

**FARGLORY LAND DEVELOPMENT CO.,
LTD. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2012 AND 2011

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.



資誠

REPORT OF INDEPENDENT ACCOUNTANTS

To: The Board of Directors and Stockholders
Farglory Land Development Co., Ltd.

We have audited the consolidated balance sheets of Farglory Land Development Co., Ltd. and its subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of income, of change in stockholders' equity and of cash flows for the years then ended, expressed in thousands of New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2012 financial statements of Straits Construction Investment (Holdings) Ltd. ("Straits Construction"), a long-term investment accounted for under the equity method. Those financial statements were audited by other auditors whose reports thereon were furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements relating to Straits Construction, is based solely on the reports of other auditors. This long-term investment amounted to NT\$3,551,431 thousand constituting 5% of the consolidated total assets as of December 31, 2012 and the related investment loss amounted to NT\$265,794 thousand constituting 5% of the related consolidated income from continuing operations before income tax for the year then ended.

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

In our opinion, based on our audits and reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farglory Land Development Co., Ltd. and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China.

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Farglory Land Development Co., Ltd. adopts International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins (collectively referred herein as IFRSs) that are ratified by the Financial Supervisory Commission, R.O.C. (FSC) and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” that are applicable in 2013 in the preparation of its consolidated financial statements effective January 1, 2013. Information relating to the adoption of IFRSs is disclosed in Note 13 under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Former FSC, R.O.C., dated February 2, 2010. The IFRSs may be subject to changes during the time of transition; therefore, the actual impact of IFRSs adoption may also change.

March 29, 2013

PricewaterhouseCoopers, Taiwan


PricewaterhouseCoopers, Taiwan.

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.


FARGLORY LAND DEVELOPMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)


ASSETS	Notes	2012	2011
Current Assets			
Cash and cash equivalents	4(1)	\$ 759,068	\$ 684,995
Financial assets at fair value through profit or loss - current	4(2)	2,106,332	1,165,534
Notes receivable, net		250,445	78,835
Accounts receivable, net		488,170	97,733
Accounts receivable, net - related parties	5	49,613	40,061
Other financial assets - current	4(3), 6 and 7	6,910,546	7,027,236
Inventories	4(4), 5, 6 and 7	50,945,379	44,051,998
Construction in progress	4(5)	559,558	1,610,895
Less: Progress billings on uncompleted contracts	4(5)	(475,231)	(1,405,475)
Prepayments		596,476	454,992
Deferred selling expenses	5	1,533,823	1,454,531
Other current assets - other		131,577	58,574
Total current assets		<u>63,855,756</u>	<u>55,319,909</u>
Funds and Investments			
Financial assets carried at cost - non-current	4(6)	329,929	422,364
Long-term equity investments accounted for under the equity method	4(7)	3,570,894	2,739,217
Total funds and investments		<u>3,900,823</u>	<u>3,161,581</u>
Property, Plant, and Equipment, net			
Cost			
Machinery and equipment		4,617	4,617
Transportation equipment		1,280	1,280
Office equipment		16,390	21,203
Property held for lease - land		464,091	571,687
Property held for lease - buildings		1,825,748	1,915,132
Other equipment		1,291	1,410
Cost and revaluation increments		<u>2,313,417</u>	<u>2,515,329</u>
Less: Accumulated depreciation		(166,068)	(151,092)
Total construction in progress and prepayment for equipment	7	4,658,842	996,711
Total property, plant and equipment, net		<u>6,806,191</u>	<u>3,360,948</u>
Intangible Assets			
Goodwill		18,172	18,172
Other intangible assets - other	4(9) and 6	182,197	204,427
Total intangible assets		<u>200,369</u>	<u>222,599</u>
Other Assets			
Idle assets		771	778
Refundable deposits	5 and 6	26,243	8,009
Long-term receivables, net	4(10)	-	-
Other assets - other	4(11) and 6	48,248	80,222
Total other assets		<u>75,262</u>	<u>89,009</u>
TOTAL ASSETS		<u>\$ 74,838,401</u>	<u>\$ 62,154,046</u>

(Continued)


FARGLORY LAND DEVELOPMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	2012	2011
Current Liabilities			
Short-term loans	4(12), 5 and 6	\$ 21,640,434	\$ 17,134,100
Commercial papers payable	4(13) and 6	274,659	149,666
Financial liabilities at fair value through profit or loss - current	4(14)(17)	47,236	-
Notes payable		127,443	142,666
Accounts payable		4,679,511	3,307,808
Accounts payable - related parties	5	171,984	34,298
Income tax payable	4(15)	765,540	346,589
Accrued expenses		273,874	280,994
Other payables - related parties	5	95,893	68,154
Other payables - other		219,695	91,410
Advances from customers	4(16) and 7	8,078,130	7,220,588
Long-term liabilities - current portion	4(18) and 6	40,000	60,000
Estimated warranty liabilities		209,367	210,871
Deferred income tax liabilities - current	4(15)	233,718	337,788
Other current liabilities - other		197,459	33,250
Total current liabilities		<u>37,054,943</u>	<u>29,418,182</u>
Long-term Liabilities			
Bonds payable	4(17) and 6	1,748,743	-
Long-term loans	4(18) and 6	2,311,452	295,000
Total long-term liabilities		<u>4,060,195</u>	<u>295,000</u>
Other Liabilities			
Accrued pension liabilities	4(19)	24,828	23,492
Guarantee deposits received	5	79,578	87,234
Deferred income tax liabilities - non-current	4(15)	7,428	12,358
Total other liabilities		<u>111,834</u>	<u>123,084</u>
Total liabilities		<u>41,226,972</u>	<u>29,836,266</u>
Stockholders' Equity			
Capital	4(17)(20)		
Common stock		7,714,332	7,714,332
Capital Surplus	4(21)		
Paid-in capital in excess of par value of common stock		5,176,016	5,176,016
Capital reserve from conversion of convertible bonds		806,862	806,862
Capital reserve from gain on disposal of assets		24,100	24,100
Capital reserve from long-term investments		45,537	44,275
Capital surplus - stock option	4(17)	257,565	-
Capital reserve - others		21,840	21,840
Retained Earnings			
Legal reserve	4(22)	4,104,470	3,515,001
Special reserve	4(23)	-	56,303
Undistributed earnings	4(23)	14,839,557	14,271,767
Other adjustments to stockholders' equity			
Cumulative translation adjustments		36,269	103,499
Total Parent Company Stockholders' Equity		<u>33,026,548</u>	<u>31,733,995</u>
Minority interest		584,881	583,785
Total stockholders' equity		<u>33,611,429</u>	<u>32,317,780</u>
Commitments and Contingent Liabilities	4(9), 5 and 7		
Significant Subsequent Events	9		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$ 74,838,401</u>	<u>\$ 62,154,046</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 29, 2013.


FARGLORY LAND DEVELOPMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
 (EXPRESSED IN THOUSANDS OF NEW TAIWANESE DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

	Notes	2012	2011
Operating Revenue			
Rental income	5	\$ 253,300	\$ 258,860
Construction revenue		18,085,125	19,960,182
Net Operating Revenue		<u>18,338,425</u>	<u>20,219,042</u>
Operating Costs			
Rental costs	4(9)	(105,823)	(103,460)
Construction costs	4(4)(25) and 5	(10,625,549)	(11,837,102)
Net Operating Costs		<u>(10,731,372)</u>	<u>(11,940,562)</u>
Gross profit		<u>7,607,053</u>	<u>8,278,480</u>
Operating Expenses			
Sales and marketing expenses	5	(926,317)	(1,043,119)
General and administrative expenses	4(9)(25) and 5	(473,115)	(484,747)
Total Operating Expenses		<u>(1,399,432)</u>	<u>(1,527,866)</u>
Operating income		<u>6,207,621</u>	<u>6,750,614</u>
Non-operating Income and Gains			
Interest income		10,182	4,942
Foreign exchange gains		-	108,474
Gain on valuation of financial assets	4(2)	6,975	13,501
Gain on valuation of financial liabilities	4(14)	-	58,273
Other non-operating income	4(8)	38,813	271,004
Non-operating Income and Gains		<u>55,970</u>	<u>456,194</u>
Non-operating Expenses			
Interest expense		(208,310)	(103,209)
Investment loss accounted for under the equity method	4(7)	(254,894)	(52,004)
Foreign exchange losses		(93,671)	-
Impairment loss on financial assets	4(6)	(92,435)	(112,000)
Loss on valuation of financial liabilities	4(14)	(9,516)	-
Other non-operating losses		(39,864)	(63,087)
Non-operating Expenses and Losses		<u>(698,690)</u>	<u>(330,300)</u>
Income from continuing operations before income tax		5,564,901	6,876,508
Income tax expense	4(15)	(760,393)	(827,859)
Consolidated net income		<u>\$ 4,804,508</u>	<u>\$ 6,048,649</u>
Consolidated net income attributable to :			
Parent company		\$ 4,809,233	\$ 5,894,690
Minority interests		(4,725)	153,959
		<u>\$ 4,804,508</u>	<u>\$ 6,048,649</u>
		<u>Before Tax</u>	<u>After Tax</u>
Basic earnings per share	4(24)		
Net income		<u>\$ 7.22</u>	<u>\$ 6.23</u>
Diluted earnings per share	4(24)		
Net income		<u>\$ 6.98</u>	<u>\$ 6.04</u>
		<u>Before Tax</u>	<u>After Tax</u>
		<u>\$ 8.75</u>	<u>\$ 7.67</u>
		<u>\$ 8.73</u>	<u>\$ 7.66</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 29, 2013.




FAR GLORY LAND DEVELOPMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Retained Earnings

	Common Stock	Capital Reserves	Legal Reserve	Special Reserve	Undistributed Earnings	Cumulative Translation Adjustments	Minority Interest	Total
2011								
Balance at January 1, 2011	\$ 7,063,833	\$ 2,117,950	\$ 2,845,559	\$ -	\$ 13,743,434	(\$ 56,303)	\$ 9,320	\$ 25,723,793
Appropriation of earnings (Note A)	-	-	-	-	(669,442)	-	-	-
Legal reserve	-	-	669,442	-	-	-	-	-
Special reserve	-	-	-	56,303	(56,303)	-	-	-
Cash dividends	-	-	-	-	(4,628,300)	-	-	(4,628,300)
Issuance of common stock through cash infusion	650,000	3,945,856	-	-	-	-	-	4,595,856
Conversion of bonds payable to common stock	499	3,268	-	-	-	-	-	3,767
Adjustments for change in shareholding percentage in investee companies	-	6,019	-	-	(12,312)	-	24,188	17,895
Cumulative translation adjustments	-	-	-	-	-	159,802	-	159,802
Consolidated net income for 2011	-	-	-	-	5,894,690	-	153,959	6,048,649
Changes in minority interest	-	-	-	-	-	-	396,318	396,318
Balance at December 31, 2011	<u>\$ 7,714,332</u>	<u>\$ 6,073,093</u>	<u>\$ 3,515,001</u>	<u>\$ 56,303</u>	<u>\$ 14,271,767</u>	<u>\$ 103,499</u>	<u>\$ 583,785</u>	<u>\$ 32,317,780</u>
2012								
Balance at January 1, 2012	\$ 7,714,332	\$ 6,073,093	\$ 3,515,001	\$ 56,303	\$ 14,271,767	\$ 103,499	\$ 583,785	\$ 32,317,780
Appropriation of earnings (Note B)	-	-	-	-	(589,469)	-	-	-
Legal reserve	-	-	589,469	-	-	-	-	-
Special reserve	-	-	-	(56,303)	56,303	-	-	-
Cash dividends	-	-	-	-	(3,702,880)	-	-	(3,702,880)
Issuance of convertible bonds payable	-	257,565	-	-	-	-	-	257,565
Adjustments for change in shareholding percentage in investee companies	-	1,262	-	-	(5,397)	-	6,221	2,086
Cumulative translation adjustments	-	-	-	-	-	(67,230)	-	(67,230)
Distribution of cash dividends by the consolidated subsidiary	-	-	-	-	-	-	(400)	(400)
Consolidated net income for 2012	-	-	-	-	4,809,233	-	(4,725)	4,804,508
Balance at December 31, 2012	<u>\$ 7,714,332</u>	<u>\$ 6,331,920</u>	<u>\$ 4,104,470</u>	<u>\$ -</u>	<u>\$ 14,839,557</u>	<u>\$ 36,269</u>	<u>\$ 584,881</u>	<u>\$ 33,611,429</u>


Note A : Directors' and supervisors' remuneration amounting to NT\$13,262 and employees' bonus amounting to NT\$94,726 have been deducted from the Consolidated Statement of Income.
Note B : Directors' and supervisors' remuneration amounting to NT\$10,610 and employees' bonus amounting to NT\$75,786 have been deducted from the Consolidated Statement of Income.

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 29, 2013.


FARGLORY LAND DEVELOPMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 4,804,508	\$ 6,048,649
Adjustments to reconcile consolidated net income to net cash used in operating activities		
Reversal of allowance for doubtful accounts	(448)	(480)
Depreciation	37,301	37,893
Amortization	29,233	29,058
Loss (gain) on valuation of financial assets and liabilities	2,541	(71,774)
Loss on long-term investments accounted for under the equity method	254,894	52,004
Reversal of impairment of property, plant and equipment	-	(245,000)
Amortization of discount on convertible bonds payable	49,963	24,022
Loss from early-redemption of convertible bonds	-	40,637
Impairment loss on financial assets	92,435	112,000
Changes in assets and liabilities		
Financial assets at fair value through profit or loss - current	(933,823)	1,823,014
Notes receivable, net	(171,610)	95,829
Notes receivable, net - related parties	-	272,500
Accounts receivable - net	(390,437)	25,932
Accounts receivable - related parties	(9,552)	10,368
Other financial assets - current	(703,519)	(4,248,690)
Inventories	(6,704,749)	(10,791,337)
Excess of construction in progress over progress billings	121,093	(103,465)
Prepayments	(141,484)	(125,301)
Deferred selling expenses	(79,292)	(74,358)
Other current assets - other	(73,003)	(22,669)
Other assets - other	(20,462)	(47,507)
Net change in deferred income taxes	(95,230)	280,475
Notes payable	(15,223)	(159,645)
Accounts payable	899,188	923,176
Accounts payable - related parties	137,686	(112,297)
Income tax payable	418,951	(748,509)
Accrued expenses	(7,120)	(61,789)
Other payables - related parties	27,739	(575,515)
Other payables - other	127,462	(167,921)
Advances from customers	857,542	1,633,718
Estimated warranty liabilities	(1,504)	(3,782)
Other current liabilities - other	164,209	22,814
Accrued pension liabilities	1,336	1,029
Net cash used in operating activities	(1,321,375)	(6,126,921)

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FARGLORY LAND DEVELOPMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2012	2011
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Decrease (increase) in other financial assets - current	\$ 820,221	(\$ 2,360,785)
Acquisition of property, plant and equipment	(3,197,850)	(382,569)
Increase in financial assets carried at cost - non-current	-	(76,684)
Increase in long-term investments accounted for under the equity method	(1,165,490)	(2,026,850)
(Increase) decrease in refundable deposits	(18,234)	649
Decrease in long-term receivables	448	480
Increase in other assets - other	(9,038)	(5,491)
Net cash used in investing activities	(3,569,943)	(4,851,250)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Increase in short-term loans	4,506,334	11,838,100
Increase in commercial papers payable	124,993	129,673
Increase in long-term loans	2,400,000	-
Repayment of long-term loans	(355,000)	(365,000)
(Decrease) increase in guarantee deposits received	(7,656)	6,452
Payment of cash dividends	(3,703,280)	(4,628,300)
Redemption of convertible bonds	-	(794,895)
Proceeds from issuance of bonds	2,000,000	-
Proceeds from issuance of common stock	-	4,595,856
Changes in minority interests	-	396,318
Net cash provided by financing activities	4,965,391	11,178,204
Net effect of changes in consolidated entities	-	(294,397)
Increase (decrease) in cash and cash equivalents	74,073	(94,364)
Cash and cash equivalents at beginning of year	684,995	779,359
Cash and cash equivalents at end of year	\$ 759,068	\$ 684,995
<u>Supplemental disclosures of cash flow information :</u>		
Cash paid during the year for:		
Interest	\$ 499,017	\$ 262,531
Interest capitalized	(301,103)	(171,855)
Interest (excluding interest capitalized)	\$ 197,914	\$ 90,676
Income tax	\$ 436,717	\$ 1,295,981
Acquisition of property, plant and equipment		
Increase in property, plant and equipment	\$ 3,671,202	\$ 436,111
Add : Payable at beginning of year	58,718	5,176
Less : Payable at end of year	(532,056)	(58,718)
Cash paid	\$ 3,197,864	\$ 382,569
Non-cash flows from investing and financing activities :		
Inventories transferred from property held for lease	\$ 188,651	\$ 88,500
Property held for lease transferred from other assets	\$ 9,943	\$ 160,403
Conversion of convertible bonds (face value) into common stock	\$ -	\$ 3,600

The accompanying notes are an integral part of these consolidated financial statements.
 See report of independent accountants dated March 29, 2013.

