per Share (US$) | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|
| December 31, 2013 | $ 1.5 | 4.0 |
| | 2.4-2.9 | 6.8 |

(Concluded)

b. Fair value of share options

Share options granted by the Group were measured using the Black-Scholes Option Pricing Model or the Hull & White Model (2004) incorporated with Ritchken's Trinomial Tree Model (1995), and the inputs to the models were as follows:

| | ASE Inc. | ASE Mauritius Inc. | USIE |
|---|---|---|---|
| Share price/market price at the grant date | NT$28.60-30.65 | US$1.7 | US$1.53-2.62 |
| Exercise prices | NT$28.60-30.65 | US$1.7 | US$1.53-2.94 |
| Expected volatility | 28.59%-40.82% | 47.21% | 32.48%-42.58% |
| Expected lives | 10 years | 10 years | 11 years |
| Expected dividend yield | 3.00%-4.00% | - | - |
| Risk free interest rates | 1.56%-2.51% | 3.87%-3.90% | 1.63%-4.02% |

Expected volatility was based on the historical share price volatility over the past 10 years of ASE Inc. and the comparable companies of ASE Mauritius Inc. and USIE, respectively. Under the Hull & White Model (2004) incorporated with Ritchken's Trinomial Tree Model (1995) to allow for the effects of early exercise, the Group assumed that employees would exercise the options after vesting date when the share price was 1.58-1.69 times the exercise price.

In addition, in December 2013, USIE had modified the terms of its option plan granted in 2007 to extend the valid period from 10 years to 11 years. The incremental fair value of NT$15,497 thousand (US$520 thousand) was all recognized as employee benefits expense in 2013 since the options were all vested.

Employee benefits expense recognized on employee share options was NT$537,461 thousand and NT$234,093 thousand (US$7,848 thousand) for the years ended December 31, 2012 and 2013, respectively.

c. New shares issued under cash capital increase reserved for subscription by employees

In July 2013, the Board of Directors approved the cash capital increase and, as required under the Company Act of the ROC, simultaneously granted options to employees to purchase 15% of such newly issued shares with such options exercisable within 3 days and vested when granted. The grant of the options was treated as employee options, accordingly a share-based compensation, and measured at fair value in accordance with IFRS 2. The Group recognized employee benefits expense and capital surplus of NT$26,708 thousand (US$895 thousand) in full at the grant date (also the vested date).

Information about the Company's employee share options related to the aforementioned newly issued shares was as follows:

| | Number of Options (In Thousand) | Weighted Average Exercise Price Per Share (NT$) |
|---|---|---|
| Balance at January 1, 2013 | - | $ - |
| Options granted | 14,437 | 1.85 |
| Options exercised | (12,477) | 1.85 |
| Options forfeited | (1,960) | - |
| Balance at December 31, 2013 | - | - |

Fair value was measured using the Black-Scholes Option Pricing Model and the inputs to the model were as follows:

| | |
|---|---|
| Share price at the grant date | NT$27.95 (US$0.94) per share |
| Exercise price | NT$26.10 (US$0.87) per share |
| Expected volatility | 17.98% |
| Expected lives | 3 days |
| Expected dividend yield | - |
| Risk free interest rate | 0.57% |

Expected volatility was based on the Company's historical share prices volatility.

## 28. BUSINESS COMBINATIONS

a. Subsidiaries acquired

| | Principal Activity | Date of Acquisition | Proportion of Voting Equity Interests Acquired | Cash Consideration NT$ |
|---|---|---|---|---|
| Yang Ting | Packaging and testing of semiconductors | January 13, 2012 | 100% | $ 300,016 |
| Wuxi Tongzhi | Packaging and testing of semiconductors | May 27, 2013 | 100% | $ 338,021 |

b. Consideration transferred, fair value of assets acquired and liabilities assumed as well as net cash outflow on acquisition of subsidiaries at the acquisition dates were as follows:

1) Yang Ting

| | NT$ |
|---|---|
| Current assets | $ 171,015 |
| Non-current assets | |
| Property, plant and equipment | 265,902 |
| Other non-current assets | 4,574 |
| Current liabilities | (96,929) |

(Continued)

| | NT$ |
|---|---|
| Non-current liabilities | |
| Long-term borrowings | $ (44,800) |
| Other non-current liabilities | (1,200) |
| | 298,562 |
| Goodwill | 1,454 |
| Total consideration | 300,016 |
| Less: Cash and cash equivalent acquired | (38,409) |
| Net cash outflow on acquisition of Yang Ting | $ 261,607 |

(Concluded)

Goodwill arising on above acquisition was not expected to be deductible for tax purposes.

2) Wuxi Tongzhi

| | NT$ | US$ (Note 4) |
|---|---|---|
| Current assets | $ 158,100 | $ 5,300 |
| Non-current assets | | |
| Property, plant and equipment | 258,420 | 8,663 |
| Other non-current assets | 35,656 | 1,195 |
| Current liabilities | (85,295) | (2,859) |
| | 366,881 | 12,299 |
| Bargain purchase gain - recognized in other gains and losses | (28,860) | (967) |
| Total consideration | 338,021 | 11,332 |
| Less: Cash and cash equivalent acquired | (87,634) | (2,938) |
| Net cash outflow on acquisition of Wuxi Tongzhi | $ 250,387 | $ 8,394 |

c. Impact of acquisitions on the operating results of the Group

The operating results of Yang Ting, since the acquisition date to December 31, 2012, included in the consolidated statements of comprehensive income were operating revenue NT$321,748 thousand and loss for the period NT$183,010 thousand.

The operating results of Wuxi Tongzhi, since the acquisition date to December 31, 2013, included in the consolidated statements of comprehensive income were operating revenue NT$316,380 thousand (US$10,606 thousand) and profit for the period NT$15,762 thousand (US$528 thousand).

d. Pro-forma information

Had these business combinations been in effect at the beginning of each year, the Group's operating revenues for the years ended December 31, 2012 and 2013 would have been NT$193,972,392 thousand and NT$220,093,736 thousand (US$7,378,268 thousand), respectively, and profit for the years ended December 31, 2012 and 2013 would have been NT$13,648,298 thousand and NT$15,873,615 thousand (US$532,136 thousand), respectively.

This pro-forma information is for illustrative purposes only and is not necessarily an indication of operating revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of each year, nor is it intended to be a projection of future results.

## 29. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The Group's subsidiary, Luchu, issued new ordinary shares for cash capital increase of NT$400,000 thousand (US$13,409 thousand) in August 2013. The Group subscribed for additional new shares at a percentage different from its existing ownership percentage and accordingly the Group's shareholdings of Luchu increased from 84.3% to 86.1%.

PowerASE was merged into the Company in May 2012 and the Company acquired the remaining outstanding 733 thousand shares at the consideration of NT$10,933 thousand.

The ordinary shares of USISH have been traded on the SSE under the symbol "601231" since February 2012 and USISH issued ordinary shares upon its public offering for CNY773,419 thousand. After the public offering, the Group's shareholdings of USISH decreased from 99.2% to 88.6% since the Group did not subscribe the additional shares of the offering.

The above transactions were accounted for as equity transactions since the Group did not cease to have control over these subsidiaries.

## 30. NON-CASH TRANSACTIONS

For the years ended December 31, 2012 and 2013, the Group entered into the following non-cash investing activities which were not reflected in the consolidated statements of cash flows:

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Payments for property, plant and equipment | | | |
| Purchase of property, plant and equipment | $ 38,976,825 | $ 27,044,072 | $ 906,607 |
| Increase (decrease) in prepayments for property, plant and equipment | (153,122) | 327,810 | 10,989 |
| Decrease in payables for property, plant and equipment | 408,156 | 1,908,404 | 63,976 |
| Capitalized borrowing costs | (202,363) | (137,567) | (4,612) |
| | $ 39,029,496 | $ 29,142,719 | $ 976,960 |
| Proceeds from disposal of property, plant and equipment | | | |
| Consideration from disposal of property, plant and equipment | $ 442,675 | $ 350,873 | $ 11,762 |
| Decrease in other receivables | 42,125 | 673 | 23 |
| | $ 484,800 | $ 351,546 | $ 11,785 |

## 31. OPERATING LEASE ARRANGEMENTS

Except those discussed in Note 18, the Company and its subsidiary, ASE Test, Inc., lease the land on which their buildings are located under various operating lease agreements with the ROC government expiring through January 2023. The agreements grant these entities the option to renew the leases and reserve the right for the lessor to adjust the lease payments upon an increase in the assessed value of the land and to terminate the leases under certain conditions. In addition, the Group leases buildings, machinery and equipment under operating leases.

The subsidiaries' offices located in U.S.A. and Japan, etc. are leased from other parties and the lease term will expire through 2014 to 2017 with the option to renew the leases upon expiration.

The Group recognized rental expense of NT$1,026,384 thousand and NT$1,301,550 thousand (US$43,632 thousand) for the years ended December 31, 2012 and 2013, respectively.

## 32. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity. The Group 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. Key management personnel of the Group periodically reviews the cost of capital and the risks associated with each class of capital. In order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and the amount of new debt issued or existing debt redeemed.

The Group is not subject to any externally imposed capital requirements except those discussed in Note 19.

## 33. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value measurements recognized in the consolidated balance sheets

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, 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 those assets or liabilities that are not based on observable market data (unobservable inputs).

Assets and liabilities measured at fair value on a recurring basis

The following table presents the Group's assets and liabilities measured at fair value on a recurring basis as of January 1, 2012, December 31, 2012 and December 31, 2013:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ |
| January 1, 2012 | | | | |
| Financial assets at FVTPL | | | | |
| Derivative financial assets | | | | |
| Swap contracts | $ - | $ 478,504 | $ - | $ 478,504 |
| Forward exchange contracts | - | 10,812 | - | 10,812 |

(Continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ |
| Non-derivative financial assets held for trading | | | | |
| Open-end mutual funds | $ 170,581 | $ - | $ - | $ 170,581 |
| Quoted shares | 46,858 | - | - | 46,858 |
| | $ 217,439 | $ 489,316 | $ - | $ 706,755 |
| Available-for-sale financial assets | | | | |
| Limited partnership | $ - | $ - | $ 447,112 | $ 447,112 |
| Unquoted shares | - | - | 446,171 | 446,171 |
| Quoted shares | 197,052 | - | - | 197,052 |
| Private-placement shares | - | 24,827 | - | 24,827 |
| | $ 197,052 | $ 24,827 | $ 893,283 | $ 1,115,162 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | | | | |
| Swap contracts | $ - | $ 81,450 | $ - | $ 81,450 |
| Forward exchange contracts | - | 13,944 | - | 13,944 |
| Cross currency swap contracts | - | 38,880 | - | 38,880 |
| | $ - | $ 134,274 | $ - | $ 134,274 |
| Derivative financial liabilities for hedging | | | | |
| Interest rate swap contract | $ - | $ 58,279 | $ - | $ 58,279 |
| December 31, 2012 | | | | |
| Financial assets at FVTPL | | | | |
| Financial assets designated as at FVTPL | | | | |
| Dual currency deposits | $ - | $ 2,178,381 | $ - | $ 2,178,381 |
| Structured time deposits | - | 1,644,601 | - | 1,644,601 |
| Derivative financial assets | | | | |
| Swap contracts | - | 18,890 | - | 18,890 |
| Forward exchange contracts | - | 3,326 | - | 3,326 |
| Non-derivative financial assets held for trading | | | | |
| Open-end mutual funds | 171,802 | - | - | 171,802 |
| Quoted shares | 18,000 | - | - | 18,000 |
| | $ 189,802 | $ 3,845,198 | $ - | $ 4,035,000 |
| Available-for-sale financial assets | | | | |
| Limited Partnership | $ - | $ - | $ 518,452 | $ 518,452 |
| Quoted shares | 301,146 | - | - | 301,146 |

(Continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ |
| Unquoted shares | $ - | $ - | $ 258,231 | $ 258,231 |
| Private-placement shares | - | 67,146 | - | 67,146 |
| | $ 301,146 | $ 67,146 | $ 776,683 | $ 1,144,975 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | | | | |
| Swap contracts | $ - | $ 423,366 | $ - | $ 423,366 |
| Forward exchange contracts | - | 35,883 | - | 35,883 |
| Foreign currency option contracts | - | 7,899 | - | 7,899 |
| | $ - | $ 467,148 | $ - | $ 467,148 |
| Derivative financial liabilities for hedging | | | | |
| Interest rate swap contracts | $ - | $ 4,524 | $ - | $ 4,524 |

(Concluded)

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | NT$ | US$ (Note 4) | NT$ | US$ (Note 4) | NT$ | US$ (Note 4) | NT$ | US$ (Note 4) |
| December 31, 2013 | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | |
| Financial assets designated as at FVTPL | | | | | | | | |
| Structured time deposits | $ - | $ - | $2,228,643 | $ 74,711 | $ - | $ - | $2,228,643 | $ 74,711 |
| Private-placement convertible bonds | - | - | 100,500 | 3,369 | - | - | 100,500 | 3,369 |
| Derivative financial assets | | | | | | | | |
| Swap contracts | - | - | 219,324 | 7,353 | - | - | 219,324 | 7,353 |
| Forward exchange contracts | - | - | 10,178 | 341 | - | - | 10,178 | 341 |
| Non-derivative financial assets held for trading | | | | | | | | |
| Open-end mutual funds | 172,000 | 5,766 | - | - | - | - | 172,000 | 5,766 |
| Quoted shares | 33,624 | 1,127 | - | - | - | - | 33,624 | 1,127 |
| | $ 205,624 | $ 6,893 | $2,558,645 | $ 85,774 | $ - | $ - | $2,764,269 | $ 92,667 |
| Available-for-sale financial assets | | | | | | | | |
| Open-end mutual funds | $2,321,826 | $ 77,835 | $ - | $ - | $ - | $ - | $2,321,826 | $ 77,835 |
| Limited partnership | - | - | - | - | 583,441 | 19,559 | 583,441 | 19,559 |
| Quoted shares | 328,656 | 11,018 | - | - | - | - | 328,656 | 11,018 |
| Unquoted shares | - | - | - | - | 213,721 | 7,165 | 213,721 | 7,165 |
| Private-placement shares | - | - | 69,655 | 2,335 | - | - | 69,655 | 2,335 |
| | $2,650,482 | $ 88,853 | $ 69,655 | $ 2,335 | $ 797,162 | $ 26,724 | $3,517,299 | $ 117,912 |

(Continued)

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | NT$ | US$ (Note 4) | NT$ | US$ (Note 4) | NT$ | US$ (Note 4) | NT$ | US$ (Note 4) |
| Financial liabilities at FVTPL | | | | | | | | |
| Derivative financial liabilities | | | | | | | | |
| Conversion option, redemption option and put option of convertible bonds | $ - | $ - | $1,742,996 | $ 58,431 | $ - | $ - | $1,742,996 | $ 58,431 |
| Swap contracts | - | - | 74,170 | 2,486 | - | - | 74,170 | 2,486 |
| Forward exchange contracts | - | - | 31,315 | 1,050 | - | - | 31,315 | 1,050 |
| Cross currency swap contracts | - | - | 4,180 | 140 | - | - | 4,180 | 140 |
| Foreign currency option contracts | - | - | 643 | 22 | - | - | 643 | 22 |
| | $ - | $ - | $1,853,304 | $ 62,129 | $ - | $ - | $1,853,304 | $ 62,129 |
| Derivative financial liabilities for hedging | | | | | | | | |
| Interest rate swap contracts | $ - | $ - | $ 3,310 | $ 111 | $ - | $ - | $ 3,310 | $ 111 |

(Concluded)

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

2) Fair value of financial instruments not measured at fair value but for which fair value is disclosed

Except bonds payable measured at amortized cost, the management considers that the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values.

The carrying amounts and fair value of bonds payable as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively, were as follows:

| | Carrying Amount | | Fair Value (Level 3) | |
|---|---|---|---|---|
| | NT$ | US$ (Note 4) | NT$ | US$ (Note 4) |
| January 1, 2012 | $ 10,876,538 | | $ 10,901,737 | |
| December 31, 2012 | 10,804,551 | | 10,807,596 | |
| December 31, 2013 | 21,314,005 | $ 714,516 | 21,913,590 | $ 734,616 |

The fair values were determined using discounted cash flow analysis with the applicable yield curve for the duration and recent transaction prices.

3) Reconciliation of Level 3 fair value measurements of financial assets

The financial assets measured at Level 3 fair value were equity investments with no quoted prices classified as available-for-sale financial assets - non-current. Reconciliation for the years ended December 31, 2012 and 2013 was as follows:

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Balance at January 1 | $ 893,283 | $ 776,683 | $ 26,037 |
| Total gains or losses | | | |
| In profit or loss | 2,013 | (106,916) | (3,584) |
| In other comprehensive income | (69,466) | 81,405 | 2,729 |

(Continued)

| | 2012 | 2013 | |
|---|---|---|---|
| | NT$ | NT$ | US$ (Note 4) |
| Purchases | $ 52,791 | $ 73,358 | $ 2,459 |
| Disposals | (101,938) | (27,368) | (917) |
| Balance at December 31 | $ 776,683 | $ 797,162 | $ 26,724 |

(Concluded)

The total gains or losses for the years ended December 31, 2012 and 2013 included a gain of NT$2,013 thousand and a loss of NT$106,916 thousand (US$3,584 thousand) relating to the financial assets at fair value on Level 3 fair value measurement and held at each balance sheet date. Such fair value gains or losses are included in other gains and losses (Note 24).

As of December 31, 2012 and 2013, unrealized loss of 51,199 thousand and unrealized gain of 20,175 thousand (US$676 thousand), recorded in other comprehensive income under the heading of unrealized gain on available-for-sale financial assets, were included in the carrying amount of the financial assets at fair value on Level 3 fair value measurement.

4) 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 markets were determined with reference to quoted market prices (includes quoted shares and open-end mutual funds). The fair value of private-placement shares was derived using quoted market prices and adjusted for the liquidity discount due to the selling restrictions relating to the lock-up period. The liquidity discount was the option value using the Black-Scholes Model with all observable inputs.

b) The fair values of derivative instruments were calculated using quoted prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. These models use market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies to project fair value. The estimates and assumptions used by the Group were consistent with those that market participants would use in pricing financial instruments.

c) The fair value of the Group's investments in unquoted shares on Level 3 fair value measurement were measured using market approach based on investees' recent financing activities, technical development, valuation of investees comparable companies, market conditions and other economic indicators.