FAGLORY LAND DEVELOPMENT CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Farglory Land Development Co., Ltd. (the “Company”) was incorporated under the provisions of the Company Law of the Republic of China (“ROC”) in August 1978. The Company was renamed from Metropolitan Construction Co., Ltd. to Farglory Land Development Co., Ltd. in December 2005 after obtaining the approval from the regulatory agency. The Company is primarily engaged in selling and leasing commercial buildings and public housing constructed by commissioned construction contractors.

The Company’s shares have been traded on the GreTai Securities Market (formerly-Over-The -Counter Securities Exchange) since December 1999 and were transferred to be traded on the Taiwan Stock Exchange on August 6, 2007. As of December 31, 2012, the Company and its subsidiaries included in the consolidated financial statements had approximately 330 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the “Group”) are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and accounting principles generally accepted in the Republic of China. The Group’s significant accounting policies are summarized below:

(1) Basis for preparation of consolidated financial statements

- A. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. Effective January 1, 2008, the Company prepares consolidated financial statements on a quarterly basis. The income (loss) of the subsidiaries is included in the consolidated statement of income effective on the date the Company gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective on the date the Company loses control over the subsidiaries. Significant inter-company transactions, assets, and liabilities arising from inter-company transactions are eliminated.
- B. Subsidiaries included in the consolidated financial statements and their changes for the years ended December 31, 2012 and 2011:

Investor	Subsidiary	Main activities	Ownership (%)	
			December 31, 2012	December 31, 2011
Farglory Land Development Co., Ltd.	Farglory Construction Co., Ltd. (Farglory Construction)	Construction contractor for both domestic and foreign civil works as well as hydraulic works	99.20%	99.20%
Farglory Land Development Co., Ltd.	Farglory Dome Co., Ltd. (Farglory Dome) (Note)	Public works and specific area development and construction	70.30%	57.57%
Farglory Construction Co., Ltd.				

- C. Subsidiaries not included in the consolidated financial statements: None.
- D. Adjustments for subsidiaries with different balance sheet dates and accounting policy: None.
- E. Special operating risks in foreign subsidiaries: None.
- F. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.
- G. Contents of subsidiaries' securities issued by the parent company: None.
- H. Information on new issuance of convertible bonds and common stock by subsidiaries: The shareholders of Farglory Dome resolved to issue common stocks in the amount of \$500,000 and \$600,000 in April, 2011 and July, 2012, respectively.

(2) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise, they are classified as non-current assets:
- Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
 - Assets held mainly for trading purposes;
 - Assets that are expected to be realized within twelve months from the balance sheet date;
 - Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise, they are classified as non-current liabilities:
- Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
 - Liabilities arising mainly from trading activities;
 - Liabilities that are to be paid off within twelve months from the balance sheet date;
 - Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.
- C. Since the normal operating cycle from constructing to selling the properties is usually more than one year, the assets and liabilities relating to construction or long-term construction contracts are classified as current and non-current items based on the operating cycle. Other assets and liabilities are classified based on the period of one year.

(3) Foreign currency transactions

- A. Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year's profit or loss.
- B. Monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss. However, exchange gains or losses on overseas inter-company accounts that are, in nature, deemed long-term is accounted for as a reduction in stockholders' equity.
- C. For non-monetary assets and liabilities measured at fair value with differences recognized in profit or loss, any exchange component arising from translation at the spot rate prevailing at the balance sheet date shall be recognized in profit or loss. Conversely, for non-monetary assets and liabilities measured at fair value with differences recognized directly in equity, any exchange component arising from translation at the spot rate prevailing at the balance sheet date shall be recognized directly in equity. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.
- D. The financial statements of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date except for equity accounts, which are translated at historical rates. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation adjustments are recorded as "cumulative translation adjustments" under stockholders' equity, and recorded as a component of statement of income when sold or liquidated.

(4) Financial assets and financial liabilities at fair value through profit or loss

- A. Financial assets and financial liabilities at fair value through profit or loss are recognized and derecognized using trade date accounting and are recognized initially at fair value.
- B. These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair values of listed stocks, OTC stocks, closed-end mutual funds, and depository receipts are determined by the closing prices at the balance sheet date. The fair value of open-end mutual funds is based on the net asset value at the balance sheet date.
- C. For a derivative that does not meet the criteria for hedge accounting, it is initially recognized at fair value on the date the derivative contract is entered into and is subsequently remeasured at its fair value. If a derivative is a non-option derivative, the fair value initially recognized is zero.
- D. For call options, put options, conversion price resetting options and non-equity conversion options embedded in bonds payable issued by the Company, please refer to Note 2 (18).

(5) Notes, accounts and other receivables

- A. Notes and accounts receivable are claims resulting from the sale of goods or services. Receivables arising from transactions other than the sale of goods or services are classified as other receivables. Notes, accounts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.
- B. The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial asset is recognized. The amount of impairment loss is determined based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be

reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

(6) Inventories

The inventories include "land held for construction", "construction in progress", and "buildings and land held for sale." Gains or losses arising from construction contracts are recognized using the percentage of completion method. Inventories are stated at cost and evaluated at the lower of cost or net realizable value at the end of period. The individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value is based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses. The interest costs related to construction in progress are capitalized in accordance with the generally accepted accounting principles.

(7) Long-term construction contracts

- A. For the construction contracts that the Company enters into, the percentage of completion method is used when the construction lasts for more than one year and the profit or loss can be reliably estimated. Under the percentage of completion method, the percentage of completion is measured at the proportion that the costs incurred for work performed to date compared to the total estimated construction cost. For other construction contracts, the completed-contract method is used. When it is probable that the estimated contract costs will exceed the total contract price, under both methods, the expected loss is recognized immediately.
- B. When the construction in progress exceeds the progress billings received under the same contract, the progress billings received is presented as a deduction from the construction in progress in arriving at the amount classified as current asset. When the progress billings received exceeds the construction in progress, the construction in progress is presented as a deduction from progress billings received under the same contract in arriving at the amount classified as current liability.

(8) Joint controlling interest

The subsidiary and other enterprises jointly undertake the construction of Taipei Cultural Gym Area – Big-sized Indoor Gym and set up a joint project office to establish and keep the accounting records and books with respect to the project transactions. The Company recognizes assets, liabilities, revenues and costs related to the project in proportion to its joint undertaking percentage at the end of each month.

(9) Deferred selling expense

The selling expenses related to the pre-sale of land and buildings are deferred until the gains and losses from the sale are recognized.

(10) Financial assets carried at cost

- A. The financial assets are recognized or derecognized using the trade date accounting and are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.
- B. If there is any objective evidence that the financial assets are impaired, the impairment loss is recognized in profit or loss. Such impairment loss shall not be reversed.

(11) Long-term equity investments accounted for under the equity method

- A. Long-term equity investments in which the Company holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee company are accounted for under the equity method. The excess of the acquisition cost over the investee company's fair values of identifiable net assets is treated as goodwill. Goodwill is subject to impairment assessment annually.

Long-term equity investments in which the Company holds more than 50% of the investee company's voting shares or has the ability to control the investee's operational decisions are accounted for under the equity method and included in the quarterly consolidated financial statements.

B. Upon the disposal of a long-term investment, the difference between the carrying amount and sales price is recorded as gain or loss from disposal of long-term investments. The capital reserve arising from long-term equity investment is transferred to gain or loss according to the disposal proportion.

C. Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under stockholders' equity. Please refer to Note 2 (3).

(12) Property, plant, and equipment

A. The property, plant, and equipment are stated at cost. Interest incurred on the loans used to bring the assets to the condition and location necessary for their intended uses are capitalized.

B. Depreciation is provided under the straight-line method based on the assets' estimated economic useful lives. The estimated economic useful lives of property held for lease - building are 50~60 years while that of the other property, plant, and equipment are 3~8 years.

C. Major improvements and renewals are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred. The gains and losses from the sale or disposal of assets are recognized in profit or loss.

(13) Land-use right (shown as "other intangible assets")

The land-use right is the royalty paid to use the land for the construction of properties for leases or sale and is amortized over the effective period. During the construction period, the royalty is amortized to the construction cost. After the completion of the construction, the royalty is amortized to the rental cost based on the proportion of rented out properties. For the portion that has not yet been rented, the related royalty is amortized to operating expense. When a property is sold, the royalty is transferred to the operating cost based on the percentage of the property's construction cost over total construction cost.

(14) Idle assets

Property, plant, and equipment not used in operations are reclassified to "other assets" at the lower of the net realizable value or carrying amount. Depreciation provided on these assets is charged to non-operating expense.

(15) Deferred expenses (shown as "other assets - other")

The deferred expenses, including expenditures of computer software and leasehold decoration and maintenance are stated at cost, and are amortized over the shorter of the estimated useful lives or the lease periods using the straight-line method from 2 to 5 years.

(16) Impairment of non-financial assets

For an asset in which there is an indication of impairment, the Group estimates its recoverable amount and recognizes impairment loss if its recoverable amount is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be reversed.

The recoverable amount of goodwill, intangible assets with indefinite useful lives, and intangible assets that have not yet been available for use are evaluated for impairment at least annually. Impairment loss is recognized whenever the recoverable amount of these assets is less than their respective carrying amount. Impairment loss of goodwill recognized in prior years is not reversed

in the following years.

(17) Construction warranty (shown as “estimated warranty liabilities”)

Construction warranty is accrued based on the potential warranty expenditure over the warranty period under construction contracts. When the actual warranty expenses occur, the warranty liability will be debited. If the warranty liability is not sufficient, the excess of the expenditures will be recognized as current expense.

(18) Convertible bonds

A. For the bonds payable issued after January 1, 2006, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument. These bonds are accounted for as follows:

- (a) The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the straight-line method and is recorded as “interest expense”.
- (b) The value of any derivative features (such as a call option and put option) embedded in the compound financial instrument is recognized as “financial assets or financial liabilities at fair value through profit or loss”. These derivative features are subsequently re-measured and stated at fair value on each balance sheet date, and the gain or loss is recognized in “gain or loss on valuation of financial assets or financial liabilities”. At the maturity of the redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the put option is recognized as “capital reserve”; however, if the fair value of common stock is lower than the redemption price, the fair value of the put option is recognized as “gain or loss”.
- (c) A conversion right embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized in “capital reserve from conversion right”. When a bondholder exercises his/her conversion right, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued at fair value on the conversion date, and the resulting difference shall be recognized as “gain or loss” in the current period. The book value of the common stock issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of the stock conversion option.
- (d) Cost incurred on issuance of convertible bonds are proportionately charged to the liabilities and equities of the underlying instruments based on initial recognition amount.

B. For the bonds payable embedded in conversion option, put option, call option and price resetting option issued after January 1, 2006, the issuer of the financial instruments shall separate the issuance price on initial recognition into financial asset and financial liability according to the contractual terms. These instruments are accounted for as follows:

- (a) The premium or discount arising from the issuance of the convertible bonds is amortized over the period from the date of issuance to maturity date using the straight-line method and is recorded as “interest expense”.
- (b) The net values assigned to the derivative features (conversion option, put option, call option, and price resetting option) embedded in the convertible bonds are accounted for as “financial assets or financial liabilities at fair value through profit or loss”. Such financial assets or liabilities are subsequently remeasured at fair value on the balance sheet dates, with the resulting differences recognized as “gain or loss on valuation of financial assets or financial liabilities”. The fair value of the put option upon expiration is recognized in profit or loss for the period. The reduction of fair value due to the reset

of conversion price is recognized in “gain or loss” in the current period.

- (c) When the conversion option is exercised, the liability components (including the bonds as well as the separately recognized embedded derivatives) shall be remeasured at fair value on the conversion date, and the resulting difference shall be recognized in profit or loss for the period. The carrying amount for the common stock issued upon conversion shall be based on the fair value of the above-mentioned liability components of the bonds.
- (d) Costs incurred on issuance of convertible bonds are proportionally charged to the liability components based on initially recognized costs.

B. In the event that the bondholders may exercise put options within the following year, the underlying bonds payable shall be reclassified to current liabilities. The bonds payable whose put options are unexercised during the exercisable period shall be reversed to non-current liabilities.

(19) Long-term loans

In accordance with R.O.C. SFAS No. 34 and No. 36, the administrative expenses from syndicated loans are accounted for as deduction and amortized over the period of the loan using the straight-line method and are recorded as “interest expenses”.

(20) Pension plan

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over the average remaining service years. Under the defined contribution pension plan, the contribution amounts are recognized as net periodic pension costs incurred under the accrual basis.

(21) Income tax

A. The Group uses inter-period as well as intra-period tax allocation for income tax. Any over-provision or under-provision on prior years’ income tax liabilities is recorded as current year’s income tax expense. As a result of the change in the tax law, the deferred tax assets and deferred tax liabilities should be remeasured in the year the tax law is enacted. The impact of change in tax rate is recognized as income tax expense (benefit) for income from continuing operations in the current period.

B. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve the distribution of earnings.

(22) Share-based payment — employee compensation plan

For share-based payment with the grant date on or after January 1, 2008, the Company shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period. In accordance with ARDF 96-267 prescribed by the R.O.C. Accounting Research and Development Foundation, shares reserved for employees to purchase under Article 267 paragraph 1 of the Company Law, are measured at fair value on the grant date and the resulting amount recognized as payroll expenses.

(23) Bonuses to employees and remuneration to directors and supervisors

Effective January 1, 2008, pursuant to ARDF 96-052 of the R.O.C. Accounting Research and Development Foundation, dated March 16, 2007, “Accounting for Bonuses to Employees and Remuneration to Directors and Supervisors”, the estimated bonuses to employees and remuneration to directors and supervisors are accounted for as expenses and liabilities, provided that such liabilities are required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for bonuses to employees and

remuneration to directors and supervisors are different from the actual distributed amounts resolved at the stockholders' meeting subsequently, the differences shall be recognized as income or expenses in the following year.

(24) Revenue and cost recognition

A. Profit/loss from property sales

The Company commissions contractors to construct properties for the pre-completion contracts the Company enters into with customers for the sale of developed properties. If the construction meets the requirements for the use of the percentage of completion method, the profit or loss is recognized based on the percentage of completion of the project. Other constructions are accounted for under the completed-contract method under which the cost and the profit or losses are recognized when the ownership is transferred and the property is delivered. However, the profit or loss is also recognized when the property is delivered (or the ownership is transferred) before the balance sheet date and the ownership is transferred (or the property is delivered) before the issuance date of the financial statements.

B. Rental income

Rental income is recognized monthly. The related cost is recognized as incurred and when related income is recognized. Expenses are recognized as incurred under the accrual basis.