The fair values of investments in limited partnership are valued using discounted cash flow technique and a comparable multiple technique. The significant unobservable inputs used in the discounted cash flow technique were discount rate of 8.52% to 12.06% and the terminal growth rate of 2.00% to 2.50%. Any significant increase in discount rate or any decrease of terminal growth rate would result in a decrease in the fair value of limited partnership. The significant unobservable inputs used in the comparable technique was EBITDA multiple of 9.82 to 10.17. A significant decrease in this multiple would result in a decrease in the fair value of limited partnership.

d) Except the aforementioned, the fair values of other financial assets and financial liabilities were measured using the generally accepted pricing models based on a discounted cash flow analysis.

b. Categories of financial instruments

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| **Financial assets** | | | | |
| FVTPL | | | | |
| Designated as at FVTPL | $ - | $ 3,822,982 | $ 2,329,143 | $ 78,080 |
| Held for trading | 706,755 | 212,018 | 435,126 | 14,587 |
| Available-for-sale financial assets | 1,115,162 | 1,144,975 | 3,517,299 | 117,912 |
| Loans and receivables (Note 1) | 56,169,325 | 58,493,785 | 89,317,657 | 2,994,222 |
| **Financial liabilities** | | | | |
| FVTPL | | | | |
| Held for trading | 134,274 | 467,148 | 1,853,304 | 62,129 |
| Derivative instruments in designated hedge accounting relationships | 58,279 | 4,524 | 3,310 | 111 |
| Measured at amortized cost (Note 2) | 113,354,668 | 124,558,587 | 145,430,744 | 4,875,318 |

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

Note 2: The balances included financial liabilities measured at amortized cost which comprise short-term and long-term borrowings, trade and other payables, bonds payable and long-term payables.

c. Financial risk management objectives and policies

The derivative instruments used by the Group are to mitigate risks arising from ordinary business operations. All derivative transactions entered into by the Group are designated as either hedging or trading. Derivative transactions entered into for hedging purposes must hedge risk against fluctuations in foreign exchange rates and interest rates arising from operating activities. The currencies and the amount of derivative instruments held by the Group must match its hedged assets and liabilities denominated in foreign currencies.

The Group's risk management department monitors risks to mitigate risk exposures, reports unsettled position, transaction balances and related gains or losses to the Group’s chief financial officer on monthly basis.

1) Market risk

The Group’s activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Gains or losses arising from fluctuations in foreign currency exchange rates of a variety of derivative financial instruments were approximately offset by those of hedged items. Interest rate risk was not significant due to the cost of capital was expected to be fixed.

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency exchange rate risk

The Group had sales and purchases as well as financing activities denominated in foreign currency which exposed the Group to foreign currency exchange rate risk. The Group entered into a variety of derivative financial instruments to hedge foreign currency exchange rate risk to minimize the fluctuations of assets and liabilities denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities (including those eliminated upon consolidation) as well as derivative instruments which exposed the Group to foreign currency exchange rate risk at each balance sheet date are presented in Note 38.

The Group was principally subject to the impact to exchange rate fluctuation in U.S. dollars and Japanese yen against NT$ or Chinese Yuan Renminbi (“CNY”). 1% is the sensitivity rate used when reporting foreign currency exchange rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign currency exchange rates. The sensitivity analysis included financial assets and liabilities and inter-company receivables and payables within the Group. The changes in profit before income tax due to a 1% change in U.S. dollars and Japanese yen both against NT$ and CNY would be NT$15,000 thousand and NT$ 15,000 thousand (US$503 thousand) for the years ended December 31, 2012 and 2013, respectively. Hedging contracts and hedged items have been taken into account while measuring the changes in profit before income tax. The sensitivity analysis for foreign currency exchange rate risk to which the Group was exposed at the each balance sheet date was unrepresentative of a risk inherent for the years ended December 31, 2012 and 2013.

b) Interest rate risk

Except a portion of long-term borrowings and bonds payable at fixed interest rates, the Group was exposed to interest rate risk because group entities borrowed funds at floating interest rates. Changes in market interest rates will lead to variances in effective interest rates of borrowings from which the future cash flow fluctuations arise.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at each balance sheet date were as follows:

| | **January 1, 2012** | **December 31, 2012** | **December 31, 2013** | |
|---|---|---|---|---|
| | **NT$** | **NT$** | **NT$** | **US$ (Note 4)** |
| Fair value interest rate risk | | | | |
| Financial liabilities | $ 10,900,463 | $ 10,808,520 | $ 22,186,535 | $ 743,766 |
| Cash flow interest rate risk | | | | |
| Financial assets | 18,894,790 | 17,241,207 | 46,206,830 | 1,549,005 |
| Financial liabilities | 65,650,346 | 73,835,141 | 78,502,073 | 2,631,648 |

For assets and liabilities with floating interest rates, a 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel. If interest rates had been 100 basis points (1%) higher or lower and all other variables held constant, the Group’s profit before income tax for the years ended December 31, 2012 and 2013 would have decreased or increased by NT$566,000 thousand and NT$323,000 thousand (US$10,828 thousand), respectively.

c) Other price risk

The Group was exposed to equity price risk through its investments in financial assets at FVTPL, including private-placement convertible bonds, quoted shares and open-end mutual funds, and available-for-sale financial assets. If equity prices were 1% higher or lower, profit before income tax for the years ended December 31, 2012 and 2013 would have increased or decreased by NT$1,900 thousand and NT$3,100 thousand (US$104 thousand), respectively and other comprehensive income before income tax for the years ended December 31, 2012 and 2013 would have increased or decreased by NT$12,000 thousand and NT$35,000 thousand (US$1,173 thousand), respectively.

In addition, the Group was also exposed to the Company's share price risk through Bonds Options recognized as financial liabilities held for trading. If the Company's share price increased, the carrying amount of Bonds Options would have increased and profit before income tax for the year ended December 31, 2013 would have decreased, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk arises from cash and cash equivalents, receivables and other financial assets. The Group's maximum exposure to credit risk was the carrying amounts of financial assets in the consolidated balance sheets.

The Group dealt with counterparties creditworthy and has a credit policy and trade receivable management procedures to ensure recovery and evaluation of trade receivables. The Group's counterparties consisted of a large number of customers and banks and there was no significant concentration of credit risk exposure.

3) Liquidity risk

The Group manages liquidity risk by maintaining adequate working capital and banking facilities to fulfill the demand for cash flow used in the Group's operation and capital expenditure. The Group also monitors its compliance with all the loan covenants. Liquidity risk is not considered to be significant.

In the table below, financial liabilities with a repayment on demand clause were included in the earliest time band regardless of the probability of counter-parties choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amounts were derived from the interest rates at each balance sheet date.

| | On Demand or Less than 1 Month | 1 to 3 Months | 3 Months to 1 Year | 2 to 5 Years | More than 5 Years |
|---|---|---|---|---|---|
| | NT$ | NT$ | NT$ | NT$ | NT$ |
| January 1, 2012 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing | $ 14,039,951 | $ 13,325,193 | $ 4,047,510 | $ 47,140 | $ - |
| Floating interest rate liabilities | 13,095,370 | 10,446,790 | 13,038,459 | 30,831,418 | 118,895 |
| Fixed interest rate liabilities | - | - | 240,662 | 12,040,697 | - |
| | $ 27,135,321 | $ 23,771,983 | $ 17,326,631 | $ 42,919,255 | $ 118,895 |
| December 31, 2012 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing | $ 17,423,564 | $ 13,349,153 | $ 3,132,356 | $ 126,926 | $ - |
| Floating interest rate liabilities | 15,947,991 | 12,124,209 | 18,573,373 | 28,753,512 | 39,481 |
| Fixed interest rate liabilities | - | - | 235,870 | 11,667,329 | - |
| | $ 33,371,555 | $ 25,473,362 | $ 21,941,599 | $ 40,547,767 | $ 39,481 |
| December 31, 2013 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing | $ 16,755,995 | $ 18,506,103 | $ 2,193,722 | $ 979,923 | $ - |
| Floating interest rate liabilities | 22,940,649 | 11,905,684 | 21,552,430 | 23,383,218 | - |
| Fixed interest rate liabilities | 4,051 | 169,271 | 1,105,439 | 23,523,781 | - |
| | $ 39,700,695 | $ 30,581,058 | $ 24,851,591 | $ 47,886,922 | $ - |

(Continued)

| December 31, 2013 | On Demand or Less than 1 Month<br>US$ (Note 4) | 1 to 3 Months<br>US$ (Note 4) | 3 Months to 1 Year<br>US$ (Note 4) | 2 to 5 Years<br>US$ (Note 4) | More than 5 Years<br>US$ (Note 4) |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing | $ 561,716 | $ 620,386 | $ 73,541 | $ 32,850 | $ - |
| Variable interest rate liabilities | 769,046 | 399,118 | 722,508 | 783,883 | - |
| Fixed interest rate liabilities | 136 | 5,674 | 37,058 | 788,595 | - |
| | $ 1,330,898 | $ 1,025,178 | $ 833,107 | $ 1,605,328 | $ - |

(Concluded)

The amounts included above for floating interest rate instruments for non-derivative financial liabilities was subject to change if changes in floating interest rates differ from those estimates of interest rates determined at each balance sheet date.

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross cash inflows and outflows on those derivatives that require gross settlement. When the amounts payable or receivable are not fixed, the amounts disclosed have been determined by reference to the projected interest rates as illustrated by the yield curves at each balance sheet date.

| January 1, 2012 | On Demand or Less than 1 Month<br>NT$ | 1 to 3 Months<br>NT$ | 3 Months to 1 Year<br>NT$ | More than 1 Year<br>NT$ |
|---|---|---|---|---|
| Net settled | | | | |
| Forward exchange contracts | $ (2,230) | $ (1,200) | $ - | $ - |
| Gross settled | | | | |
| Forward exchange contracts | | | | |
| Inflows | $ 2,740,261 | $ 265,166 | $ - | $ - |
| Outflows | (2,740,439) | (265,708) | - | - |
| | (178) | (542) | - | - |
| Swap contracts | | | | |
| Inflows | 3,211,093 | 3,521,224 | 18,848,410 | - |
| Outflows | (3,210,236) | (3,534,222) | (18,312,140) | - |
| | 857 | (12,998) | 536,270 | - |
| Cross currency swap contracts | | | | |
| Inflows | 721 | 1,330 | 3,450 | - |
| Outflows | (236) | (381) | (929) | - |
| | 485 | 949 | 2,521 | - |
| Interest rate swap contracts | | | | |
| Inflows | - | 16,161 | 26,949 | 4,755 |
| Outflows | - | (37,450) | (63,803) | (12,206) |
| | - | (21,289) | (36,854) | (7,451) |
| | $ 1,164 | $ (33,880) | $ 501,937 | $ (7,451) |

(Continued)

| | On Demand or Less than 1 Month NT$ | 1 to 3 Months NT$ | 3 Months to 1 Year NT$ | More than 1 Year NT$ |
|---|---|---|---|---|
| December 31, 2012 | | | | |
| Net settled | | | | |
| Foreign currency option contracts | $ 4,910 | $ - | $ - | $ - |
| Gross settled | | | | |
| Forward exchange contracts | | | | |
| Inflows | $ 1,890,915 | $ 1,182,621 | $ 115,929 | $ - |
| Outflows | (1,916,767) | (1,187,787) | (116,160) | - |
| | (25,852) | (5,166) | (231) | - |
| Swap contracts | | | | |
| Inflows | 4,929,056 | 5,327,530 | 27,373,602 | - |
| Outflows | (4,987,902) | (5,351,188) | (27,595,975) | - |
| | (58,846) | (23,658) | (222,373) | - |
| Interest rate swap contracts | | | | |
| Inflows | - | 5,735 | - | - |
| Outflows | - | (12,900) | - | - |
| | - | (7,165) | - | - |
| | $ (84,698) | $ (35,989) | $ (222,604) | $ - |
| December 31, 2013 | | | | |
| Net settled | | | | |
| Forward exchange contracts | $ 3,520 | $ (2,670) | $ - | $ - |
| Foreign currency option contracts | - | 2,910 | - | - |
| | $ 3,520 | $ 240 | $ - | $ - |
| Gross settled | | | | |
| Forward exchange contracts | | | | |
| Inflows | $ 2,703,738 | $ 1,540,707 | $ 208,348 | $ - |
| Outflows | (2,725,667) | (1,541,515) | (208,635) | - |
| | (21,929) | (808) | (287) | - |
| Swap contracts | | | | |
| Inflows | 6,565,374 | 6,384,442 | 23,843,432 | - |
| Outflows | (6,524,921) | (6,368,366) | (23,596,540) | - |
| | 40,453 | 16,076 | 246,892 | - |
| Cross currency swap contracts | | | | |
| Inflows | 175 | 356 | 596,801 | - |
| Outflows | - | - | (598,600) | - |
| | 175 | 356 | (1,799) | - |
| Interest rate swap contracts | | | | |
| Inflows | 3,744 | - | 3,089 | - |
| Outflows | (5,995) | - | (5,865) | - |
| | (2,251) | - | (2,776) | - |
| | $ 16,448 | $ 15,624 | $ 242,030 | $ - |

(Concluded)

| December 31, 2013 | On Demand or Less than 1 Month US$ (Note 4) | 1 to 3 Months US$ (Note 4) | 3 Months to 1 Year US$ (Note 4) | More than 1 Year US$ (Note 4) |
|---|---|---|---|---|
| Net settled | | | | |
| Forward exchange contracts | $ 118 | $ (90) | $ - | $ - |
| Foreign currency option contracts | - | 98 | - | - |
| | $ 118 | $ 8 | $ - | $ - |
| Gross settled | | | | |
| Forward exchange contracts | | | | |
| Inflows | $ 90,638 | $ 51,650 | $ 6,984 | $ - |
| Outflows | (91,373) | (51,677) | (6,994) | - |
| | (735) | (27) | (10) | - |
| Swap contracts | | | | |
| Inflows | 220,093 | 214,028 | 799,311 | - |
| Outflows | (218,737) | (213,489) | (791,034) | - |
| | 1,356 | 539 | 8,277 | - |
| Cross currency swap contracts | | | | |
| Inflows | 6 | 12 | 20,007 | - |
| Outflows | - | - | (20,067) | - |
| | 6 | 12 | (60) | - |
| Interest rate swap contracts | | | | |
| Inflows | 126 | - | 104 | - |
| Outflows | (201) | - | (197) | - |
| | (75) | - | (93) | - |
| | $ 552 | $ 524 | $ 8,114 | $ - |

## 34. RELATED PARTY TRANSACTIONS

Balances and transactions within the Group had been eliminated upon consolidation. Details of transactions between the Group and other related parties were disclosed as follows:

a. The Company and its subsidiary, ASE Test, Inc., acquired real estate from HCDC in May 2012 at NT$1,429,679 thousand and the Company acquired real estate from HCDC in December 2013 at NT$1,473,905 thousand (US$49,410 thousand), which were all primarily based on independent professional appraisal reports and fully paid before December 31, 2012 and 2013. Except the aforementioned, the Group had no material transactions with related parties for the years ended December 31, 2012 and 2013.

b. Compensation to key management personnel

   The remuneration to the Group’s key management personnel for the years ended December 31, 2012 and 2013 was as follows:

| | For the years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Short-term employee benefits | $ 797,632 | $ 741,232 | $ 24,849 |
| Post-employment benefits | 5,146 | 4,766 | 160 |
| Share-based payments | 114,738 | 78,701 | 2,638 |
| | $ 917,516 | $ 824,699 | $ 27,647 |

The remuneration to the Company's key management personnel is approved by the Company's remuneration committee according to personal performance and market trends.

## 35. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

In addition to Note 11, the following assets were provided as collateral for bank borrowings, the tariff guarantees of imported raw materials or the security deposits for hiring foreign workers:

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Inventories related to real estate business | $ 1,616,743 | $ - | $ 12,239,500 | $ 410,308 |
| Property, plant and equipment | | | | |
| Land | 777,858 | 299,059 | 299,059 | 10,025 |
| Buildings and improvements | 3,111,856 | 370,518 | 337,222 | 11,305 |
| Other financial assets (including current and non-current) | 230,801 | 214,626 | 250,656 | 8,403 |
| | $ 5,737,258 | $ 884,203 | $ 13,126,437 | $ 440,041 |

## 36. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of each balance sheet date were as follows:

a. Significant commitments

1) As of January 1, 2012, December 31, 2012 and December 31, 2013, unused letters of credit of the Group were approximately NT$331,000 thousand, NT$206,000 thousand and NT$271,000 thousand (US$9,085 thousand), respectively.

2) As of January 1, 2012, December 31, 2012 and December 31, 2013, outstanding commitments to purchase property, plant and equipment of the Group were approximately NT$7,856,000 thousand, NT$9,781,000 thousand and NT$8,249,000 thousand (US$276,534 thousand), respectively, of which NT$1,515,016 thousand, NT$1,278,567 thousand and NT$1,291,306 thousand (US$43,289 thousand) had been prepaid, respectively.

3) In consideration of corporate social responsibility for environmental protection, the Company's Board of Directors, in December 2013, approved contributions to be made in the next 30 years, at a total amount of NT$3,000,000 thousand (US$100,570 thousand), at the minimum, to environmental protection efforts in Taiwan.

b. Non-cancellable operating lease commitments

| | December 31, 2013 | |
|---|---|---|
| | NT$ | US$ (Note 4) |
| Less than 1 year | $ 279,557 | $ 9,372 |
| 1 to 5 years | 273,201 | 9,158 |
| More than 5 years | 364,350 | 12,214 |
| | $ 917,108 | $ 30,744 |

## 37. SIGNIFICANT SUBSEQUENT EVENTS

Tessera Inc. ("Tessera") filed an amended complaint in the United States District Court for the Northern District of California in February 2006 adding the Company and its subsidiary, ASE US, to a suit alleging that the Company and ASE US infringed patents owned by Tessera (the "California Litigation"). The district court in the California Litigation lifted the stay in January 2012 and set a case management schedule to begin in August and September 2014. The United States Patent and Trademark Office have also instituted reexamination proceedings on all the patents Tessera has asserted in the California Litigation and the investigations concluded by International Trade Commission.

In February 2014, the Company and its subsidiary, ASE US, reached an agreement in principle with Tessera to resolve the California Litigation, under which the Company will pay NT$894,150 thousand (US$30,000 thousand as resolved in the agreement in principle) to Tessera, which have been recorded under line items of long-term payables and other income and expenses in 2013.

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

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

| | Foreign Currencies (In Thousand) | Exchange Rate | Carrying Amount (In Thousand) |
|---|---|---|---|
| January 1, 2012 | | | |
| Monetary financial assets | | | |
| US$ | $ 1,986,074 | US$1=NT$30.275 | $ 60,128,390 |
| JPY | 9,656,876 | JPY1=NT$0.3906 | 3,771,976 |
| Monetary financial liabilities | | | |
| US$ | 2,431,078 | US$1=NT$30.275 | 73,600,886 |
| JPY | 10,570,543 | JPY1=NT$0.3906 | 4,128,854 |
| December 31, 2012 | | | |
| Monetary financial assets | | | |
| US$ | 2,714,508 | US$1=NT$29.04 | 78,829,312 |
| JPY | 10,159,121 | JPY1=NT$0.3364 | 3,417,528 |

(Continued)

| | Foreign Currencies (In Thousand) | Exchange Rate | Carrying Amount (In Thousand) |
|---|---|---|---|
| Monetary financial liabilities | | | |
| US$ | $ 2,758,258 | US$1=NT$29.04 | $ 80,099,812 |
| JPY | 10,807,033 | JPY1=NT$0.3364 | 3,635,486 |
| December 31, 2013 | | | |
| Monetary financial assets | | | |
| US$ | 3,381,706 | US$1=NT$29.805 | 100,791,747 |
| JPY | 12,302,816 | JPY1=NT$0.2839 | 3,492,769 |
| Monetary financial liabilities | | | |
| US$ | 3,438,847 | US$1=NT$29.805 | 102,494,835 |
| JPY | 11,659,321 | JPY1=NT$0.2839 | 3,310,081 |

(Concluded)

## 39. OTHERS

On December 20, 2013, the Kaohsiung Environmental Protection Bureau ("KEPB") issued an official letter No. Kao-Shih-Huan-Chu-Tu-Tzu 10243758100 and an administrative sanction letter No. Kao-Shih-Huan-Chu-Shui-Chu-Tzu 30-102-120022 ("the Administrative Decision"). The Administrative Decision was to suspend the operation at ASE K7 Plant's wafer-level process where nickel is used and impose a fine of NT$110,065 thousand (US$3,690 thousand), which have been recorded under line item of other income and expenses for the year ended December 31, 2013. After an internal investigation into the plant's wastewater treatment, ASE found out that the accidental discharge of wastewater containing abnormal levels of acidity on October 1, 2013 was because of a malfunction in the hydrochloric acid storage process in the K7 Plant, and the problem was fixed on the same day. The K7 Plant's wastewater treatment facility is now functioning normally. This event was an isolated incident, to which ASE did not react properly.