C. Others

Except for the long-term construction contracts, revenues are recognized when the earning process is substantially completed and are realized or realizable. The related cost is recognized as incurred when related income is recognized. Expenses are recognized as incurred under the accrual basis.

(25) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make measurement, assessment, and disclosure, including the use of assumptions and estimates, for amounts and contingencies reported in the financial statements. Actual results could differ from assumptions and estimates.

(26) Operating segments

The operating segment reporting is consistent with the format of the management reports prepared for the chief operating decision-maker who determines the resource allocation and assesses the performance of operating segments.

In accordance with R.O.C. SFAS No. 41 "Operating Segments", the Group discloses the operating segment information in the consolidated financial statements rather than in the separate financial statements.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

(1) Notes, accounts and other receivables

Effective January 1, 2011, the Group adopted the amendments to R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". The Group recognizes the impairment (bad debt) loss when there is objective evidence that the recoverable amount of notes, accounts and other receivables is less than its carrying amount. There is no significant effect resulting from the change in accounting principle on consolidated net income and earnings per share for the year ended December 31, 2011.

(2) Operating segments

Effective January 1, 2011, the Group adopted the newly issued R.O.C. SFAS No. 41, "Operating Segments." which supersedes R.O.C. SFAS No. 20 "Segment Reporting". There is no significant effect resulting from the change in accounting principle on consolidated net income and earnings per share for the year ended December 31, 2011.

4. SUMMARY OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31,	
	2012	2011
Cash on hand and petty cash	\$ 2,476	\$ 2,662
Checking deposits	2,812	40,014
Savings deposits	753,780	642,319
	<u>\$ 759,068</u>	<u>\$ 684,995</u>

(2) Financial assets at fair value through profit or loss - current

	December 31,	
	2012	2011
Financial assets held for trading:		
Listed stocks	\$ 10	\$ 10
Beneficiary certificates	2,103,575	1,162,488
	2,103,585	1,162,498
Valuation adjustments	2,747	3,036
	<u>\$ 2,106,332</u>	<u>\$ 1,165,534</u>

The Group recognized net gains in the amount of NT\$6,975 and NT\$13,501 for the years ended December 31, 2012 and 2011, respectively.

(3) Other financial assets - current

	December 31,	
	2012	2011
Refundable deposits	\$ 3,241,897	\$ 3,454,741
Other receivables - third parties	11,822	49,637
Other receivables - related parties	7,092	59
Sinking account	3,418,605	3,518,838
Time deposit	231,130	3,961
	<u>\$ 6,910,546</u>	<u>\$ 7,027,236</u>

- A. Refundable deposits mainly consisted of refundable deposits due to the joint development arrangements. For details of the arrangements, please refer to Notes 5(2)J and 7(5).
- B. Sinking account mainly consisted of funds raised from the issuance of GDRs and the trust of advances from customers. For the information about the trust fund, please refer to Note 7(3).

(4) Inventories

	December 31,	
	2012	2011
<u>Prepayment for land</u>		
Beitou District, Sanhe Section, Taipei City	\$ -	\$ 158,390
Farglory A7	704,123	-
Ming-hu Section, Xinzhu City	57,015	-
	<u>761,138</u>	<u>158,390</u>
<u>Transferable building bulk</u>	<u>227,564</u>	<u>866,867</u>
<u>Land held for construction</u>		
Sanmin District, Dagang Section, Kaohsiung City	294,030	294,030
Wanhua District, Wanda Section 2, Taipei City	25,945	25,945
Xinzhuang District, An-tai Section, New Taipei City	2,101,930	2,054,401
Junghe District, Hua-jhong Section, New Taipei City	158,833	49,221
Wenshan District, Shihchien Section 2, Taipei City	41,290	41,290
Wenshan District, Muzha Section 1, Taipei City	535,457	535,457
Wenshan District, Muzha Section 3, Taipei City	49,680	49,680
Shilin District, Lanya Section 3, Taipei City	95,000	94,984
Neihu District, Tanmei Section 5, Taipei City	1,543,183	2,222,882
Xinzhuang District, Fudousin Section 1, New Taipei City	11,760,544	14,848,992
Zhongzheng District, Zhongzheng Section 1, Taipei City	-	98,330
Sanchong District, Sangchong Pu Section, Tong'an Cuo Section, New Taipei City	15,897	15,897
Banqiao District, Jiangzicui Section, Disankan Section, New Taipei City	339,121	339,121
Banqiao District, Jiangzicui North Side Section 2, 3 and 4, New Taipei City	166,792	166,793
Beitou District, Sanhe Section, Taipei City	<u>333,183</u>	<u>-</u>
	17,460,885	20,837,023
Less: Allowance for decline in market value and obsolescence	(<u>173,210</u>)	(<u>173,210</u>)
	<u>17,287,675</u>	<u>20,663,813</u>

Construction in progress

		<u>December 31,</u>	
		<u>2012</u>	<u>2011</u>
E02A	U-Town	4,618,736	1,735,791
H48A	Farglory, Glory of the Future	-	2,605,198
H62A	Farglory Fortuna	6,055,664	4,181,424
H68A	Farglory Oscar	497,288	88,471
H72A	Farglory Royal Residences	4,241,927	3,227,047
H73A	Farglory Palazzo Milano	-	1,546,341
H75A	Farglory Neo Oriental Plaza	236,147	13,752
H80A	Symphonie Der Farglory	-	677,725
H82A	Farglory Milano Park	225,321	23,557
H86A	Farglory Central Park	4,523,650	3,406,255
H88A	Farglory Jade Palace	3,080,910	51,697
H89A	Farglory La Bella Villa (Neihu Disrtict, Tanmei Section 5, No.126~8,131, Taipei City)	819,209	10,557
H90A	Farglory Left Bank Smart Urban-Rose Garden	733,232	232,838
H92A	Farglory Left Bank Smart Urban-Rainbow Garden	358,875	57,452
H96A	Farglory Left Bank Zijin Park	291,755	17,959
H102A	Farglory Camellia Palace	235,862	28,585
H107A	Eiffel Farglory	2,411,077	748,348
H108A	Neihu Disrtict, Tanmei Section 5, No.86,Taipei City	384,487	10,439
H113A	Xinzhuang District, Fudousin Section 1, No.281-1, New Taipei City	51,705	45,764
H115A	Farglory A7	126,503	16,694
H120A	Farglory Long Gang (Zhongzhen Section, No.48-28 and 48-33, Pingzhen City, Taoyuan County)	573,584	-
H121A	Farglory Long Gang NO.2 (Zhongzhen Section, No.48-29 and 48-30, Pingzhen City, Taoyuan County)	553,945	-
M61A	Farglory Switzerland Economy Trade Center	-	1,397,495
	Others	128,014	55,742
		<u>30,147,891</u>	<u>20,179,131</u>

<u>Buildings and land held for sale</u>	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Office development in Taipei City	1,561,833	10,602
H28A Farglory International Financial Plaza		
M61A Farglory Switzerland Economy Trade		
Office development in New Taipei City	16,569	33,405
A2 Fareast Century Plaza		
Residential development in Taipei City	596,391	1,854,203
H26A Farglory Urban Garden		
H59A Farglory E-Lounge		
H61A Farglory Asiaone		
H70A Farglory Residences in Elegant Luxury		
H71A Farglory Shi Fu Court		
H73A Farglory Palazzo Milano		
H80A Symphonie Der Farglory		
Residential development in New Taipei City	368,957	308,226
H32A Farglory Cambridge		
H36A Farglory Future City Phases I		
H48A Farglory, Glory of the Future		
H58B Farglory Future House		
H66A Farglory Great Future		
H03A Farglory Grande		
	<u>2,543,750</u>	<u>2,206,436</u>
Less: Allowance for decline in market value and obsolescence	(<u>22,639</u>)	(<u>22,639</u>)
	<u>2,521,111</u>	<u>2,183,797</u>
	<u>\$ 50,945,379</u>	<u>\$ 44,051,998</u>

The cost of inventories recognized as expense and included in construction costs for the years ended December 31, 2012 and 2011 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Cost of inventories sold	<u>\$ 10,625,549</u>	<u>\$ 11,837,102</u>

- A. As of December 31, 2012 and 2011, construction contracts that met the requirements to use the percentage of completion method are listed as follows:

December 31, 2012					
	Contract sales (VAT excluded)	Estimated total construction cost	Percentage of completion	Expected year of completion	Accumulated construction profit
H62A Farglory Fortuna	\$ 6,233,608	\$ 4,723,770	81.21%	2013	\$ 2,071,000
H72A Farglory Royal Residences	4,746,331	3,083,427	90.03%	2013	1,497,066
H107A Eiffel Farglory	3,982,434	2,946,664	59.26%	2013	662,047
December 31, 2011					
	Contract sales (VAT excluded)	Estimated total construction cost	Percentage of completion	Expected year of completion	Accumulated construction profit
H48A Farglory, Glory of the Future	\$ 5,306,953	\$ 3,229,795	52.31%	2012	\$ 1,086,560
H62A Farglory Fortuna	5,376,509	4,709,897	40.40%	2013	831,034
H72A Farglory Royal Residences	4,746,232	3,083,422	54.85%	2012	912,051
H73A Farglory Palazzo Milano	2,239,414	1,867,307	46.37%	2012	457,434
H80A Symphonie Der Farglory	779,385	675,022	68.39%	2012	172,838

- B. For the years ended December 31, 2012 and 2011, the interest capitalized as cost of inventory amounted to NT\$278,058 and NT\$171,855, respectively. Annual interest rates used for capitalization for the years ended December 31, 2012 and 2011 were 2.17%~2.52% and 1.80%~2.53%, respectively.
- C. For details of pledged assets, please refer to Note 6.
- D. For the details of trust deeds for construction in progress, please refer to Note 7(3).

(5) Construction in progress and progress billings on uncompleted contracts

- A. The details of construction in progress and progress billings on uncompleted contracts are as follows:

		December 31, 2012	
		Construction in progress	Progress billings on uncompleted contracts
Excess of construction in progress over progress billings:			
H102A Farglory Camellia Palace	\$	121,980	\$ 82,544
A50 Xindian District, Beiyi Road Project, New Taipei City		437,578	392,687
	\$	<u>559,558</u>	<u>\$ 475,231</u>

		December 31, 2011	
		Construction in progress	Progress billings on uncompleted contracts
Excess of construction in progress over progress billings:			
A50	Xindian District, Beiyi Road Project, New Taipei City	\$ 136,272	\$ 130,304
O3	Farglory Financial Center	<u>1,474,623</u>	<u>1,275,171</u>
		<u>\$ 1,610,895</u>	<u>\$ 1,405,475</u>

B. The details of significant uncompleted contracts are as follows:

December 31, 2012						
		Contract Price (VAT excluded)	Estimated total construction cost	Percentage of completion	Expected year of completion	Accumulated construction profit
Percentage of completion method -						
H102A	Farglory Camellia Palace	\$ 660,350	\$ 640,539	18.47%	2014	\$ 3,659
A50	Xindian District, Beiyi Road Project, New Taipei City	603,080	537,323	72.56%	2013	47,711

December 31, 2011						
		Contract Price (VAT excluded)	Estimated total construction cost	Percentage of completion	Expected year of completion	Accumulated construction profit
Percentage of completion method -						
A50	Xindian District, Beiyi Road Project, New Taipei City	\$ 603,077	\$ 559,613	22.60%	2013	\$ 9,821
O3	Farglory Financial Center (Note)	2,857,143	2,750,476	51.61%	2012	55,053

Note : Farglory Life Insurance Co., Ltd. entered into a real estate contract with Chang Xuan Land Development Co., Ltd. and reached an agreement that Chang Xuan Co., Ltd. take charge of the building construction, and which the construction project was taken over by Farglory Construction Co., Ltd.. The contract price was NT\$2,857,143, of which NT\$1,275,171 has been paid.

(6) Financial assets carried at cost – non-current

	December 31,	
	2012	2011
Public offering stock		
Farglory Life Insurance Co., Ltd. (Farglory Life Insurance)	\$ 7,680	\$ 7,680
Unlisted stock		
Yuan Jing Solar Technology Co., Ltd. (Yuan Jing Solar)	526,684	526,684
	534,364	534,364
Accumulated impairment - financial assets at cost	(204,435)	(112,000)
	<u>\$ 329,929</u>	<u>\$ 422,364</u>

The Company evaluated that the value of investment in Yuan Jing Solar, carried at cost, had been impaired and therefore provided impairment loss of \$92,435 and \$112,000 (shown as “impairment loss”) for 2012 and 2011, respectively.

(7) Long-term equity investments accounted for under the equity method

A. Details of long-term equity investments accounted for under the equity method are set forth below:

Investee companies	Ownership percentage at December 31, 2012	December 31,	
		2012	2011
Straits Construction Investment (Holdings) (Straits Construction)	28.78%	\$3,551,431	\$2,739,217
Hua-Xiong Information Technology Co. LTD (Hua-Xiong)	49.00%	8,568	-
Taiwan OBAYASHI, Farglory Construction, Japan OBAYASHI Construction Joint Venture Entity (JV Entity)(Note)	45.00%	10,895	-
		<u>\$3,570,894</u>	<u>\$2,739,217</u>

Note: The subsidiary – Farglory Construction Co., Ltd. intend to jointly participate in the construction of Taipei Cultural Gym Area – Big-sized Indoor Gym of the subsidiary – Farglory Dome Co., Ltd. and signed a joint venture agreement in September 23, 2011. The undertaking percentage of the subsidiary – Farglory Construction Co., Ltd per the agreement is 45%. The contract price amounted to NT\$15,500,000(VAT excluded).

B. Investment gain or loss accounted for under the equity method for the years ended December 31, 2012 and 2011 are set forth below:

Investee companies	For the years ended December 31,	
	2012	2011
Straits Construction	(\$ 265,794)	(\$ 52,004)
JV Entity	10,900	-
	<u>(\$ 254,894)</u>	<u>(\$ 52,004)</u>

Investment gain or loss accounted for Hua-Xiong is based on its unaudited financial statements, the others are based on the report of the independent accountants of these investee companies.

- C. The subsidiary – Farglory Construction Co., Ltd recognizes assets, liabilities, revenues and costs related to the JV Entity in proportion to its joint undertaking percentage, which is 45%. Under the joint controlling interest method, the accounts related to the JV Entity as of and for the years ended December 31, 2012 and 2011 are set forth below:

Accounts	December 31,	
	2012	2011
Current assets	\$ 41,623	\$ -
Non-current assets	1	-
Current liabilities	5,048	-

Accounts	For the years ended December 31,	
	2012	2011
Revenue	\$ 36,581	\$ -

- D. The Company's application to invest in real estate development in China was approved by the Investment Commission of the Ministry of Economic Affairs. The total investment amount was US\$453,182 thousand (about NT\$13,137,746 thousand). The related information is set forth below.

As of December 31, 2012, the Company remitted to Straits Construction and Hua-Xiong the amount of US\$129,500 thousand and US\$294 thousand, respectively.

Investee Companies (Note)	Date approved by Investment Board, Ministry of Economic Affairs	Investment Amount (in thousands)	Fund Source (in thousands)
Farglory Land Development Ltd., Tianjin	2011/7/29	USD 50,000	Invested with the Company's own fund amounting to US\$50,000.
Farglory Land Development Ltd., Hangzhou	2010/7/21	USD 50,000	Invested with the funds (US dollars) raised from the issuance of GDRs.
Farglory Land Development Ltd., Suzhou	2012/7/18	USD 50,000	Invested with the Company's own fund amounting to US\$50,000.
Hua-Xiong Tech Ltd.(Shanghai)	2011/11/29	USD 1,470	Remitted from the Company's own funds from Taiwan.
Farglory Land Development Ltd., Chengdu	2012/7/18	USD 50,000	Invested with the Company's own funds amounting to US\$1,500 and the fund amounting to US\$48,500 raised from the issuance of GDRs.
Straits Investment Ltd., Nanjing	2012/11/9	USD 214,520	Invested with the funds (US dollars) raised from the issuance of GDRs and raised by the company in the third territory.
Pingtang Future City Development & Construction Co., Ltd.	2012/7/18	USD 26,610	Invested with the Company's own funds amounting to US\$16,381 and the fund amounting to US\$10,229 raised from the issuance of GDRs.
Pingtang Future City New City Development & Construction Co., Ltd.	2012/7/4	USD 9,771	Invested with the funds (US dollars) raised from the issuance of GDRs.
Straits Construction Investment Management & Consulting (Shanghai)	2011/7/7	USD 301	Remitted from the Company's own funds from Taiwan.
Shanghai Daosheng Industry Co., Ltd.	2012/3/9	USD 510	Remitted from the Company's own funds from Taiwan.
Total		USD 453,182	

Note : The names of the investee companies shown above were provisional. For the formal

name, please refer to Note 11(3).