On January 17, 2014, ASE retained lawyers to file an administrative appeal to nullify the Administrative Decision with the Kaohsiung City Government. At the same time, to resume normal production at the K7 Plant as soon as practicable, ASE also applied to the KEPB for resumption of the operation at K7 Plant's wafer-level process where nickel is used and is taking every step necessary to achieve this objective. Meanwhile, owing to the discharge in question, on January 3, 2014, the Kaohsiung District Prosecutors Office charged ASE with violation of the Waste Disposal Act.

As of the date when the financial statements are authorized for issue, the application for resumption of the K7 plant's wafer-level process where nickel is used was conditionally approved by the KEPB, and the subsequent revisions to the resumption plan and the commissioning test will be examined by the KEPB. The case of the violation charge of the Waste Disposal Act is being heard by the Taiwan Kaohsiung District Court.

## 40. OPERATING SEGMENTS INFORMATION

The Group has the following reportable segments: Packaging, Testing and EMS. The Group packages bare semiconductors into finished semiconductors with enhanced electrical and thermal characteristics; provides testing services, including front-end engineering testing, wafer probing and final testing services; provides electronics manufacturing services. Information about other business activities and operating segments that are not reportable are combined and disclosed in "Others." The Group engages in other activities such as substrate production and real estate business.

The accounting policies for segments are the same as those described in Note 4. The measurement basis for resources allocation and performance evaluation are based on profit before income tax.

Segment information for the years ended December 31, 2012 and 2013 was as follows:

a. Segment revenues and results

| | Packaging NT$ | Testing NT$ | EMS NT$ | Others NT$ | Total NT$ |
|---|---|---|---|---|---|
| For the year ended December 31, 2012 | | | | | |
| Revenue from external customers | $ 104,298,275 | $ 22,657,058 | $ 62,747,665 | $ 4,269,394 | $ 193,972,392 |
| Inter-segment revenues (note) | 303,374 | 213,210 | 43,628,905 | 7,252,285 | 51,397,774 |
| Segment revenues | 104,601,649 | 22,870,268 | 106,376,570 | 11,521,679 | 245,370,166 |
| Interest income | 112,632 | 9,837 | 166,105 | 33,623 | 322,197 |
| Interest expense | (1,435,831) | (28,039) | (170,781) | (369,664) | (2,004,315) |
| Depreciation and amortization | (14,526,443) | (6,098,479) | (1,621,899) | (1,189,058) | (23,435,879) |
| Share of the profit of associates | 63,076 | - | - | - | 63,076 |
| Impairment loss | (55,477) | (12,026) | - | (29,731) | (97,234) |
| Segment profit before income tax | 8,047,189 | 5,110,442 | 2,987,544 | 463,549 | 16,608,724 |
| Investments accounted for using the equity method | 1,171,089 | - | - | - | 1,171,089 |
| Segment assets | 126,562,552 | 40,390,481 | 43,750,250 | 37,019,307 | 247,722,590 |
| Expenditures for segment assets | 28,066,806 | 7,964,966 | 2,043,085 | 901,968 | 38,976,825 |
| For the year ended December 31, 2013 | | | | | |
| Revenue from external customers | 112,603,927 | 24,732,197 | 78,530,594 | 3,995,728 | 219,862,446 |
| Inter-segment revenues (Note) | 3,337,074 | 246,223 | 42,960,432 | 8,048,827 | 54,592,556 |
| Segment revenues | 115,941,001 | 24,978,420 | 121,491,026 | 12,044,555 | 274,455,002 |
| Interest income | 74,171 | 11,958 | 85,491 | 41,181 | 212,801 |
| Interest expense | (1,542,047) | (44,167) | (96,620) | (574,310) | (2,257,144) |
| Depreciation and amortization | (16,412,763) | (6,293,170) | (1,658,743) | (1,106,235) | (25,470,911) |
| Share of the profit of associates | 22,039 | - | - | - | 22,039 |
| Impairment loss | (344,150) | (115,966) | (99,843) | (131,913) | (691,872) |
| Segment profit before income tax | 9,975,902 | 6,321,022 | 2,928,223 | 144,609 | 19,369,756 |
| Investments accounted for using the equity method | 1,205,158 | - | - | - | 1,205,158 |
| Segment assets | 146,160,484 | 44,100,564 | 55,112,632 | 41,348,403 | 286,722,083 |
| Expenditures for segment assets | 18,648,304 | 6,068,085 | 1,224,698 | 1,102,985 | 27,044,072 |

| | Packaging US$ (Note 4) | Testing US$ (Note 4) | EMS US$ (Note 4) | Others US$ (Note 4) | Total US$ (Note 4) |
|---|---|---|---|---|---|
| For the year ended December 31, 2013 | | | | | |
| Revenue from external customers | $ 3,774,855 | $ 829,105 | $ 2,632,605 | $ 133,949 | $ 7,370,514 |
| Inter-segment revenues (Note) | 111,870 | 8,254 | 1,440,175 | 269,824 | 1,830,123 |
| Segment revenues | 3,886,725 | 837,359 | 4,072,780 | 403,773 | 9,200,637 |
| Interest income | 2,486 | 401 | 2,866 | 1,381 | 7,134 |
| Interest expense | (51,695) | (1,481) | (3,239) | (19,252) | (75,667) |
| Depreciation and amortization | (550,210) | (210,968) | (55,607) | (37,084) | (853,869) |
| Share of the profit of associates | 739 | - | - | - | 739 |
| Impairment loss | (11,537) | (3,888) | (3,347) | (4,421) | (23,193) |
| Segment profit before income tax | 334,425 | 211,902 | 98,164 | 4,847 | 649,338 |
| Investments accounted for using the equity method | 40,401 | - | - | - | 40,401 |
| Segment assets | 4,899,782 | 1,478,396 | 1,847,557 | 1,386,134 | 9,611,869 |
| Expenditures for segment assets | 625,153 | 203,422 | 41,056 | 36,976 | 906,607 |

Note: Inter-segment revenues were eliminated upon consolidation.

b. Revenue from major products and services

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| Advanced packaging and IC wirebonding service | $ 93,314,688 | $ 100,457,184 | $ 3,367,656 |
| Wafer probing and final testing service | 22,140,124 | 24,120,370 | 808,594 |
| Electronic components manufacturing service | 61,650,121 | 77,731,347 | 2,605,811 |
| Others | 16,867,459 | 17,553,545 | 588,453 |
| | $ 193,972,392 | $ 219,862,446 | $ 7,370,514 |

c. Geographical information

Geographical information about revenue from external customers and noncurrent assets are reported based on the country where the external customers and noncurrent assets are located.

1) Net revenues from external customers

| | For the Year Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2013 | |
| | NT$ | NT$ | US$ (Note 4) |
| America | $ 119,165,968 | $ 144,413,819 | $ 4,841,227 |
| Taiwan | 33,443,120 | 31,277,147 | 1,048,513 |
| Asia | 22,295,261 | 23,779,212 | 797,158 |
| Europe | 19,068,043 | 20,392,268 | 683,616 |
| | $ 193,972,392 | $ 219,862,446 | $ 7,370,514 |

2) Noncurrent assets, excluding financial instruments, post-employment benefit assets and deferred tax assets

| | January 1, 2012 | December 31, 2012 | December 31, 2013 | |
|---|---|---|---|---|
| | NT$ | NT$ | NT$ | US$ (Note 4) |
| Taiwan | $ 64,374,970 | $ 78,234,754 | $ 82,174,469 | $ 2,754,759 |
| China | 41,142,070 | 39,994,544 | 40,121,292 | 1,344,998 |
| Others | 24,190,544 | 25,698,661 | 25,864,658 | 867,069 |
| | $ 129,707,584 | $ 143,927,959 | $ 148,160,419 | $ 4,966,826 |

d. Major customers

Except one customer from which the operating revenues generated from packaging and EMS segments was NT$32,588,464 thousand (US$1,092,473 thousand) in 2013, for the year ended December 31, 2012, the Group did not have a single customer to which the operating revenues exceeded 10% of operating revenues.

## 41. FIRST-TIME ADOPTION OF IFRSs

a. Basis of the preparation for financial information under IFRSs

For the Group's consolidated financial statements for the year ended December 31, 2013, the Group not only follows the significant accounting policies stated in Note 4 but also applies the requirements under IFRS 1 "First-Time Adoption of International Financial Reporting Standards" as the basis for the preparation.

b. Effect on transition to IFRSs

After transition to IFRSs, the effect on the Group's consolidated balance sheets and consolidated statement of comprehensive income was as follows:

1) Reconciliation of the consolidated balance sheet as of January 1, 2012: Please refer to Table 1 attached;

2) Reconciliation of the consolidated balance sheet as of December 31, 2012: Please refer to Table 2 attached;

3) Reconciliation of the consolidated statement of comprehensive income for the year ended December 31, 2012: Please refer to Table 3 attached;

4) Exemptions from IFRS 1

IFRS 1 establishes the procedures for the Group's first consolidated financial statements prepared in accordance with IFRSs. According to IFRS 1, the Group is required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in its opening consolidated balance sheet at the Transition Date. IFRS 1 provided several optional exemptions. The optional exemptions the Group adopted are summarized as follows:

Business combinations

The Group elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the Transition Date. Therefore, in the opening consolidated balance sheet, the amount of goodwill generated from past business combinations remains the same compared with that under ROC GAAP as of December 31, 2011.