(8) Property, plant and equipment

	December 31, 2012		
	Original cost	Accumuated depreciation	Net book value
Machinery	\$ 4,617	(\$ 4,192)	\$ 425
Transportation equipment	1,280	(391)	889
Office equipment	16,390	(7,877)	8,513
Property held for lease - Land	464,091	-	464,091
Property held for lease - Building	1,825,748	(152,692)	1,673,056
Other equipment	1,291	(916)	375
Prepayment for real estate	400,457	-	400,457
Construction in progress			
-Professional services fee	363,818	-	363,818
-Design expenses	453,255	-	453,255
-Construction expenses	3,096,392	-	3,096,392
-Others	344,920	-	344,920
	<u>\$ 6,972,259</u>	<u>(\$ 166,068)</u>	<u>\$ 6,806,191</u>
	December 31, 2011		
	Original cost	Accumuated depreciation	Net book value
Machinery	\$ 4,617	(\$ 4,101)	\$ 516
Transportation equipment	1,280	(178)	1,102
Office equipment	21,203	(13,589)	7,614
Property held for lease - Land	571,687	-	571,687
Property held for lease - Building	1,915,132	(132,211)	1,782,921
Other equipment	1,410	(1,013)	397
Construction in progress			
-Professional services fee	282,221	-	282,221
-Design expenses	343,961	-	343,961
-Construction expenses	133,975	-	133,975
-Others	236,554	-	236,554
	<u>\$ 3,512,040</u>	<u>(\$ 151,092)</u>	<u>\$ 3,360,948</u>

- A. The property held for lease – buildings mainly consisted of the Metropolitan Headquarters building, which was constructed under the land use right based on the contract signed with the Chi-Seng Water Management Research & Development Foundation of Taipei City in 2000. The construction was completed in 2003. The book value of property held for lease which were leased were NT\$1,025,788 and NT\$1,035,377 as of December 31, 2012 and 2011, respectively.
- B. The H47A Farglory University Harvard project planned to lease out the commercial space and parking lot. This project was completed in 2008 and the related costs of construction amounting to NT\$408,946 was transferred from construction in progress to property held for lease. As of December 31, 2012 and 2011, its book value was NT\$385,984 and NT\$392,947,

respectively. The Company entered into a 15-year leasing contract with Taiwan Carrefour Co., Ltd. on July 10, 2009.

- C. On June 8, 2010, the Taipei City Government terminated the contract with the subsidiary - Farglory Dome for not being able to obtain the construction permit within 12 months after the contract date in accordance with the contract terms and for not improving within the deadline. Accordingly, the subsidiary - Farglory Dome recognized the impairment loss amounting to NT\$245,000 for the construction project based on the conservatism principle during the six-month period ended June 30, 2010. However, the subsidiary - Farglory Dome passed the field investigation on December 9, 2010, and obtained the construction permit on June 30, 2011. Therefore, the management assessed that the impairment no longer existed and reversed the total impairment loss of NT\$245,000, which was classified as "other non-operating income."
- D. Some of the Company's fixed assets were pledged as security for short-term or long-term loans, commercial papers payable and bonds payable. For details of pledged assets, please refer to Note 6.

(9) Intangible assets

	December 31,	
	2012	2011
Land-use right	\$ 441,686	\$ 441,686
Others	-	146
Less: Accumulated amortization	(259,489)	(237,405)
	<u>\$ 182,197</u>	<u>\$ 204,427</u>

- A. The details of accumulated amortization were as follows:

	December 31,	
	2012	2011
Accumulated amortization, January 1	\$ 237,405	\$ 215,321
Amortization for current period	22,084	22,084
Accumulated amortization, December 31	<u>\$ 259,489</u>	<u>\$ 237,405</u>

- B. In 2000, the Company entered into a 40-year lease with the Chi-Seng Water Management Research & Development Foundation of Taipei City for the land-use right of the lot located on Xihu Section 4 No. 102 in Neihu. In addition, the Company has to make an annual rental payment based on 8% of the land value declared by the government each year. The rent payments were recognized as lease cost and administration expense based on the proportion of rental space.
- C. For details of pledged assets, please refer to Note 6.

(10) Long-term receivables

	December 31,	
	2012	2011
Receivables	\$ 65,907	\$ 66,355
Less: Allowance for bad debts	(65,907)	(66,355)
	<u>\$ -</u>	<u>\$ -</u>

The above receivables were mainly accounts receivable overdue or under litigation.

(11) Other assets

	December 31,	
	2012	2011
Metropolitan Headquarters building	\$ 16,332	\$ 26,275
Computer software	7,188	4,880
Other deferred expenses	-	47,507
Others	24,728	1,560
	<u>\$ 48,248</u>	<u>\$ 80,222</u>

A. The Metropolitan Headquarters building was constructed under the land-use right based on the contract signed with the Chi-Seng Water Management Research & Development Foundation of Taipei City in 2000. The construction was completed in 2003. The construction costs accounted for as other assets consisted of the unleased portions of the building as of December 31, 2012 and 2011.

B. For details of Metropolitan Headquarters building as a pledge, please refer to Note 6.

(12) Short-term loans

	December 31,	
	2012	2011
Secured loans	\$ 20,696,434	\$ 16,874,100
Unsecured loans	944,000	260,000
	<u>\$ 21,640,434</u>	<u>\$ 17,134,100</u>
Annual interest rates	1.55%~3%	1.11%~2.71%

For details of pledged assets, please refer to Notes 5(2)L and 6.

(13) Commercial papers payable

	December 31,	
	2012	2011
Commercial papers	\$ 275,000	\$ 150,000
Less: Unamortized discount	(341)	(334)
	<u>\$ 274,659</u>	<u>\$ 149,666</u>
Annual interest rates	1.788%~2.288%	1.788%

For details of pledged assets, please refer to Note 6.

(14) Financial liabilities at fair value through profit or loss

	December 31,	
	2012	2011
Financial liabilities held for trading:		
Options-domestic convertible bonds	\$ 37,720	\$ -
Fair value adjustment	9,516	-
	<u>\$ 47,236</u>	<u>\$ -</u>

The Company recognized net loss in the amount of NT\$9,516 and net gain in the amount of NT\$58,273 for the years ended December 31, 2012 and 2011, respectively.

(15) Income Tax

	For the years ended December 31,	
	<u>2012</u>	<u>2011</u>
Income tax expense	\$ 760,393	\$ 827,859
Net change in deferred income tax	95,230	(280,475)
Over (under) provision of prior year's income tax	1,774	(16,678)
Refundable tax of the subsidiary	45	88
Prepaid income tax	(91,902)	(184,205)
Income tax payable	<u>\$ 765,540</u>	<u>\$ 346,589</u>

A. Income tax expense for 2012 and 2011 included the 10% additional income tax expense on the undistributed earnings of 2011 and 2010 in the amounts of NT\$168,496 and NT\$134,226, respectively.

B. As of December 31, 2012 and 2011, deferred income tax assets and liabilities were as follows:

	December 31,	
	<u>2012</u>	<u>2011</u>
Deferred income tax assets	<u>\$ 147,991</u>	<u>\$ 100,252</u>
Deferred income tax liabilities	<u>(\$ 280,588)</u>	<u>(\$ 398,683)</u>
Valuation allowance	<u>(\$ 108,549)</u>	<u>(\$ 51,715)</u>

C. As of December 31, 2012 and 2011, the details of the deferred income tax assets and liabilities are listed as follows: A

Item	December 31, 2012	
	Amount	Tax Effect
Current:		
Impact of temporary difference		
Provision for obsolescence and decline in market value of inventory	\$ 195,849	\$ 33,295
Provision for warranty	209,367	35,593
Unrealized exchange gain	(1,609)	(274)
Deferred revenue recognition	(1,605,211)	(272,886)
		(204,272)
Less: Valuation allowance for deferred income tax assets		(29,446)
Deferred income tax liabilities - net - current		<u>(\$ 233,718)</u>
Non-current:		
Impact of temporary difference		
Cumulative translation adjustments	(\$ 43,696)	(\$ 7,428)
Unrealized investment loss	317,798	54,025
Loss carryforwards	56,784	9,653
Pension expense	24,828	4,221
Allowance for doubtful accounts- long-term receivables	65,907	11,204
		71,675
Less: Valuation allowance for deferred income tax assets		(79,103)
Deferred income tax liabilities - net - noncurrent		<u>(\$ 7,428)</u>

Item	December 31, 2011	
	Amount	Tax Effect
Current:		
Impact of temporary difference		
Provision for obsolescence and decline in market value of inventory	\$ 195,849	\$ 33,295
Provision for warranty	210,871	35,848
Unrealized exchange gain	(108,474)	(18,441)
Deferred revenue recognition	(2,112,019)	(359,044)
		(308,342)
Less: Valuation allowance for deferred income tax assets		(29,446)
Deferred income tax liabilities - net - current		<u>(\$ 337,788)</u>
Non-current:		
Impact of temporary difference		
Cumulative translation adjustments	(\$ 124,697)	(\$ 21,198)
Unrealized investment loss	52,004	8,840
Loss carryforwards	41,146	6,995
Pension expense	23,492	3,994
Allowance for doubtful accounts- long-term receivables	66,355	11,280
		9,911
Less: Valuation allowance for deferred income tax assets		(22,269)
Deferred income tax liabilities - net - noncurrent		<u>(\$ 12,358)</u>

D. As of December 31, 2012, the details of the unused loss carryforwards of the subsidiary - Farglory Dome were as follows:

Year in which losses incurred	Amount filed / approved	Losses available to be carried forward	Unused loss carryforwards	Final years losses can be carried forward
2006	\$ 14,448	\$ 2,456	\$ 2,456	2016
2007	2,294	390	390	2017
2008	104	18	18	2018
2009	7,867	1,337	1,337	2019
2010	7,033	1,196	1,196	2020
2011	9,300	1,581	1,581	2021
2012	15,738	2,675	2,675	2022
	<u>\$ 56,784</u>	<u>\$ 9,653</u>	<u>\$ 9,653</u>	

E. For the years ended December 31, 2012 and 2011, the income from land sales, which is

exempt from income tax, amounted to NT\$1,148,652 and NT\$1,483,978, respectively.

F. As of December 31, 2012, the Company's income tax returns for the years, except for 2008, through 2010 have been assessed and approved by the Tax Authority; the subsidiaries' - Farglory Construction's and Farglory Dome's income tax returns for the years through 2010 have been assessed and approved by the Tax Authority.

(16) Advances from customers

	December 31,	
	2012	2011
Receipts in advance - Land	\$ 3,199,778	\$ 2,546,175
Receipts in advance - Buildings	4,878,352	4,674,413
	<u>\$ 8,078,130</u>	<u>\$ 7,220,588</u>

(17) Bonds payable

	December 31,	
	2012	2011
Convertible bonds-secured- III	\$ -	\$ -
Convertible bonds-unsecured-IV	-	-
Convertible bonds-secured- V	800,000	-
Convertible bonds-unsecured-VI	1,200,000	-
Less:Discount	(251,257)	-
	<u>\$ 1,748,743</u>	<u>\$ -</u>

A. The Company issued domestic secured convertible bonds – III and domestic unsecured convertible bonds-IV on June 30, 2008. As of December 31, 2011, the major terms of the issuance are as follows:

- (a) Bonds redeemed and cancelled by the Company per the bondholders' request: As of December 31, 2011, as requested by the bondholders, the Company had redeemed and cancelled the unsecured convertible bonds-IV in the amount of NT\$672,200 and NT\$500,000, respectively. The Company recognized redemption loss in the amount of NT\$40,637 as other non-operating expenses for the year ended December 31, 2011.
- (b) On September 2011, bonds in the amount of NT\$3,600 had been converted into 50 thousands common stocks based on the conversion price per share at the date of conversion. The excess of the bond cost over par value of the shares amounting to NT\$3,268 was credited to capital reserve.
- (c) As of September, 2011, the domestic secured convertible bonds- III and domestic unsecured convertible bonds- IV, which the Company issued, were all converted or redeemed.

B. The Company issued domestic secured convertible bonds – V and domestic unsecured convertible bonds – VI on March 8 and March 9, 2012, respectively. The major terms of the issuance are as follows:

- (a) Total issued amount: NT\$800,000 of secured convertible bonds and NT\$1,200,000 of

unsecured convertible bonds.

- (b) Coupon rate: 0%
 - (c) Redemption term: The bondholders have the right to request the Company to redeem the bonds or to convert the bonds into common shares. The Company also has the right to redeem the bonds. The secured convertible bonds will be redeemed by cash at the price of face value plus interest on the maturity date. The unsecured convertible bonds will be redeemed by cash at the price of face value on the maturity date.
 - (d) Issuance terms: Three years for secured bonds, from March 8, 2012 to March 8, 2015, and five years for unsecured convertible bonds, March 9, 2012 to March 9, 2017.
 - (e) Conversion periods: The bonds are convertible anytime from one month after the issuance date to ten days before the maturity date.
 - (f) Conversion price: The initial conversion price per share was set at NT\$65. The conversion price will be adjusted according to the issuance contract.
 - (g) Effective July 17, 2012, the revised conversion price is NT\$58.83.
 - (h) Redemption at the option of issuer:
 - a. During the period from the day six months after the issuance of the bonds to 40 days before the maturity date of the secured convertible bonds, and the period from the day one months after the issuance of the bonds to 40 days before the maturity date of the unsecured convertible bonds, the Company may redeem all of the outstanding bonds at face value by cash at any time within 30 trading days following the period of 30 consecutive trading days during which the closing price of the Company's shares is equal to or above 30% of the latest conversion price.
 - b. During the period from the day six months after the issuance of the bonds to 40 days before the maturity date of the bonds, the Company may redeem all of the outstanding bonds at face value by cash at any time after the amount of the outstanding bonds becomes less than 10% of the initial issuance amount.
 - (i) Redemption at the option of bondholders:
 - a. Under the terms of the secured convertible bonds-V, the bondholders have the right to require the Company to redeem the bonds by cash at the price of face value plus interest on redemption of 1.5075% of the face value upon the passing of three years after the issuance of bonds.
 - b. Under the terms of the unsecured convertible bonds-VI, the bondholders have the right to require the Company to redeem the bonds by cash at the price of face value plus interest on redemption of 2.01% and 3.03% of the face value upon the passing of two years and three years after the issuance of bonds, respectively.
- C. According to R.O.C SFAS No. 36, a conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized and included in "capital reserve from stock warrants", the capital reserve from stock warrants amounted to \$257,565 since the Company issued convertible bonds in March 8, 2012 and in March 9, 2012. Besides, according to R.O.C. SFAS No. 34, the value of any derivative features (such as a call option and put option) embedded in the compound financial instrument is recognized as "financial assets or financial liabilities at fair value through profit or loss". The effective rate of the

main contract was 2.106% to 4.730%.

D. For details of pledged assets, please refer to Note 6.

(18) Long-term loans

	December 31,	
	2012	2011
Secured loans	\$ 2,400,000	\$ 355,000
Less: current portion	(40,000)	(60,000)
deferred administrative expenses from syndicated loans	(48,548)	-
Annual interest rates	<u>\$ 2,311,452</u>	<u>\$ 295,000</u>

A. On November 9, 2011, the subsidiary – Farglory Dome signed a syndicated loan contract with 11 banks, with Mega International Commercial Bank as the lead bank, for the construction of Taipei Cultural Gym Area – Big-sized Indoor Gym. The major terms of the contract are as follows:

- (a) A-type loan line is NT\$15,100 million. The loan period is 15 years from the first draw-down date, including a 4-year grace period.
- (b) B-type loan line is NT\$300 million. The loan period is 5 years. The loan can be renewed according to the construction contract and the syndicated loan contract. However, the last-time loan period may be less than 5 years and the longest loan period should not be later than the final repayment date of the A-type loan.
- (c) The major commitments of the subsidiary – Farglory Dome are as follows:
 - a. After the construction of the superficies, buildings and ancillary facilities by the subsidiary – Farglory Dome under the project is completed and their ownership is registered, all the assets above and any equipment, machinery and ancillary equipment acquired under the project should be pledged as collaterals for the syndicated loan.
 - b. The following financial ratios and standards should be maintained during the loan period:

Year	2012 to 2015	2016 to 2019	2020 to 2027
Liability ratio	≤ 230%	≤ 190%	≤ 120%

Liability ratio = (total liabilities – advances from stockholders)/tangible net equity

Year	2016 to 2017	2018 to 2027
Interest coverage	≥ 1.1	≥ 1.2

Interest coverage = (income after tax + depreciation + amortization + interest expense)/(principal repayable for long-term loans due in the year + interest expense)

Year	2016	2017	2018 to 2027
Current ratio	≥ 70%	≥ 80%	≥ 100%

Current ratio = (current assets + reserve for loans repayment)/current liabilities

The above financial ratios are reviewed based on the semi-annual and annual financial statements of the subsidiary – Farglory Dome audited by independent accountants, as approved by the managing bank. Interest coverage is reviewed annually, liability ratio and current ratio are reviewed semi-annually.

- (d) As of December 31, 2012, the deferred administrative expenses of the subsidiary – Farglory Dome, amounted to \$48,548 which was accounted for as deduction of long-term loan and amortized over the period of the loan as interest expense. The amortization amounted to \$2,352 for the year ended December 31, 2012.
- B. Except for the long-term loan of the subsidiary-Farglory Dome, the loans are repayable by installments from 2013 to 2017.
- C. For details of pledged assets, please refer to Note 6.

(19) Retirement plan

A. The Company and its subsidiary participate in a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees for services provided prior to July 1, 2005, and employees who choose to remain in the defined benefit pension plan subsequent to the enforcement of the Labor Pension Act on July 1, 2005. Under the defined benefit pension plan, employees are entitled to two base points for every year of service for the first 15 years and one base point for each additional year thereafter, up to a maximum of 45 base points. The pension payment to employees is computed based on years of service and average salaries or wages of the last six months prior to approved retirement. The Company and its subsidiary contribute an amount equal to 2% of salaries and wages paid each month to a pension fund. The pension fund is administered by a pension fund monitoring committee (the “Committee”) and deposited under the Committee's name in the Bank of Taiwan.

(a) The following sets forth the pension information based on the actuarial report:

	2012	2011
Discount rate	2.00%	2.00%
Future salary increase rate	2.50%	2.50%
Expected rate of return on plan assets	2.00%	2.00%

(b) The funded status of the pension plan is listed as follows:

	December 31,	
	2012	2011
Benefit obligation:		
Vested benefit obligation	(\$ 26,290)	(\$ 9,341)
Non-vested benefit obligation	(58,660)	(41,717)
Accumulated benefit obligation	(84,950)	(51,058)
Additional benefit based on future	(38,626)	(18,439)
Projected benefit obligation	(123,576)	(69,497)
Fair value of plan assets	36,251	34,084
Funded status	(87,325)	(35,413)
Unrecognized transition obligation	1,355	1,693
Unrecognized net actuarial losses	69,915	18,768
Others	(8,773)	490
Prepaid pension-subsidary	-	(9,030)
Accrued pension liability	(\$ 24,828)	(\$ 23,492)
Vested benefit	(\$ 9,549)	(\$ 4,610)

(c) The components of net periodic pension costs are as follows:

	For the years ended December 31,	
	2012	2011
Service cost	\$ 1,126	\$ 1,143
Interest cost	1,389	1,303
Expected return on plan assets	(701)	(714)
Amortization of unrecognized net obligations	402	339
Amortization of unrecognized loss	714	611
Others	223	204
Net periodic pension cost	\$ 3,153	\$ 2,886

B. Pursuant to the new “Labor Pension Act” enacted on July 1, 2005, the Company and its subsidiary have each set up a defined contribution pension plan. For domestic employees who choose to participate in the defined contribution pension plan, the Company contributes 6% of the employees’ salaries and wages each month to the employees’ individual pension accounts at the Bureau of Labor Insurance. The net pension costs recognized under the defined contribution plan amounted to NT\$11,683 and NT\$10,722, for the years ended December 31, 2012 and 2011, respectively.

(20) Capital stock

A. As of December 31, 2012, the Company’s authorized capital was NT\$10,000,000, and total contributed capital was NT\$7,714,332 consisting of 771,433 thousand shares with a par

value of NT\$10 per share.

B. On January 19, 2011, the Company issued an additional 65 million common shares, for the issuance of 32.5 million units of global depository receipts (GDRs). The issuance of GDRs was approved by the Central Bank (November 2, 2010 No.0990051697) and the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan (December 1, 2010 No.0990064701). The GDRs amounting to US\$158,945 thousand were issued overseas and traded on the London Stock Exchange. The main terms and conditions of the GDRs are as follows:

(a) Voting rights

Holders of GDRs have no rights to directly exercise voting rights or attend the Company's stockholders' meeting. However, should a uniform decision be reached by holders of at least 51% of the GDRs outstanding, with regards to issues proposed at the meeting of shareholders, the depository bank or agency should vote in the same direction. If the condition is not met, the voting right is delegated to the representatives.

(b) Sale and withdrawal of GDRs

Under current R.O.C. law, depository agency may not forward the shares represented by the GDRs to the holders until the initial issuance of GDRs. A holder of GDRs may convert GDRs to shares of common stocks or sell the corresponding shares of common stock through the depository bank after the issuance date.

(c) Dividends

GDR holders are entitled to receive dividends the same way as the holders of common stock subject to the terms of the Deposit Agreement and applicable laws of the R.O.C.

(21) Capital reserve

A. Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. However, capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. For the details of capital reserve from conversion of convertible bonds, please refer to Note 4 (17).

(22) Legal reserve

Pursuant to the Company Law, 10% of the current year's earnings, after payment of all taxes and

after offsetting accumulated deficits, shall be appropriated as legal reserve, until the accumulated amount of legal reserve is equal to the issued share capital. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

As of December 31, 2012, the amount of legal reserve has been accumulated from the appropriation of prior years' earnings as of 2011.

(23) Special reserve / Undistributed earnings

A. In accordance with the Company Law, 10% of the current year's earnings, after payment of all taxes and after offsetting accumulated deficits, shall be set aside as legal reserve. Afterwards, an amount shall be appropriated as special reserve in accordance with applicable legal or regulatory requirements. Appropriation of the remainder plus prior years' undistributed earnings shall be proposed by the Board of Directors to be resolved during the meeting of the stockholders. The Company will take into consideration its future business plans and capital expenditures in determining the amounts of earnings to be retained and to be distributed. Distribution should be in the following order:

(a) 0% to 2% as remuneration to directors and supervisors,

(b) 2% as bonuses to employees, including employees of affiliate companies per the criteria set by the Board of Directors or other authorized party; and

(c) 96% to 98% as dividends to shareholders, either as share dividends or cash dividends.

However, cash dividends shall account for at least 50% of the total dividends distributed, and the proportion shall be determined by taking into account the Company's investment plan and financial structure.

B. On distribution of retained earnings, in addition to the appropriation to legal reserve, the Company shall also set aside a special reserve from retained earnings for any reductions of the stockholders' equity as of the end of the current year under Article 41, paragraph 1 of the R.O.C. Securities and Exchanges Law.

C. Resolutions were adopted at the stockholders' meetings in June 2012 and May 2011, respectively, for the appropriation of 2011 and 2010 earnings as follows:

	For the years ended December 31,			
	2011		2010	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 589,469		\$ 669,442	
Cash dividends	3,702,880	\$ 4.8	4,628,300	\$ 6.0
Directors' and supervisors' remuneration	-	(Note 1)	-	(Note 2)
Employees' cash bonus	-	(Note 1)	-	(Note 2)
	<u>\$ 4,292,349</u>		<u>\$ 5,297,742</u>	

Note 1: At the stockholders' meeting in 2012, a resolution was adopted to appropriate employees' cash bonus and directors' and supervisors' remuneration in the amounts of NT\$75,786 and NT\$10,610, respectively, for 2011.

Note 2: At the stockholders' meeting in 2011, a resolution was adopted to appropriate employees' cash bonus and directors' and supervisors' remuneration in the amounts of NT\$94,726 and NT\$13,262, respectively, for 2010.

Information on whether the Board of Directors resolve and the stockholders approve the distribution of the Company's earnings will be posted in the "Market Observation Post System" on the website of the Taiwan Stock Exchange.

D. (a) The estimated amounts of cash bonuses to employees and remuneration to directors and supervisors were as follows:

	For the years ended December 31,	
	2012	2011
Employees' cash bonus	\$ 47,376	\$ 75,122
Directors' and supervisors' remuneration	7,106	11,268
	<u>\$ 54,482</u>	<u>\$ 86,390</u>

The estimated employees' cash bonus and directors and supervisors' remuneration were determined based on a certain percentage of net income and taking into account the legal reserve and other factors prescribed by the Company's Articles of Incorporation (2% and 0.3% of after-tax earnings of 2012 and 2011 for the years ended December 31, 2012 and 2011, respectively). The estimated amounts were recognized as operating expenses for the years ended December 31, 2012 and 2011. If the estimated amounts differ from the amounts approved by the stockholders, the difference is recognized as income or expenses in 2013 and 2012.

The difference, resulting in expenses of NT\$1,434, between the amounts recognized in 2011 (cash bonuses to employees of NT\$75,122 and remunerations to directors and supervisors of NT\$12,708) and the amount resolved by the stockholders was adjusted in the statement of income of 2012.

(b) The appropriation of 2012 earnings had been proposed by the Board of Directors on

March 29, 2013. Details are summarized below:

	<u>For the year ended December 31, 2012</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve	\$ 480,923	
Cash dividends	2,700,016	\$ 3.5
Directors' and supervisors' remuneration	-	(Note)
Employees' cash bonus	-	(Note)
	<u>\$ 3,180,939</u>	

Note : At the Board of Directors' and stockholders' meeting on March 29, 2013, a resolution was proposed to appropriate employees' cash bonus and directors' and supervisors' remuneration in the amounts of NT\$55,670 and NT\$27,835, respectively, for 2012.

Information on whether the Board of Directors resolve the distribution of the Company's earnings will be posted in the "Market Observation Post System" on the website of the Taiwan Stock Exchange.

- E. As of December 31, 2012, the Company's imputation tax credit account balance amounted to NT\$1,254,333 as calculated based on the ending balance at the date of dividend distribution and the estimated credible tax ratio of 13.35% for the year 2012. The distribution of 2011 earnings has been carried out, and the actual credible tax ratio was 11.67% in 2011 and the expected credit tax ratio was 13.35% in 2012. The Company's undistributed earnings derived before and after the adoption of the imputation tax system amounted to NT\$18,527 and NT\$14,821,030, respectively.

(24) Earnings per share

For the year ended December 31, 2012					
	Amount		Outstanding shares at the end of the year (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
	<u>Basic earnings per share:</u>				
Consolidated net income attributable to common stockholders	\$5,569,626	\$4,809,233	771,433	<u>\$ 7.22</u>	<u>\$ 6.23</u>
Dilutive effect of common stock equivalents:					
-Convertible bonds	59,479	59,479	33,996		
- Bonuses to employees	-	-	1,002		
<u>Diluted earnings per share:</u>					
Net income plus the dilutive effect of common stock equivalents	<u>\$5,629,105</u>	<u>\$4,868,712</u>	<u>806,431</u>	<u>\$ 6.98</u>	<u>\$ 6.04</u>

For the year ended December 31, 2011					
	Amount		Outstanding shares at the end of the year (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
	<u>Basic earnings per share:</u>				
Consolidated net income attributable to common stockholders	\$6,722,549	\$5,894,690	768,161	<u>\$ 8.75</u>	<u>\$ 7.67</u>
Dilutive effect of common stock equivalents:					
- Bonuses to employees	-	-	1,768		
<u>Diluted earnings per share:</u>					
Net income plus the dilutive effect of common stock equivalents	<u>\$6,722,549</u>	<u>\$5,894,690</u>	<u>769,929</u>	<u>\$ 8.73</u>	<u>\$ 7.66</u>

Effective January 1, 2008, the diluted EPS computation is performed under the assumption that bonuses to employees will be distributed in the form of shares, and if dilutive, those estimated shares would be included in the weighted-average number of common shares outstanding during the year. When calculating basic EPS, the number of shares issued for bonuses to employees is included in the weighted-average number of common shares outstanding during the year of the

stockholders' meeting which resolves and confirms the share bonuses to employees from prior years' earnings. Since the issuance of share bonuses to employees are no longer distribution of stock dividends, the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

(25) Personnel expenses, depreciation and amortization

Personnel expenses, depreciation and amortization incurred by function for the years ended December 31, 2012 and 2011 were as follows:

Nature	For the year ended December 31, 2012		
	Operating costs	Operating expenses	Total
Personnel expenses:			
Salaries	\$ 107,779	\$ 255,053	\$ 362,832
Insurance	8,772	12,570	21,342
Pension	5,349	9,487	14,836
Other personnel expenses	3,316	18,481	21,797
Depreciation	34,055	3,246	37,301
Amortization	21,628	7,605	29,233

Nature	For the year ended December 31, 2011		
	Operating costs	Operating expenses	Total
Personnel expenses:			
Salaries	\$ 96,994	\$ 284,051	\$ 381,045
Insurance	7,772	12,062	19,834
Pension	4,872	8,736	13,608
Other personnel expenses	2,500	17,719	20,219
Depreciation	34,206	3,687	37,893
Amortization	21,585	7,473	29,058

5. RELATED PARTY TRANSACTIONS

(1) Names of related parties and their relationship with the Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Straits Construction Investment (Holdings) Ltd. (Straits Construction)	Investee accounted for under the equity method
Taiwan OBAYASHI, Farglory Construction Japan OBAYASHI Construction Joint venture Entity (JV Entity)	"
Fareast Land Development Co., Ltd. (Fareast Land Development)	Common Chairman
Farglory International Investment Co., Ltd. (Farglory International Investment)	"
Shin Yu Investment Ltd. (Shin Yu Investment)	"
Fargloyr Healthier Living Foundation	Chairman of the foundation is the same with the Company's Charman
Farglory Hotel Co., Ltd.(Farglory Hotel)	Affiliate
Tung Yuan Construction Co., Ltd. (Tung Yuan Construction)	"
Farglory Free Trade Zone Co., Ltd. (Farglory Free Trade Zone)	"
Farglory Leasing Co., Ltd. (Farglory Leasing)	"
Farglory Realty Co., Ltd. (Farglory Realty)	"
Farglory Life Insurance Co., Ltd. (Farglory Life Insurance)	"
Yuan Xiang Development Co., Ltd. (Yuan Xiang Development)	Chairman of Yuan Xiang Development is affiliate's chairman
Yuan Jiang Investment Co., Ltd. (Yuan Jiang Investment)	Chairman of the Company is one of Yuan Jiang Investment's director
Chao Teng Hsiung	The Company's chairman
Chao Wen Chia	Son of the Company's chairman
Chao Shin Ching	"

(2) Significant transactions and balances with related parties

A. Sales

		For the years ended December 31,			
		2012		2011	
	Type	Amount	%	Amount	%
Shin Yu Investment	Construction contract	\$ 121,980	1	\$ -	-
	planning and design	11,539	-	-	-
Farglory Life Insurance	Construction contract	-	-	314	-
		<u>\$ 133,519</u>	<u>1</u>	<u>\$ 314</u>	<u>-</u>

- (a) For construction contracts commissioned from related parties, the contract prices were negotiated according to estimated construction cost plus reasonable management fee and profit. Payments were based on terms stated in the contracts.
- (b) As of December 31, 2012, the details of contract price and progress billings on uncompleted contracts with related parties are shown below of December 31, 2011, the Company had no uncompleted contracts commissioned with related parties. As for the O3 Farglory Financial Center contract undertaken by the subsidiary – Farglory Construction, please refer to Note 4 (5) for details.