The aforementioned exemption also applied to investments in associates acquired prior to the Transition Date.

Share-based payment transactions

The Group elected not to apply IFRS 2 "Share-based Payment" retrospectively for the shared-based payment transactions which were granted and vested before the Transition Date.

Employee benefits

The Group elected to recognize all unrecognized cumulative actuarial gains and losses associated with the defined benefit plans in retained earnings at the Transition Date. In addition, the Group elected to apply the exemption disclosure requirement provided by IFRS 1 in which the experience adjustments are determined for each accounting period prospectively from the Transition Date.

Cumulative translation differences

The Group elected to reset the cumulative translation differences to zero and recognized the amount under retained earnings at the Transition Date. Gains or losses of a subsequent disposal of any foreign operations will exclude the translation differences that arose before the Transition Date.

Compound financial instruments

As the liability component of compound financial instruments was no longer outstanding at the Transition Date, the Group elected not to split the compound financial instruments issued before the Transition Date into two separate line items of equity.

Leases

The Group elected to determine whether an arrangement existing at the Transition Date contained a lease in accordance with IFRIC 4 "Determining whether an Arrangement contains a Lease" on the basis of facts and circumstances existing at that date.

Borrowing costs

The Group elected to apply IAS 23" Borrowing costs" to borrowing costs relating to all qualifying assets for which the commencement date for capitalization was on or after the Transition Date.

Designation of previously recognized financial instruments

The Group elected to designate the equity investments previously carried at cost as available-for-sale financial assets at the Transition Date.

The effect of the abovementioned optional exemptions elected by the Group were included in 5) Explanations of significant reconciling items in the transition to IFRSs.

5) Explanations of significant reconciling items in the transition to IFRSs

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

Time deposits with maturity more than 3 months from date of investments

Under ROC GAAP, time deposits that can be readily cancelled without eroding the principal are classified as cash and cash equivalents.

Under IFRSs, time deposits with maturity over 3 months is not classified as cash equivalent but other financial assets - current since the time deposits with fixed or determinable payments had no quoted price in an active market.

As of January 1, 2012 and December 31, 2012, the amount reclassified from cash and cash equivalents to other financial assets - current was NT$454,744 thousand and NT$272,035 thousand, respectively.

Classifications of deferred tax assets and liabilities and valuation allowance

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

In addition, 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 IFRSs, deferred 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.

In addition, the same taxable entity offsets its current deferred tax assets and liabilities under ROC GAAP, and non-current deferred tax assets and liabilities likewise.

Under IFRSs, an entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

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

b) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    i The same taxable entity; or

    ii Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

As of January 1, 2012 and December 31, 2012, deferred tax assets and liabilities that did not meet the criteria to be offset were adjusted by NT$752,363 thousand and NT$614,146 thousand, respectively.

As of January 1, 2012 and December 31, 2012, the amount of deferred tax assets reclassified from current to non-current was NT$1,135,525 thousand and NT$762,552 thousand, respectively. As of January 1, 2012 and December 31, 2012, the amount of deferred tax liabilities reclassified from current to non-current was NT$175 thousand and NT$246,180 thousand, respectively.

Land use right

Under ROC GAAP, land use right is classified as intangible assets.

Under IFRSs, land use right identified within IAS 17 “Leases” should be separately disclosed as long-term prepayments for lease.

As of January 1, 2012 and December 31, 2012, the amount reclassified from land use right under intangible assets to long-term prepayments for lease was NT$3,420,700 thousand and NT$3,736,658 thousand, respectively.

The classification of deferred charges and idle assets

Under ROC GAAP, deferred charges and idle assets are classified under other assets. Under IFRSs, the aforementioned items are classified as property, plant and equipment and intangible assets due to their nature.

As of January 1, 2012, the amount reclassified from deferred charges and idle assets to property, plant and equipment or intangible assets were NT$1,045,356 thousand and 1,114,054 thousand, respectively. As of December 31, 2012, the amount reclassified from deferred charges and idle assets to property, plant and equipment or intangible assets were NT$427,967 thousand and 1,092,502 thousand, respectively.

For the year ended December 31, 2012, depreciation expenses of idle assets reclassified from non-operating expenses and losses - others to operating costs and operating expenses was NT$57,822 thousand.

Presentation of prepayments for property, plant and equipment

Under ROC GAAP, prepayments for property, plant and equipment are classified as property, plant and equipment. Under IFRSs, prepayments for property, plant and equipment are recognized as long-term prepayments under non-current assets.

As of January 1, 2012 and December 31, 2012, the amount of prepayments for property, plant and equipment reclassified from property, plant and equipment to non-current assets was NT$355,610 thousand and NT$202,488 thousand, respectively.

Employee benefits

Under ROC GAAP, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of actuarial 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 IFRSs, the Group should carry out actuarial valuation on defined benefit plans in accordance with IAS 19 “Employee Benefits” and will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings in the statement of changes in equity. The subsequent reclassification to profit or loss is not permitted.

Under ROC GAAP, minimum pension liability is the minimum amount of pension liability that is required to be recognized on the balance sheets. If the accrued pension liability recorded is less than the minimum amount, the difference shall be recognized. Under IFRSs, there is no requirement for minimum pension liability.

Under ROC GAAP, unrecognized net transition obligation, resulting from first-time adoption of SFAS No. 18 “Accounting for Pensions” should be amortized in 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. As the transitional provisions under IAS 19 were not applicable, unrecognized net transition obligation and related amounts should be all recognized in retained earnings at the Transition Date.

At the Transition Date, the Group recorded adjustments on defined benefit plans based on the actuarial reports conducted under IAS 19 under the requirement of IFRS 1. As of January 1, 2012 and December 31, 2012, accrued pension cost was adjusted for an increase of NT$1,695,638 thousand and NT$2,003,223 thousand; deferred tax assets were adjusted for an increase of NT$419,213 thousand and NT$524,009 thousand, respectively.

In addition, actuarial gains and losses arising from defined benefit plans under other comprehensive income were adjusted for a decrease of NT$677,666 thousand (net of tax NT$140,880 thousand) for the year ended December 31, 2012. Pension cost was adjusted for a decrease of NT$104,831 thousand for the year ended December 31, 2012.

Subsidiaries’ capital surplus arising from employee share options

Under ROC GAAP, a subsidiary’s capital surplus arising from its employee share options is recognized and presented in parent company’s equity in proportion to the shareholdings owned by its parent company.

Under IFRSs, a subsidiary’s equity not directly or indirectly owned by its parent company is reflected as non-controlling interest.

As of January 1, 2012 and December 31, 2012, the amount reclassified from the Company's capital surplus arising from employee share options to non-controlling interest was NT$402,333 thousand and NT$577,528 thousand, respectively.

Investments accounted for using the equity method

Under ROC GAAP, when an investee issues new shares and existing shareholders do not subscribe new shares at their respective proportion in share holdings, this would result in changes in the investor's shareholdings of the equity method investee. As there are changes in the net assets value of the equity method investee attributable to the investor, the investor shall reflect such changes by adjusting capital surplus and equity method investments.

Under IFRSs, such a difference is still adjusted to investments accounted for using the equity method and capital surplus; however, if the investor's ownership interest in an associate is reduced, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be 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.

Changes in ownership of subsidiaries' equity without losing control are accounted as equity transaction.

In addition, the Group reclassified the paid-in capital which did not meet the definitions under IFRSs to retained earnings.

As of January 1, 2012 and December 31, 2012, the Company's capital surplus arising from share of changes in capital surplus of associates was adjusted for a decrease of NT$3,522,280 thousand and NT$5,689,170 thousand, respectively. As of December 31, 2012, capital surplus arising from the excess of the consideration received over the carrying amount of the subsidiaries' net assets was adjusted for an increase of NT$2,178,714 thousand.

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 to accounts receivable. Under IFRSs, 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 in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

As of January 1, 2012 and December 31, 2012, the amounts of allowance for sales returns and others reclassified to provisions was NT$123,331 thousand and NT$210,904 thousand, respectively.

Financial assets carried at cost

Under ROC GAAP, shares that are not listed on the TSE or Taiwan GreTai Securities Market and of which the holder has no significant influence over the investee should be classified as financial assets carried at cost.

Under IFRSs, equity instruments that are designated as available-for-sale financial assets or are not designated as at FVTPL should be classified as available-for-sale financial assets and measured at fair value.

As of January 1, 2012 and December 31, 2012, the amount reclassified from financial assets carried at cost - non-current to available-for-sale financial assets - non-current was NT$893,283 thousand

and NT$827,882 thousand, respectively. Unrealized loss on available-for-sale financial assets was adjusted for an increase of NT$50,439 thousand for the year ended December 31, 2012.

Share-based payments

Under ROC GAAP, employee share options granted before December 31, 2007 were accounted for using intrinsic value method under interpretations issued by the ROC Accounting Research and Development Foundation.

Under IFRSs, compensation cost of share-based payments should be measured and recognized at fair value.

As of January 1, 2012 and December 31, 2012, the Group measured the fair values on the grant dates of share-based payments granted but not vested prior to the Transition Date and recognized the compensation expense over the vesting period and recorded a decrease of NT$503,146 thousand to retained earnings as of January 1, 2012. In addition, the Group made an adjustment for an increase to the compensation cost of NT$92,338 thousand for the year ended December 31, 2012.

10% tax on unappropriated earnings

A 10% tax is imposed on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) according to the Income Tax Law of the ROC. Under ROC GAAP, the Group records the 10% tax on unappropriated earnings in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated. Under IFRSs, the 10% tax on unappropriated earnings should be accrued during the period the earnings arise and the accrued tax is adjusted to the extent that distributions are approved by the shareholders in the following year. To the extent the Company does not have sufficient tax credits to offset the 10% tax, additional tax expense would be recognized under IFRSs.