	December 31, 2012	
	Contract price(VAT excluded)	Amount billed
Shin Yu Investment	<u>\$ 660,350</u>	<u>\$ 82,544</u>

- (c) Shin Yu Investment signed a contract with the Company in the amount of \$121,160 to consign the planning and designing of the construction, construction permit application, building management, construction management, ownership transfer, etc. Payments were based on the terms stated in the contract. As of December 31, 2012, NT\$12,116 has been paid.

B.

Pu

urchases and commission of construction contracts

(a) Purchases

- a. As of December 31, 2012 and 2011, purchases were as follows:

		For the years ended December 31,			
		2012		2011	
	Type	Amount	%	Amount	%
Tung Yuan Construction	Construction contract	<u>\$ 1,110,428</u>	<u>8</u>	<u>\$ 528,824</u>	<u>3</u>

- b. As of December 31, 2012 and 2011, the subsidiary – Farglory Dome’s uncompleted construction were as follows:

	Type	For the years ended December 31,			
		2012		2011	
		Amount	%	Amount	%
Tung Yuan Construction	Construction contract	\$ 396,170	14	\$ -	-

(b) Commission of construction contracts

- a. As of December 31, 2012 and 2011, contract prices and billed amounts were as follows:

	December 31, 2012		
	Contract price	Amount billed	Amount unbilled
Tung Yuan Construction	\$ 1,293,010	\$ 407,794	\$ 885,216
	December 31, 2011		
	Contract price	Amount billed	Amount unbilled
Tung Yuan Construction	\$ 1,945,563	\$ 610,716	\$ 1,334,847

- b. As of December 31, 2012, the subsidiary – Farglory Dome’s contract prices and billed amounts were as follows:

	December 31, 2012		
	Contract price	Amount billed	Amount unbilled
Tung Yuan Construction	\$ 714,286	\$ 396,170	\$ 318,116

For the construction contracts commissioned with related parties, the project price was negotiated according to the estimated construction cost plus reasonable management fee and profit. Payments were based on terms stated in the contracts.

C. Accounts receivable

	December 31, 2012		December 31, 2011	
	Aomunt	%	Aomunt	%
Farglory Life Insurance	\$ 37,497	7	\$ 40,061	29
Shin Yu Investment	12,116	2	-	-
	\$ 49,613	9	\$ 40,061	29

The following is a summary of project retention receivables as well as receivables with expected collection term over one year and their expected collection periods:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Project retention receivables	\$ 37,497	\$ 40,061
Receivables with expected collection term over one year	<u>\$ 9,375</u>	<u>\$ 15,785</u>
Expected collection periods:		
2013	\$ -	\$ 15,785
2014	<u>9,375</u>	<u>-</u>
	<u>\$ 9,375</u>	<u>\$ 15,785</u>

D. Accounts payable

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Aomunt</u>	<u>%</u>	<u>Aomunt</u>	<u>%</u>
Tung Yuan Construction	<u>\$ 171,984</u>	<u>4</u>	<u>\$ 34,298</u>	<u>1</u>

E. Other payables

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Farglory Realty	\$ 82,700	\$ 44,166
Farglory Life Insurance	85	187
Farglory Hotel	10,553	17,388
Chao Teng Hsiung	1,363	-
Others	<u>1,192</u>	<u>6,413</u>
	<u>\$ 95,893</u>	<u>\$ 68,154</u>

Other payables mainly consisted of sales commission payables, payments received on behalf of related parties on land sales from revenue-sharing joint development arrangements, and payables of membership cards as gift for customers.

F. Rental agreements

(a) Rental revenues

	<u>For the years ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Farglory Leasing	\$ 2,625	\$ 10,617
Farglory Life Insurance	3,985	11,911
Others	<u>1,414</u>	<u>614</u>
	<u>\$ 8,024</u>	<u>\$ 23,142</u>

The refundable deposits received as at December 31, 2012 and 2011 amounted to NT\$1,255 and NT\$3,484, respectively.

(b) Rental costs and refundable deposits

	For the years ended December 31,			
	2012		2011	
	<u>Rental costs</u>	<u>Refundable deposits</u>	<u>Rental costs</u>	<u>Refundable deposits</u>
Fareast Land Development	\$ 23,323	\$ 6,122	\$ 23,323	\$ 6,122
Others	1,389	-	1,305	-
	<u>\$ 24,712</u>	<u>\$ 6,122</u>	<u>\$ 24,628</u>	<u>\$ 6,122</u>

G. Borrowings from related parties

As of December 31, 2011, the Group had no borrowings from related parties. As of December 31, 2012, the details of borrowings from related parties are as follow.

Name	For the year ended December 31, 2012				
	Maximum balance	Ending balance	Interest rate	Interest expense	Interest payable
Chao Teng Hsiung	<u>\$ 86,000</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>

The above borrowings from related parties were non-interest bearing and were not secured by collateral.

H. Sales commission and advertising expenditures (classified as “deferred selling expenses” and “selling expenses”)

	For the years ended December 31,	
	2012	2011
Farglory Realty	<u>\$ 678,010</u>	<u>\$ 598,034</u>

I. The following sets forth the salaries and remuneration information of key management, such as directors, supervisors, general manager and vice general manager, etc.

	For the years ended December 31,	
	2012	2011
Salaries	\$ 8,622	\$ 8,216
Bonuses	6,321	6,241
Management service fees	1,560	1,560
Appropriation of earnings	16,710	17,880
	<u>\$ 33,213</u>	<u>\$ 33,897</u>

(a) Management service fees consisted of fare and other allowances.

(b) Appropriation of earnings refers to cash bonuses to employees and remunerations to directors and supervisors which were recognized in the statement of income of the current period.

J. Commitments

As of December 31, 2012 and 2011, the Company had the following joint development contracts signed with related parties:

December 31, 2012						
Name of project	Builder	Landowner	Nature	Contract signing	Expected year of completion	Refundable deposit
Xinguang Rd.	The Company	Chao Teng Hsiung	Revenue-sharing joint development arrangement	2007	To be determined	\$ 20,000
U-Town	"	"	Revenue / property sharing joint development arrangement	2011	2014	3,000,000
Farglory Left Bank Smart Urban -Rose Garden	"	Farglory Life Insurance	Revenue-sharing joint development	2011	2013	-
Farglory Left Bank Smart Urban -Urban-Rainbow Garden	"	"	"	2011	2013	-
Farglory Left Bank Zijin Park	"	"	"	2011	2013	-
Farglory Central park	"	"	"	2011	2013	-
Farglory Camellia	"	Farglory Life Insurance, Chao Teng Hsiung, Chao Shin Ching	"	2011	2014	-
Real estate lots in Junghe District, Hua-jhong Section, No.2	"	Farglory Life Insurance	"	2011	To be determined	-
Real estate lots in Junghe District, Hua-jhong Section, No.44	"	"	"	2011	"	-
Real estate lots in Junghe District, Hua-jhong Section, No.48	"	"	"	2011	"	-
Real estate lots in Junghe District, Hua-jhong Section, No.55	"	"	"	2011	"	-

December 31, 2012

<u>Name of project</u>	<u>Builder</u>	<u>Landowner</u>	<u>Nature</u>	<u>Contract signing</u>	<u>Expected year of completion</u>	<u>Refundable deposit</u>
Real estate lots in Junghe District, Hualong Section, No.52	The Company	Farglory Life Insurance	Revenue-sharing joint development arrangement	2011	To be determined	-
Farglory La Bella Villa	"	"	"	2011	2014	-
Farglory Neo Orienta Plaza	"	"	"	2011	2014	-
Real estate lots in Neihu District, section 5, No. 87	"	"	"	2011	2014	-
Farglory Milano Park	"	"	"	2011	2014	-
Real estate lots in Junghe District, Hualong Section, No.30, 31,33	"	Farglory Life Insurance, Chao Teng Hsiung, Chao Shin Ching	"	2011	To be determined	-
Real estate lots in Junghe District, Hualong Section, No.11, 12,14	"	"	"	2011	"	-

December 31, 2011

<u>Name of project</u>	<u>Builder</u>	<u>Landowner</u>	<u>Nature</u>	<u>Contract signing year</u>	<u>Expected year of completion</u>	<u>Refundable deposit</u>
Xinguang Rd.	The Company	Chao Teng Hsiung	Revenue-sharing joint development arrangement	2007	To be determined	\$ 20,000
U-Town	"	"	Revenue / property sharing joint development arrangement	2011	"	3,000,000
Farglory, Glory of the Future	"	Farglory Life Insurance	Revenue-sharing joint development arrangement	2009	2012	43,000
Farglory Palazzo Milano	"	"	"	2009	2012	41,840
Farglory Switzerland Economy Trade Center	"	"	"	2009	2012	46,860
Farglory Left Bank Smart Urban -Rose Garden	"	"	"	2011	To be determined	-
Farglory Left Bank Zijin Park	"	"	"	2011	"	-
Farglory Central park	"	"	"	2011	"	-
Real estate lots in Junghe District, Hua-jhong Section, No.2, 12,14,44,48,52,55	"	"	"	2011	"	-
Real estate lots in Junghe District, Hua-jhong Section, No.6, 9,30,31,33	"	Farglory Life Insurance, Chao Teng Hsiung, Chao Shin Ching	"	2011	"	-
Real estate lots in Neihu District, Tanmei section 5, No. 87,126,127,131, 169-1,169-2,170,172	"	Farglory Life Insurance	"	2011	"	-

December 31, 2011

Name of project	Builder	Landowner	Nature	Contract signing year	Expected year of completion	Refundable deposit
Real estate lots in Xinzhuang District, Fudousin section 1, No. 27.	The Company	Farglory Life Insurance	Revenue-sharing joint development arrangement	2011	To be determined	\$ -

K. Endorsements and Guarantees

(a) As of December 31, 2012, the details of guarantees and endorsements provided by related parties to the subsidiary - Farglory Dome for the syndicated loans of financial institutions were as follows:

	<u>Guarantee amount</u>	<u>Drawn amount</u>
Farglory International Investment	\$ 140,000	\$ 140,000
Shin Yu Investment	240,000	240,000
Fareast Land Development	140,000	140,000
	<u>\$ 520,000</u>	<u>\$ 520,000</u>

(b) As of December 31, 2012, the shares of Farglory Dome held by the related parties above which provided guarantees and endorsements to Farglory Dome would be totally pledged to the consortium of the syndicated loans.

(c) Chao Teng Hsiung and Chao Wen Chia serve as the guarantors of the syndicated loans to Farglory Dome.

(d) As of December 31, 2012, the details of guarantees and endorsements provided to Straits Construction for the loans of financial institutions were as follows:

	<u>Guarantee amount</u>	<u>Drawn amount</u>
Straits Construction	\$ 5,594,299	\$ 5,594,299

L. Others

(a) As of December 31, 2012, Chairman, Chao Teng Hsiung, provided land located in Hao-Tian Sec., Xizhi District, New Taipei City as a collateral for the Company's certain syndicated loans from financial institutions.

(b) Farglory Construction Co., Ltd., Taiwan OBAYASHI Construction Co., Ltd. and Japan OBAYASHI Construction Co., Ltd. Taiwan branch intend to jointly participate in the construction of Taipei Cultural Gym Area – Big-sized Indoor Gym of the subsidiary – Farglory Dome Co., Ltd. and signed a contract in October, 2011.

The total contract price is \$15,500,000 (exclusive of tax) including service fee of \$738,000 and billed amount was \$1,857,920 including service fee of \$81,180. As of December 31, 2012, the unpaid amount is \$446,164. The undertaking percentage of the subsidiary – Farglory Construction Co., Ltd. per the agreement is 45%.

6. PLEDGED ASSETS

As of December 31, 2012 and 2011, the carrying amounts of pledged assets were as follows:

Assets	Purpose	December 31,	
		2012	2011
Other financial assets-current			
-Time deposit	Solar energy subsidy guarantees, Suitable Housing guarantees and provisional seizure guarantees	\$ 231,130	\$ 3,961
-Sinking account	Project management funds, bonds payable and issuance of guarantee letter	36,000	149,960
Inventories	Short-term loan , commercial papers payable and bonds payable guarantees	36,955,041	32,267,723
Property, plant and equipment	Short-term and long-term loans, commercial papers payable and bonds payable guarantees	1,986,446	1,133,513
Intangible assets	Short-term loans and bonds guarantees	182,197	204,281
Refundable deposits	Court lodgment for security of debt	485	485
Other assets - other	Short-term loans and bonds payable guarantees	16,332	26,275
		<u>\$39,407,631</u>	<u>\$33,786,198</u>

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2012, other than those mentioned in Notes 4 (8) and 5(2), other commitments and contingent liabilities were as follows:

- (1) As of December 31, 2012, the Company has entered into pre-completion contracts for the sale of developed property amounting to NT\$28,886,623 of which NT\$8,078,130 has been received.
- (2) As of December 31, 2012, the Company has entered into contracts for the purchase of land but wherein it has not received the legal title amounting to NT\$4,881,851, of which NT\$1,149,685 has been paid (Shown as prepayment for equipment in the amount of NT\$400,064).
- (3) The Company signed trust agreements with financial institutions for its inventory and construction in progress. As of December 31, 2012, the trust agreements the Company has entered

into were as follows:

Item	Bank
E02A U-Town	Land Bank of Taiwan Co., Ltd.
H62A Farglory Fortuna	Mega International Commercial Bank Co., Ltd.
H82A Farglory Milano Park	The Shanghai Commercial & Savings Bank, Ltd.
H68A Farglory Oscar	Land Bank of Taiwan Co., Ltd.
H86A Farglory Central Park	Union Bank of Taiwan Co., Ltd.
H90A Farglory Left Bank Smart Urban-Rose Garden	Union Bank of Taiwan Co., Ltd.
H107A Eiffel Farglory	The Shanghai Commercial & Savings Bank, Ltd.
H102A Farglory Camellia Palace	The Shanghai Commercial & Savings Bank, Ltd.

Except for U-town, the land of the construction is entrusted to the financial institutions which signed trusted agreements with the Company.

- (4) Oscar Land Development Co., Ltd. signed a contract with the Company in the amount of \$401,546 to consign the planning and design of the construction to the Company. The Company issued a promissory note of \$40,155 as a guarantee to Oscar Land Development Co., Ltd..
- (5) As of December 31, 2012, the Company had the following joint construction contracts signed with third parties:

December 31, 2012

Name of project	Builder	Landowner	Nature	Contract signing year	Expected year of completion	Refundable deposit
Real estate lots in Taishan District, Taishan Section 1, No. 158-1	The Company	Yuan Ding gas station and Mr. Lin	Property-sharing joint development arrangement	2011	To be determined	\$ 15,550
Farglory Grande	"	Mr. Li etc.	"	2007	Note 1	3,049
Real estate lots in Wenshan District, Muzha Section 1, No.394,398,400~404, 407 and 409	"	Mr. Yen etc.	"	2008 ~2011	To be determined	14,287
Real estate lots in Xinzhuang District, Fudousin section 1, No. 317	"	Mr. Chen etc.	"	2009 ~2010	To be determined	384
Farglory Oscar	"	Mr. Kuo etc.	"	2010 ~2011	2013	26,747
Farglory Switzerland Economy Trade Center	"	Mr. Chen etc.	"	2010 ~2011	Note 2	20,928
Real estate lots in Junghe District, Hua-jhong Section No.32,35	"	Mr. Li etc.	"	2010 ~2012	To be determined	3,559
Real estate lots in Junghe District, Hua-jhong Section No. 11, 12 and 13	"	Mr. Liu etc.	"	2010 ~2011	To be determined	230
Farglory Left Bank Smart Urban - Rose Garden	"	Mr. Tsai etc.	"	2010 ~2011	2013	12,375
Farglory Left Bank Smart Urban - Rainbow Garden	"	Mr. Chen	"	2010	2013	6,280

December 31, 2011

Name of project	Builder	Landowner	Nature	Contract signing year	Expected year of completion	Refundable deposit
Farglory La Bella Villa	The Company	Mr. Lin etc.	Property-sharing joint development	2006 ~2011	2014	16,108
Real estate lots in Neihu District, Tanmei Section 5, No. 117	"	Mr. Lan etc.	"	2006	To be determined	1,599
Real estate lots in Neihu District, Tanmei Section 5, No. 149 and 151.	"	Mr. Chen etc.	"	2007 ~2009	To be determined	17,542
Real estate lots in Neihu District, Tanmei section 5, No. 87	"	Mr. Huang	"	2011	2014	9,812
Real estate lots in Neihu District, Tanmei section 5, No. 156 and 162.	"	Mr. Wang	Revenue-sharing joint development arrangement	2011	To be determined	- (Note 3)
Farglory Neo Oriental Plaza	"	Mr. Li	"	2011	2014	- (Note 3)
Real estate lots in Junghe District, Hua-jhong Section No.42,43.	"	Mr. Zheng	Property-sharing joint development arrangement	2012	To be determined	<u>29,000</u>
						<u>\$177,450</u>

Note 1 : The project was completed in June 2010.

Note 2 : The project was completed in October 2012.

Note 3 : The Company issued commercial papers.

(6) As of December 31, 2012, major commitments and contingent events of the subsidiary - Farglory Dome are set forth below:

A. In October 2006, the subsidiary - Farglory Dome signed the "Taipei Cultural Gym Area – Big-sized Indoor Gym Development Plan" and "Land Use Right Setting" with the Taipei City Government. The subsidiary -Farglory Dome took charge of building, operating and transferring the multi-functional Big-sized Indoor Gym and its affiliated facilities. The duration totaled 50 years, starting at the date the contract was signed. The subsidiary -

Farglory Dome should transfer all the operating assets to the Taipei City Government after the contract expired. The contract terms and the related information were as follows:

(a) Building

- a. Under this agreement, the subsidiary - Farglory Dome shall obtain construction permit within 12 months after the agreement date. Furthermore, the subsidiary - Farglory Dome shall complete the construction and obtain the usage permit within three years after obtaining the construction permit. The subsidiary - Farglory Dome obtained the construction permit on June 30, 2011, and signed a loan contract on November 9, 2011 and sent a letter to Taipei City Government. The subsidiary-Farglory Dome had started the miscellaneous works and the construction permit works of the construction on November 11, 2011 and April 11, 2012, respectively. And the subsidiary- Farglory Dome had applied for first and second field investigation on June 28, 2012 and January 24, 2013, respectively.
- b. For details of the financing agreement, please refer to Note 4 (18).

(b) Operating

- a. After obtaining the usage permit, the subsidiary – Farglory Dome shall draw up the charge standard and begin to operate within three months.
- b. If the subsidiary – Farglory Dome’s operating performance is evaluated to be excellent, the subsidiary – Farglory Dome may apply for priority contract three years before the duration ended.

(c) Finance terms

- a. Before obtaining the construction permit, the originators’ shareholdings in the subsidiary – Farglory Dome would not be less than 50%. If shareholding proportion declines due to capital increase, the Company’s shareholding in the subsidiary – Farglory Dome would not be less than 20%, and the other originators’ shareholdings would not be less than 5%; both of the above would not be less than the original investment amount.
- b. The subsidiary – Farglory Dome should keep its own capital more than 20% within the permitted duration.

(d) Guarantee

As of December 31, 2012, the subsidiary – Farglory Dome provided performance guarantee to the Taipei City Government, and the guarantee amount was NT\$300,000.

(e) Land-use right

- a. The duration of land-use right starts from the set up date to the development plan expiry date. The subsidiary – Farglory Dome will set up the land-use right after the land is transferred.
- b. For the duration of the contract, the subsidiary – Farglory Dome has to make an annual rental payment based on 1% of the land value declared by the government each year to the Taipei City Government. And the rental payment should at least be equal to the actual land value tax that the Taipei City Government pays.

- B. For the “Taipei Cultural Gym Area – Big-sized Indoor Gym Development Plan”, the subsidiary – Farglory Dome has entered into significant contracts amounting to

NT\$20,700,513, of which NT\$16,977,817 has not been paid as of December 31, 2012.

- (7) A. As of December 31, 2012, major commitments and contingent events of the subsidiary – Farglory Construction were set forth below:
Farglory Construction Co., Ltd., Taiwan OBAYASHI Construction Co., Ltd. and Japan OBAYASHI Construction Co., Ltd. Taiwan branch intend to jointly participate in the construction of Taipei Cultural Gym Area – Big-sized Indoor Gym of the subsidiary – Farglory Dome Co., Ltd. and signed a joint venture agreement together in September, 2011. According to the agreement, the project costs and revenues should be allocated to both sides in proportion to their undertaking percentage, and they bear joint liabilities to the owner of the project. The total contract price is \$15,500,000 (exclusive of tax). The undertaking percentage of the subsidiary – Farglory Construction Co., Ltd per the agreement is 45%. The contract price amounted to NT\$15,500,000(VAT excluded) and the proportion of the subsidiary – Farglory Construction was 45%.
- B. The following is a summary of major litigations of the subsidiary – Farglory Construction Co., as of December 31, 2012:
- a. For the “Metro Park” construction undertaken by the subsidiary - Farglory Construction Co., a lawsuit was filed in 1998 by Liang Guei Ruei and 78 other individuals against the subsidiary, Taipei Rapid Transit Corporation as well as other companies involved in the construction, a total of eight parties, for damages caused to the neighborhood housing and foundation. The joint liability lawsuit claims for compensation amounting to NT\$31,611. Taiwan Banqiao District Court dismissed the case. Some of the plaintiffs filed an appeal with the Taiwan High Court which was also dismissed. The second appeal was made with the Supreme Court of R.O.C. In July 2005, the Supreme Court overruled the decision made by the Taiwan High Court. The case was passed back to the Taiwan High Court. In November 2009, the Taiwan High Court ruled that Taipei Rapid Transit Corporation should pay plaintiffs the amount of NT\$10,731. However, for the subsidiary’s part, the dismissed decision previously ruled by Taiwan High Court remained effective; the plaintiffs of the case can make an appeal again. The Supreme Court overruled the second decision made by the Taiwan High Court in May, 2010 after Taipei Rapid Transit Corporation filed an appeal with the Supreme Court of R.O.C. The subsidiary - Farglory Construction Co dismissed the plaintiff’s lawsuit and the plaintiff did not file another appeal. Taiwan High Court will likely dismiss the case based on the assertions of Farglory Construction Co., Ltd.
- b. The “Farglory Tian-Mu” construction undertaken by the subsidiary - Farglory Construction and Founding Construction and Development Co., Ltd. damaged the neighborhood housing during the construction period. The total damage assessed amounted to NT\$22,788. The subsidiary - Farglory Construction shall be liable for 51% of total damage, which amounts to NT\$11,622 and Founding Construction and Development Co., Ltd. shall be liable for 49% of total damage, which amounts to NT\$11,166. In order to avoid delay in obtaining usage permit, the subsidiary - Farglory Construction quickly settled with the victims. The subsidiary - Farglory Construction paid the victims on behalf of Founding Construction and Development Co., Ltd. in the amount of NT\$10,611 (excluding NT\$555 for the resident “Fong-Pin”), which was the amount Founding Construction and Development Co., Ltd. shall be liable. The victims agreed to transfer the creditors’ rights (Founding Construction and Development Co., Ltd.’s liabilities) to the subsidiary - Farglory Construction. In March 2009, the subsidiary - Farglory Construction filed a lawsuit against Founding Construction and Development Co., Ltd., claiming for damages in the amount of NT\$10,074. In May, 2010, the Taiwan Shihlin

District Court ruled that Founding Construction and Development Co., Ltd. shall pay the subsidiary - Farglory Construction the amount of NT\$10,074 plus interest. However, Founding Construction and Development Co., Ltd. filed an appeal with the Supreme Court of R.O.C. In August 2012, the Taiwan High Court ruled that Founding Construction and Development Co., Ltd. should pay the amount of NT\$6,741 plus interest to Farglory Construction. Founding Construction Ltd. filed an appeal with the Supreme Court of R.O.C.. The Supreme Court subsequently dismissed the case. Founding Construction Ltd. paid the amount of NT\$7,958 to Farglory Construction on October 26, 2012 and settled the lawsuit.

8. SIGNIFICANT CATASTROPHE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

Other than those mentioned in Note 4(23)D, the significant subsequent events are as follows :
Chairman, Chao Teng Hsiung, previously provided land located in Hao-Tian Sec., Xizhi District, New Taipei City as a collateral for the Company's certain syndicated loans from financial institutions. In March, 2013, Chao Teng Hsiung sold the above land to Farglory International Investment Co., Ltd. (Farglory International Investment). Therefore, the Company signed joint construction contracts with Farglory International Investment. Farglory International Investment then provided land located in Hao-Tian Sec., Xizhi District, New Taipei City as collateral for the Company's certain syndicated loans from financial institutions.

10. OTHERS

- (1) Certain accounts in the December 31, 2011 consolidated financial statements were reclassified to conform to the December 31, 2012 consolidated financial statement presentation.
- (2) As of December 31, 2012 and 2011, the amounts of assets and liabilities relating to construction contracts of the Company and its subsidiary classified in current accounts based on the operating cycle were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Inventories	\$ 50,945,379	\$ 44,051,998
Accounts receivable	9,375	15,785
Construction in progress	559,558	1,610,895
Other financial assets - current	5,504,069	6,887,540
Deferred selling expenses	1,533,823	1,454,531
Short-term loans	15,603,469	12,053,500
Advances from customers	8,078,130	7,220,588
Progress billings on uncompleted contracts	475,231	1,405,475
Other current liability - others	-	18,500
(Guarantee deposits received for construction project)		

(3) Fair value of financial instruments

	December 31, 2012			December 31, 2011		
	Carrying amount	Fair value		Carrying amount	Fair value	
		Market	Estimate		Market	Estimate
A. Non-derivative financial instruments:						
<u>Assets</u>						
Financial assets with fair value equal to carrying amount	\$ 8,457,842	\$ -	\$ 8,457,842	\$ 7,928,860	\$ -	\$ 7,928,860
Financial assets at fair value through profit or loss	2,106,332	2,106,332	-	1,165,534	1,165,534	-
Financial assets carried at cost – non-current	329,929	-	-	422,364	-	-
Refundable deposits	26,243	-	26,243	8,009	-	8,009
<u>Liabilities</u>						
Financial liabilities with fair value equal to carrying amount	\$ 27,483,493	\$ -	\$ 27,483,493	\$ 21,209,096	\$ -	\$ 21,209,096
Long-term loans (including current portion)	2,351,452	-	2,351,452	355,000	-	355,000
Bonds payable (including current portion)	1,748,743	-	1,748,743	-	-	-
Guaranty deposits received	79,578	-	79,578	87,234	-	87,234
B. Derivative financial instruments:						
<u>Liabilities</u>						
Options embedded in convertible bonds	\$ 47,236	\$ -	\$ 47,236	\$ -	\$ -	\$ -

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- A. For short-term financial instruments, due to their short maturities, the carrying amounts approximate their fair values. This applies to cash and cash equivalents, notes and accounts receivable, other financial assets - current (including restricted assets and refundable deposits received on construction projects), short-term loans, commercial papers payable, notes and accounts payable.
 - B. Fair values for financial assets at fair value through profit or loss were based on the quoted price in an open market.
 - C. Fair values for long-term loans (including the portion of long-term liabilities due within one year) were estimated based on the discounted expected future cash flows. Discount rate was determined based on the Company's borrowing rate.
 - D. Fair values for convertible bonds were estimated based on the present value of expected future cash flows. Discount rates were determined based on the initial effective interest rate of the convertible bonds with similar issue conditions as that of the Company.
 - E. Fair values for refundable deposits and guarantee deposits received were estimated based on the present value of expected future cash flows. Discount rates were determined based on the one-year certificate deposit interest rate offered by the Postal Remittances and Savings Bank. However, they were not estimated when the amount was not significant.
- (4) Information on significant financial instrument gains/losses and equity items

For the years ended December 31, 2012 and 2011, the Group's total interest expense for financial liabilities that were not at fair value through profit or loss amounted to NT\$486,099 and NT\$275,064, respectively.

- (5) Information on interest rate risk positions

As of December 31, 2012 and 2011, the Group's financial assets subjected to fair value risk due to the change in interest rate amounted to NT\$26,243 and NT\$8,009, respectively. The financial liabilities subjected to fair value risk due to the change in interest rate amounted to NT\$1,828,321 and NT\$87,234, respectively. The financial liabilities subjected to cash flow risk due to the change in interest rate amounted to NT\$24,266,545 and NT\$17,638,766, respectively.

(6) Financial risk management

The major financial risk that the Group was mainly exposed to was the risk associated with investing in financial instruments. The Group had established a stringent risk management policy, by which all financial investment activities were evaluated for potential market risk, credit risk, liquidity risk and cash flow risk and investments decisions were made based on policies to minimize risk exposure.

(7) Information on significant financial risk

A. Equity financial instruments

(a) Market risk

The Group's business is engaged in foreign currency transactions that are affected by fluctuations in the exchange rate. The significant financial assets and liabilities denominated in foreign currency were as follows :

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Foreign</u>	<u>Exchange</u>	<u>Foreign</u>	<u>Exchange</u>
	<u>currency</u>	<u>rate</u>	<u>currency</u>	<u>rate</u>
<u>Financial assets</u>				
Monetary items				
USD : NTD	\$ 45,987	28.99	\$85,442	30.225
Long-term equity investments				
accounted for under the				
equity method				
RMB : NTD	763,948	4.66	569,484	4.81

(b) Credit risk

For financial assets at fair value through profit or loss, the Group had carried out the transactions through the Taiwan Stock Exchange and GreTai Securities Market. These transactions are carried out only with counterparties with good credit standing and breaches of agreements is not expected. Thus, the likelihood that credit risk would arise is remote.

Loan guarantees provided by the Group are in compliance with the Group's "Procedures for Provision of Endorsements and Guarantees" and are only provided to affiliated companies of which the Group owns directly or indirectly more than 50% ownership. In the event that these related parties fail to comply with loan agreements with banks, the maximum loss to the Group is the total amount of loan guarantees as listed above.

(c) Liquidity risk

The financial assets at fair value through profit or loss held by the Group were traded in active markets and it is expected that these financial assets would be readily sold at amounts approximate to their fair values.

(d) Cash flow risk due to the fluctuation of interest rate

The equity financial instruments held by the Group were not interest-bearing instruments, and thus, the Group was not subject to cash flow risk arising from the fluctuation of the interest rate.

B. Notes and accounts receivable

(a) Market risk

As the notes and accounts receivable held by the Group was due within one year or one operating cycle, it was assessed that the Group was not exposed to significant market risk.

(b) Credit risk

The accounts receivable with third parties held by the Group was covered by collateral. As for the receivables with related parties, the counterparties are evaluated to be of good credit standing. Therefore, it was assessed that the Group was not exposed to significant credit risk from receivables.