As of January 1, 2012 and December 31, 2012, as a result of the differences mentioned above, additional current tax liabilities of NT$1,004,429 thousand and NT$1,028,838 thousand, respectively, were recognized. Income tax expense was adjusted for a decrease of NT$104,374 thousand for the year ended December 31, 2012.

7) Significant reconciliation differences in consolidated statements of cash flows

Time deposits that can be readily cancelled without eroding the principal meet the definition of cash in accordance with ROC GAAP. However, cash equivalents are held for meeting short-term cash commitments rather than for investment or other purposes under IAS 7 " Statement of Cash Flow." 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 of NT$454,744 thousand and NT$272,035 thousand as of January 1, 2012 and December 31, 2012, respectively, held by the Group were no longer classified as cash and cash equivalents under IFRSs.

According to ROC GAAP, interest paid and received and dividend received are classified as operating activities while dividend paid are classified as financing activities. Additional disclosure is required for interest paid when reporting cash flow using indirect method. However, cash flows from interest and dividend received and paid shall each be disclosed separately under IAS 7. Each shall be classified in a consistent manner from period to period as operating, investing or financing activities. Therefore, interest received, interest paid and dividend received by the Group of NT$337,819 thousand, NT$2,140,357 thousand and NT$121,033 thousand, respectively, for the year ended December 31, 2012 were presented separately as cash flows from operating activities.

Except for the abovementioned differences, there was no other significant difference between ROC GAAP and IFRSs in the Group's consolidated statement of cash flows.

**TABLE 1**

# ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## RECONCILIATION OF CONSOLIDATED BALANCE SHEET
## AS OF JANUARY 1, 2012
## (New Taiwan Dollars, in Thousands)

**Assets**

| ROC GAAP Item | ROC GAAP Amount | Effect of Transition to IFRSs: Recognition and Measurement Difference | Effect of Transition to IFRSs: Presentation Difference | IFRSs Amount | IFRSs Item |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash | $ 24,421,789 | $ - | $ (454,744) | $ 23,967,045 | Cash and cash equivalents |
| Financial assets at fair value through profit or loss - current | 706,755 | - | - | 706,755 | Financial assets at fair value through profit or Loss - current |
| Available-for-sale financial assets - current | 48,794 | - | - | 48,794 | Available-for-sale financial assets - current |
| Bond investment with no active market - current | 90,825 | - | - | 90,825 | Debt investments with no active market - current |
| Accounts receivable, net | 30,475,788 | - | 123,331 | 30,599,119 | Trade receivables, net |
| Other receivables | 693,016 | - | - | 693,016 | Other receivables |
| - | - | - | 101,631 | 101,631 | Current tax assets |
| Inventories | 13,920,757 | - | - | 13,920,757 | Inventories |
| Inventories related to construction business | 16,149,498 | - | - | 16,149,498 | Inventories related to real estate business |
| Deferred income tax assets - current | 1,135,525 | - | (1,135,525) | - | - |
| - | - | - | 501,363 | 501,363 | Other financial assets - current |
| Other current assets | 2,488,943 | 7,790 | (148,250) | 2,348,483 | Other current assets |
| Total current assets | 90,131,690 | 7,790 | (1,012,194) | 89,127,286 | Total current assets |
| LONG-TERM INVESTMENTS | | | | | |
| Equity method investments | 1,154,360 | (48,635) | - | 1,105,725 | Investments accounted for using the equity method |
| Available-for-sale financial assets - noncurrent | 173,085 | - | 893,283 | 1,066,368 | Available-for-sale financial assets - non-current |
| Financial assets carried at cost - noncurrent | 893,283 | - | (893,283) | - | - |
| Total long-term investments | 2,220,728 | (48,635) | - | 2,172,093 | |
| Property, plant and equipment, net | 111,779,036 | - | 1,217,020 | 112,996,056 | Property, plant and equipment |
| Intangible assets | 15,772,415 | (41,033) | (2,797,388) | 12,933,994 | Goodwill and other intangible assets |
| OTHER ASSETS | | | | | |
| Idle assets | 1,114,054 | - | (1,114,054) | - | - |
| Deferred charges | 1,045,356 | - | (1,045,356) | - | - |
| Deferred income tax assets - noncurrent | 1,459,103 | 290,430 | 1,887,888 | 3,637,421 | Deferred tax assets |
| Guarantee deposits and restricted assets | 317,957 | - | - | 317,957 | Other financial assets - non-current |
| - | - | - | 3,420,700 | 3,420,700 | Long-term prepayments for lease |
| Others | 37,756 | - | 319,078 | 356,834 | Other non-current assets |
| Total other assets | 3,974,226 | 290,430 | 3,468,256 | 7,732,912 | |
| TOTAL | $ 223,878,095 | $ 208,552 | $ 875,694 | $ 224,962,341 | TOTAL |

**Liabilities and Equity**

| ROC GAAP Item | ROC GAAP Amount | Effect of Transition to IFRSs: Recognition and Measurement Difference | Effect of Transition to IFRSs: Presentation Difference | IFRSs Amount | IFRSs Item |
|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | |
| Short-term borrowings | $ 22,965,133 | $ - | $ - | $ 22,965,133 | Short-term borrowings |
| Financial liabilities at fair value through profit or loss - current | 134,274 | - | - | 134,274 | Financial liabilities at fair value through profit or loss - current |
| Accounts payable | 21,191,923 | - | - | 21,191,923 | Trade payables |
| Income tax payable | 2,400,592 | 1,004,429 | - | 3,405,021 | Current tax liabilities |
| Accrued expenses | 8,939,719 | - | 6,696,142 | 15,635,861 | Other payables |
| Advance real estate receipts | 47,667 | - | - | 47,667 | Advance real estate receipts |
| Payable for properties | 5,699,504 | - | (5,699,504) | - | - |
| Current portion of long-term bank loans | 3,418,799 | - | - | 3,418,799 | Current portion of long-term borrowings |
| Deferred income tax liabilities - current | 175 | - | (175) | - | - |
| Current portion of capital lease obligations | 42,161 | - | (42,161) | - | - |
| Other current liabilities | 1,921,938 | - | (831,146) | 1,090,792 | Other current liabilities |
| Total current liabilities | 66,761,885 | 1,004,429 | 123,156 | 67,889,470 | Total current liabilities |
| LONG-TERM LIABILITIES | 50,425,156 | - | (223,925) | 50,201,231 | Derivative financial liabilities for hedging - non-current, bonds payable and long-term borrowings |
| OTHER LIABILITIES | | | | | |
| Accrued pension cost | 3,304,841 | 1,695,638 | - | 5,000,479 | Accrued pension liabilities |
| Deferred income tax liabilities - noncurrent | 624,740 | - | 752,538 | 1,377,278 | Deferred tax liabilities |
| Others | 478,979 | - | 223,925 | 702,904 | Other non-current liabilities |
| Total other liabilities | 4,408,560 | 1,695,638 | 976,463 | 7,080,661 | |
| Total liabilities | 121,595,601 | 2,700,067 | 875,694 | 125,171,362 | Total liabilities |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | | |
| Capital stock | 67,571,325 | - | - | 67,571,325 | Share capital |
| Capital surplus | 7,397,481 | (3,421,467) | - | 3,976,014 | Capital surplus |
| Retained earnings | 27,809,126 | 3,418,220, | - | 31,227,346 | Retained earnings |
| Other equity adjustments | | | | | |
| Unrealized gain on financial instruments | 235,088 | - | 48,372 | 283,460 | Unrealized gain on available-for-sale financial assets |
| - | - | - | (48,372) | (48,372) | Cash flow hedges |
| Cumulative translation adjustments | 3,353,938 | (3,353,938) | - | - | Exchange differences on translating foreign operations |
| Unrecognized pension cost | (465,681) | 465,681 | - | - | - |
| Total other equity adjustments | 3,123,345 | (2,888,257) | - | 235,088 | Total other equity |
| Treasury stock | (4,731,741) | - | - | (4,731,741) | Treasury shares |
| Total equity attributable to shareholders of the parent | 101,169,536 | (2,891,504) | - | 98,278,032 | Total equity attributable to owners of the Company |
| MINORITY INTEREST | 1,112,958 | 399,989 | - | 1,512,947 | Non-controlling interests |
| Total shareholders' equity | 102,282,494 | (2,491,515) | - | 99,790,979 | Total equity |
| TOTAL | $ 223,878,095 | $ 208,552 | $ 875,694 | $ 224,962,341 | TOTAL |

**TABLE 2**

# ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## RECONCILIATION OF CONSOLIDATED BALANCE SHEET
## AS OF DECEMBER 31, 2012
## (New Taiwan Dollars, in Thousands)

**Assets**

| ROC GAAP Item | ROC GAAP Amount | Effect of Transition to IFRSs: Recognition and Measurement Difference | Effect of Transition to IFRSs: Presentation Difference | IFRSs Amount | IFRSs Item |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash | $ 20,265,551 | $ - | $ (272,035) | $ 19,993,516 | Cash and cash equivalents |
| Financial assets at fair value through profit or loss - current | 4,035,000 | - | - | 4,035,000 | Financial assets at fair value through profit or loss - current |
| Available-for-sale financial assets - current | 48,266 | - | - | 48,266 | Available-for-sale financial assets - current |
| Bond investment with no active market - current | 87,120 | - | - | 87,120 | Debt investments with no active market - current |
| Accounts receivable, net | 37,212,587 | - | 210,904 | 37,423,491 | Trade receivables, net |
| Other receivables | 572,183 | - | (187,570) | 384,613 | Other receivables |
| - | - | - | 243,675 | 243,675 | Current tax assets |
| Inventories | 15,171,042 | - | - | 15,171,042 | Inventories |
| Inventories related to construction business | 16,902,018 | - | - | 16,902,018 | Inventories related to real estate business |
| Deferred income tax assets - current | 762,552 | - | (762,552) | - | - |
| - | - | - | 318,885 | 318,885 | Other financial assets - current |
| Other current assets | 2,986,004 | 4,902 | (102,955) | 2,887,951 | Other current assets |
| Total current assets | 98,042,323 | 4,902 | (551,648) | 97,495,577 | Total current assets |
| LONG-TERM INVESTMENTS | | | | | |
| Equity method investments | 1,218,023 | (46,934) | - | 1,171,089 | Investments accounted for using the equity method |
| Available-for-sale financial assets - noncurrent | 320,026 | (51,199) | 827,882 | 1,096,709 | Available-for-sale financial assets - non-current |
| Financial assets carried at cost - noncurrent | 827,882 | - | (827,882) | - | - |
| Total long-term investments | 2,365,931 | (98,133) | - | 2,267,798 | |
| Property, plant and equipment, net | 126,150,296 | - | 1,047,478 | 127,197,774 | Property, plant and equipment |
| Intangible assets | 15,801,845 | (37,353) | (3,403,223) | 12,361,269 | Goodwill and other intangible assets |
| OTHER ASSETS | | | | | |
| Idle assets | 1,092,502 | - | (1,092,502) | - | - |
| Deferred charges | 427,967 | - | (427,967) | - | - |
| Deferred income tax assets – noncurrent | 1,844,389 | 524,009 | 1,376,698 | 3,745,096 | Deferred tax assets |
| Guarantee deposits and restricted assets | 286,160 | - | - | 286,160 | Other financial assets - non-current |
| - | - | - | 4,164,062 | 4,164,062 | Long-term prepayments for lease |
| Others | 492,702 | - | (287,848) | 204,854 | Other non-current assets |
| Total other assets | 4,143,720 | 524,009 | 3,732,443 | 8,400,172 | |
| TOTAL | $ 246,504,115 | $ 393,425 | $ 825,050 | $ 247,722,590 | TOTAL |

**Liabilities and Equity**

| ROC GAAP Item | ROC GAAP Amount | Effect of Transition to IFRSs: Recognition and Measurement Difference | Effect of Transition to IFRSs: Presentation Difference | IFRSs Amount | IFRSs Item |
|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | |
| Short-term borrowings | $ 36,884,926 | $ - | $ - | $ 36,884,926 | Short-term borrowings |
| Financial liabilities at fair value through profit or loss - current | 467,148 | - | - | 467,148 | Financial liabilities at fair value through profit or loss - current |
| Hedging derivative liabilities - current | 4,524 | - | - | 4,524 | Derivative financial liabilities for hedging - current |
| Accounts payable | 24,226,701 | - | - | 24,226,701 | Trade payables |
| Income tax payable | 2,784,310 | 1,028,838 | - | 3,813,148 | Current tax liabilities |
| Accrued expenses | 9,500,430 | - | 6,191,764 | 15,692,194 | Other payables |
| Payable for properties | 5,291,348 | - | (5,291,348) | - | - |
| Advance real estate receipts | 167,017 | - | - | 167,017 | Advance real estate receipts |
| Current portion of long-term bank loans | 3,167,050 | - | - | 3,167,050 | Current portion of long-term borrowings |
| Deferred income tax liabilities - current | 246,180 | - | (246,180) | - | - |
| Current portion of capital lease obligations | 46,727 | - | (46,727) | - | - |
| Other current liabilities | 1,917,048 | - | (642,785) | 1,274,263 | Other current liabilities |
| Total current liabilities | 84,703,409 | 1,028,838 | (35,276) | 85,696,971 | Total current liabilities |
| LONG-TERM LIABILITIES | 44,591,685 | - | (3,969) | 44,587,716 | Bonds payable and long-term borrowings |
| OTHER LIABILITIES | | | | | |
| Accrued pension cost | 3,260,783 | 2,003,223 | - | 5,264,006 | Accrued pension liabilities |
| Deferred income tax liabilities - noncurrent | 946,577 | - | 860,326 | 1,806,903 | Deferred tax liabilities |
| Others | 542,593 | - | 3,969 | 546,562 | Other non-current liabilities |
| Total other liabilities | 4,749,953 | 2,003,223 | 864,295 | 7,617,471 | |
| Total liabilities | 134,045,047 | 3,032,061 | 825,050 | 137,902,158 | Total liabilities |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | | |
| Capital stock | 76,047,667 | - | - | 76,047,667 | Share capital |
| Capital surplus | 8,767,134 | (3,492,500) | - | 5,274,634 | Capital surplus |
| Retained earnings | 26,969,183 | 2,841,061 | - | 29,810,244 | Retained earnings |
| Other equity adjustments | | | | | |
| Unrealized gain on financial instruments | 401,938 | (46,684) | - | 355,254 | Unrealized gain on available-for-sale financial assets |
| - | - | (3,755) | - | (3,755) | Cash flow hedges |
| Cumulative translation adjustments | 119,987 | (3,330,235) | - | (3,210,248) | Exchange differences on translating of foreign operations |
| Unrecognized pension cost | (831,917) | 831,917 | - | - | - |
| Total other equity adjustments | (309,992) | (2,548,757) | - | (2,858,749) | Total other equity |
| Treasury stock | (1,959,107) | - | - | (1,959,107) | Treasury shares |
| Total equity attributable to shareholders of the parent | 109,514,885 | (3,200,196) | - | 106,314,689 | Total equity attributable to owners of the Company |
| MINORITY INTEREST | 2,944,183 | 561,560 | - | 3,505,743 | Non-controlling interests |
| Total shareholders' equity | 112,459,068 | (2,638,636) | - | 109,820,432 | Total equity |
| TOTAL | $ 246,504,115 | $ 393,425 | $ 825,050 | $ 247,722,590 | TOTAL |

**TABLE 3**

# ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2012
## (New Taiwan Dollars, in Thousands)

| ROC GAAP | | Effect of Transition to IFRSs | | IFRSs | |
|---|---|---|---|---|---|
| Item | Amount | Recognition and Measurement Difference | Presentation Difference | Amount | Item |
| NET REVENUES | $ 193,972,392 | $ - | $ - | $ 193,972,392 | OPERATING REVENUE |
| COST OF REVENUES | 157,348,622 | (52,520 ) | 46,642 | 157,342,744 | OPERATING COSTS |
| GROSS PROFIT | 36,623,770 | 52,520 | (46,642 ) | 36,629,648 | GROSS PROFIT |
| OPERATING EXPENSES | | | | | OPERATING EXPENSES |
| Research and development | 7,874,210 | (2,846 ) | 1,058 | 7,872,422 | Research and development expenses |
| Selling | 2,762,763 | 4,117 | - | 2,766,880 | Selling and marketing expenses |
| General and administrative | 8,225,415 | 38,705 | 19,144 | 8,283,264 | General and administrative expenses |
| Total operating expenses | 18,862,388 | 39,976 | 20,202 | 18,922,566 | Total operating expenses |
| - | - | - | 83,192 | 83,192 | Other income and expenses |
| INCOME FROM OPERATIONS | 17,761,382 | 12,544 | 16,348 | 17,790,274 | PROFIT FROM OPERATIONS |
| NON-OPERATING INCOME AND GAINS | | | | | NON-OPERATING INCOME AND EXPENSES |
| Interest income | 322,197 | - | - | 322,197 | Other income |
| Gain on valuation of financial assets, net | 420,845 | - | - | 420,845 | Other gains and losses |
| Foreign exchange gain, net | 965,404 | - | - | 965,404 | Other gains and losses |
| Equity in earnings of equity method investments | 61,374 | 1,702 | - | 63,076 | Share of the profit of associates |
| Others | 665,409 | - | (58,552 ) | 606,857 | Other income and other gains and losses |
| Total non-operating income and gains | 2,435,229 | 1,702 | (58,552 ) | 2,378,379 | Total non-operating income and expenses |
| NON-OPERATING EXPENSES AND LOSSES | | | | | NON-OPERATING INCOME AND EXPENSES |
| Interest expense | 2,004,315 | - | - | 2,004,315 | Finance costs |
| Loss on valuation of financial liabilities, net | 1,138,509 | - | - | 1,138,509 | Other gains and losses |
| Impairment loss | 97,234 | - | (73,541 ) | 23,693 | Other gains and losses |
| Others | 366,017 | (3,942 ) | 31,337 | 393,412 | Other gains and losses and finance costs |
| total non-operating expenses and losses | 3,606,075 | (3,942 ) | (42,204 ) | 3,559,929 | Total non-operating income and expenses |
| INCOME BEFORE INCOME TAX | 16,590,536 | 18,188 | - | 16,608,724 | PROFIT BEFORE INCOME TAX |
| INCOME TAX EXPENSE | 3,041,628 | (81,202 ) | - | 2,960,426 | INCOME TAX EXPENSE |
| NET INCOME | $ 13,548,908 | $ 99,390 | $ - | 13,648,298 | NET PROFIT FOR THE PERIOD |
| | | | | | Items that will not be reclassified subsequently to profit or loss: |
| | | | | (818,546 ) | Remeasurement of defined benefit obligation |
| | | | | 140,880 | Income tax relating to items that will not be reclassified subsequently |
| | | | | (677,666 ) | |
| | | | | | Items that may be reclassified subsequently to profit or loss: |
| | | | | (3,269,623 ) | Exchange differences on translating foreign operations |
| | | | | 16,539 | Unrealized gain on available-for-sale financial assets |
| | | | | 53,755 | Cash flow hedges |
| | | | | 55,401 | Share of other comprehensive income of associates |
| | | | | (9,138 ) | Income tax relating to items that may be reclassified subsequently |
| | | | | (3,153,066 ) | |
| | | | | (3,830,732 ) | Other comprehensive loss for the year, net of income tax |
| | | | | $ 9,817,566 | Total comprehensive income for the year |