(c) Liquidity risk

It was assessed that Group was not exposed to significant liquidity risk as the Group's notes and accounts receivable were all due within one year or one operating cycle.

(d) Cash flow risk due to the fluctuation of interest rate

It was assessed that the Group was not exposed to significant cash flow risk due to change in interest rate as the notes and accounts receivable of Group's receivables were all due within one year or one operating cycle.

C. Loans

(a) Market risk

Loans of the Group were with floating interest rate, and thus the Group did not expect to be exposed to significant market risk.

(b) Credit risk

It was assessed that the Group was not exposed to significant credit risk.

(c) Liquidity risk

As the working capital of the Group was considered sufficient to support its funding needs, the Group did not expect to be exposed to significant liquidity risk.

(d) Cash flow risk due to the fluctuation of the interest rate

Loans of the Group were with floating interest rate, and thus the effective interest rate on the loan fluctuated according to changes in market interest rate, causing the expected future cash flow to fluctuate.

D. Notes and accounts payable

(a) Market risk

It was assessed that the Group was not exposed to significant market risk as the Group's notes and accounts payable were due within one year or one operating cycle.

(b) Credit risk

It was assessed that the Group was not exposed to significant credit risk.

(c) Liquidity risk

It was assessed that the Group was not exposed to significant liquidity risk as the Group's notes and accounts payable were due within one year or one operating cycle, and the working capital of the Group was considered sufficient in meeting its funding needs.

(d) Cash flow risk due to the fluctuation in interest rate

It was assessed that the Group was not exposed to significant cash flow risk arising from the change in the interest rate as the Group's notes and accounts payable were due within one year or one operating cycle.

E. Bonds payable

(a) Market risk

The fair values of the options embedded in the zero-coupon convertible bonds issued by the Company, including conversion option, call option and put option were affected by fluctuations in market equity prices. As the Company can exercise the call option to lower its exposure to market risk, it did not expect to be exposed to significant market risk.

(b) Credit risk

As the debt instruments issued by the Company were secured by Taiwan Cooperative Bank, there is no credit risk associated with the instruments.

(c) Liquidity risk

It was assessed that the Company was not exposed to significant liquidity risk as the Company's working capital was sufficient to meet its funding needs.

(d) Cash flow risk due to the fluctuation of the interest rate

As the bonds issued by the Company were zero-coupon bonds, there was no significant cash flow risk due to the change in the interest rate.

(7) Other significant events or matters relating to the presentation of the consolidated financial statements: None.

11. ADDITIONAL DISCLOSURE REQUIRED BY SECURITIES AND FUTURES BUREAU

A. Information on significant transactions

Pursuant to the disclosure requirements under the Securities and Exchange Regulations, significant transactions for the year ended December 31, 2012 were as follows:

(1) Loans to others attributed to financing activities as of December 31, 2012:

Number	Creditor	Borrower	General ledger account	Maximum outstanding balance during the year ended December 31, 2012	Balance at December 31, 2012	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
											Item	Value		
1	Farglory Construction Co., Ltd.	Sheng-Yi Construction	Construction in progress	\$ 40,000	\$ -	-	1	\$ 807,500	None	-	None	-	\$ 807,500	\$ 635,187

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

- (1) The Company is "0".
- (2) The subsidiaries are numbered in order starting from "1".

Note 2: The nature of loans provided is numbered as follows:

- (1) For lender and borrower having business relationship is numbered as "1".
- (2) For short-term financing is numbered as "2"

Note 3: (1)The limit on loans provided by the Company to a single party which trades with the Company shall not exceed the total transaction amount.

(2)The limit on loans provided by the Company to a single party for short-term financing shall not exceed 10% of the Company's net assets value.

Note 4: (1)The ceiling on total loans provided by the Company to all parties shall not exceed 100% of the subsidiaries' net assets value.

(2) The ceiling on total loans provided by the Company to all parties for short-term financing shall not exceed 25% of the Company's net assets value.

(3) The ceiling on total loans provided by the Company to the overseas company which the Company have 100% right to vote directly or indirectly shall not exceed 25% of the Company's net assets value.

(2) Endorsements and guarantees provided by the Company to others as of December 31, 2012:

Number (Note A)	Endorser/guarantor	Party being endorsed/guaranteed		Limit on endorsements /guarantees provided for a single party (Note C)	The maximum outstanding endorsement/ guarantee amount during the year ended December 31, 2012	The outstanding endorsement/ guarantee amount at December 31, 2012 (Note E)	The amount of endorsements/ guarantees secured with collateral	The ratio of accumulated endorsement/guarantee amount to net asset value of the Company	The ceiling on total amount of endorsements/ guarantees provided (Note D)
		Name	Relationship (Note B)						
0	Farglory Land Development Co., Ltd.	Straits Construction Investment (Holdings) Ltd.	6	\$ 6,605,310	\$ 5,594,299	\$ 5,594,299	\$ -	16.94	\$ 13,210,619
0	Farglory Land Development Co., Ltd.	Farglory Construction Co., Ltd.	2	6,605,310	367,100	-	-	1.11	13,210,619
0	Farglory Land Development Co., Ltd.	Farglory Dome Co., Ltd.	3	6,605,310	310,000	310,000	310,000	0.94	13,210,619
1	Farglory Construction Co., Ltd.	Farglory Dome Co., Ltd.	3	317,594	500,000	500,000	500,000	31.49	635,187

Note A: The number filled for endorsements and guarantees provided by the Company to others are as follows:

- (a) The issuers is numbered "0".
- (b) The investee companies are numbered starting from "1".

Note B: There are six kinds of relationships between the endorser / guarantor and the party being endorsed / guaranteed:

- (a) Trading partner, marked "1".
- (b) Majority owned subsidiary, marked "2".
- (c) The Company and the subsidiary own over 50% ownership of the investee company, marked "3".
- (d) A subsidiary jointly owned by the Company and the Company's directly-owned subsidiary, marked "4".
- (e) Guaranteed by the Company according to the construction contract, marked "5".
- (f) An investee company which is endorsed / guaranteed by the shareholders in accordance with their shareholding proportion since the joint investment, marked "6".

Note C: Calculation for limit on endorsements / guarantees provided for a single party is as follows:

- (a) For the subsidiary which the Company holds more than 90% of the shares, the limit shall be less than the 20% of the Company's net worth.

(b) Limit on other endorsements / guarantees shall be less than 20% of the Company's net worth.

(c) For the subsidiary which the Group holds more than 90% of the shares directly or indirectly, the limit shall be less than the 30% of the Group's net worth.

(d) Limit on other endorsements / guarantees is less than 20% of the Group's net worth.

Note D: Calculation for ceiling on total amount on endorsements / guarantees provided is as follows:

(a) The Company shall keep the total amount lower than 40% of its net worth.

(b) The Company and the subsidiary shall keep the total amount lower than 50% of its net worth.

Note E: The Company provides guarantee and endorsement to other company please refer to Note 5 (2)k.

(3) Details of marketable securities held as of December 31, 2012:

									December 31, 2012	
Name of the company	Type of investment	Name of investee companies	Relationship with the Company	General ledger accounts	Number of shares (1,000 units /in thousands)	Carrying amount	Percentage of company's ownership	Market value or net worth		
Farglory Land Development Co., Ltd.	Stock	Farglory Construction Co., Ltd.	Subsidiary	Long-term equity investments accounted for under the equity method	99,199	\$ 1,395,724	99.20%	\$ 1,575,264		
	"	Farglory Dome Co., Ltd.	The investee company accounted for under the equity method	"	91,000	885,418	45.50%	885,293		
	"	Straits Construction Investment (Holdings) Ltd.	"	"	9	3,551,431	28.78%	3,551,710		
	"	Hua-Xiong Information Technology Co. Ltd.	"	"	-	<u>8,568</u>	49.00%	<u>8,260</u>		
						<u>\$ 5,841,141</u>		<u>\$ 6,020,527</u>		
	Stock	Farglory Life Insurance Co., Ltd.	Affiliate	Financial assets carried at cost – non-current	31,698	\$ 6,880	2.53%			
	"	Yuan Jing Solar Technology Co., Ltd.	None	"	52,303	<u>322,249</u>	13.41%			
						<u>\$ 329,129</u>				
	Depository receipts	FSITC Money Market Fund	None	Financial assets at fair value through profit or loss - current	809	\$ 140,000		\$ 140,237		
	"	Yuanta De-Bao Money Market Fund	"	"	9,430	110,000		110,046		
	"	Hua Nan Kirin Money Market Fund	"	"	8,585	100,000		100,104		
	"	Mega Diamond Money Market Fund	"	"	12,374	150,000		150,343		
	"	Taishin 1699 Money Market Fund	"	"	3,054	40,000		40,096		
	"	Yuanta Wan-Tai Money Market Fund	"	"	6,805	100,000		100,108		
	"	Eastspring Inv Well Pool Money Market Fund	"	"	13,652	180,000		180,202		

Name of the company	Type of investment	Name of investee companies	Relationship with the Company	General ledger accounts	December 31, 2012			
					Number of shares (1,000 units /in thousands)	Carrying amount	Percentage of company's ownership	Market value or net worth
	Depository receipts	The RSIT Enhanced Money Market Fund	None	Financial assets at fair value through profit or loss - current	12,843	149,005		149,240
	"	Mirae Asset Solomon Money Market Fund	"	"	4,081	50,000		49,996
	"	Franklin Templeton Sinoam Money Market Fund	"	"	5,000	50,000		50,050
	"	Fuh Hwa Money Market Fund	"	"	8,440	118,404		118,577
	"	Taishin Ta-Chong Money Market Fund	"	"	1,454	20,000		20,056
	"	Jih Sun Money Market Fund	"	"	11,870	170,200		170,454
	"	UPAMC James Bond Money Market Fund	"	"	3,045	49,347		49,423
	"	Yuanta De-Li Money Market Fund	"	"	5,028	79,500		79,643
	"	Capital Money Market Fund	"	"	6,400	100,000		100,223
	"	Shin Kong Chi-Shin Money-Market Fund	"	"	6,018	90,480		90,624
	"	Taishin Lucky Money Market Fund	"	"	8,168	88,245		88,312
	"	JPMorgan (Taiwan) Taiwan First MMkt Fund	"	"	6,103	90,000		90,073
	"	ING Global Bond Fund	"	"	3,156	50,000		50,022
						1,925,181		<u>\$ 1,927,829</u>
		Add: Valuation adjustments				2,648		
						<u>\$ 1,927,829</u>		

					December 31, 2012			
Name of the company	Type of investment	Name of investee companies	Relationship with the Company	General ledger accounts	Number of shares (1,000 units /in thousands)	Carrying amount	Percentage of company's ownership	Market value or net worth
Farglory Construction Co., Ltd.	Stock	Farglory Free Trade Zone Co., Ltd.	Main shareholders of Farglory Free Trade Zone is the same as that of the Company's shareholders	Financial assets at fair value through profit or loss - current	-	\$ 10	0.00%	\$ 11
	Depository receipts	Mega Diamond Money Market Fund	None	"	4,115	50,000		50,021
	"	Yuanta Wan Tai Money Market Fund	"	"	1,561	22,954		22,966
	"	Capital Money Market Fund	"	"	3,543	55,440		55,485
	"	Jih Sun Money Market Fund	"	"	3,482	<u>50,000</u>		<u>50,020</u>
						178,404		<u>\$ 178,503</u>
						99		
						<u>\$ 178,503</u>		
	Stock	Farglory Life Insurance Co., Ltd.	Affiliate	Financial assets carried at cost – non-current	957	<u>\$ 800</u>	0.08%	
	"	Farglory Dome Co., Ltd.	The investee company accounted for under the equity method	Long-term equity investments accounted for under the equity method	50,000	\$ 504,508	25.00%	\$ 486,425
Joint Venture Entity	Taiwan OBAYASHI, Farglory Construction	"	"	(Note)	<u>10,895</u>	45.00%	<u>36,576</u>	
	Japan OBAYASHI Construction				<u>\$ 515,403</u>		<u>\$ 523,001</u>	
	Joint venture Entity (JV Entity)							

Note: The subsidiary – Farglory Construction Co., Ltd. participated in the construction of Taipei Cultural Gym Area-Big-sized Indoor Gym. The proportion of the subsidiary – Farglory construction was 45%.

(4) Accumulated additions and disposals of individual marketable security exceeding the amount of NT\$100,000 or 20% of the Company's contributed capital: (thousand shares/units) For the year ended December 31, 2012.

Name of the investor	Name of the securities	General ledger accounts	Counterparty	Relationship with the investor	Beginning balance		Additions		Disposals			Ending balance		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Sales price	Carrying amount	Gain (loss) on disposal	Number of shares	Amount
Farglory Land Development Co., Ltd.	FSITC Money Market Fund	Financial assets at fair value through profit or loss – current	N/A	N/A	597	\$ 102,351	1,445	\$ 250,000	1,233	\$ 212,980	\$ 212,351	\$ 629	809	\$ 140,000
	Hua Nan Kirin Money Market Fund	"	"	"	6,917	80,000	21,492	250,000	19,824	230,257	230,000	257	8,585	100,000
	The RSIT Enhanced Money Market Fund	"	"	"	-	-	21,554	250,000	8,711	101,039	100,995	44	12,843	149,005
	Paradigm Pion Money Market Fund	"	"	"	-	-	22,349	250,000	22,349	250,109	250,000	109	-	-
	Mega Diamond Money Market Fund	"	"	"	3,225	38,651	19,817	240,000	10,668	129,134	128,651	483	12,374	150,000
	Yuanta Wan Tai Money Market Fund	"	"	"	4,798	70,000	14,321	210,000	12,314	180,202	180,000	202	6,805	100,000
	FSITC Taiwan Money Market Fund	"	"	"	-	-	16,872	250,000	16,872	250,137	250,000	137	-	-
	Fuh Hwa Money Market Fund	"	"	"	-	-	18,532	260,000	10,092	141,752	141,596	156	8,440	118,404
	Taishin Ta-Chong Money Market Fund	"	"	"	-	-	18,212	250,000	16,758	230,121	230,000	121	1,454	20,000
	Jih Sun Money Market Fund	"	"	"	-	-	19,533	280,000	7,663	109,928	109,800	128	11,870	170,200
	Eastspring Inv Well Pool Money Market Fund	"	"	"	9,203	120,157	17,449	230,000	13,000	170,847	170,157	690	13,652	180,000
	UPAMC James Bond Money Market Fund	"	"	"	-	-	15,433	250,000	12,388	200,750	200,653	97	3,045	49,347
	Yuanta De-Li Money Market Fund	"	"	"	-	-	15,811	250,000	10,783	170,691	170,500	191	5,028	79,500
	Hua Nan Phoenix Money Market Fund	"	"	"	3,184	50,000	15,216	240,000	18,400	290,331	290,000	331	-	-
	Capital Money Market Fund	"	"	"	-	-	16,013	250,000	9,613	150,042	150,000	42	6,400	100,000
	Fubon Chi-Hsiang Money Market Fund	"	"	"	-	-	17,082	260,000	17,082	260,065	260,000	65	-	-
	Shin Kong Chi-Shin Money-Market Fund	"	"	"	-	-	18,630	280,000	12,612	189,622	189,520	102	6,018	90,480

Name of the investor	Name of the securities	General ledger accounts	Counterparty	Relationship with the investor	Beginning balance		Additions		Disposals			Ending balance		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Sales price	Carrying amount	Gain (loss) on disposal	Number of shares	Amount
Farglory Land Development Co., Ltd.	TIIM Bond	Financial assets at fair value through profit or loss – current	N/A	N/A	6,867	100,000	8,897	130,000	15,764	230,212	230,000	212	-	-
	Taishin Lucky Money Market Fund	"	"	"	-	-	24,999	270,000	16,831	181,935	181,755	180	8,168	88,245
	SinoPac TWD Money Market Fund	"	"	"	-	-	7,395	100,000	7,395	100,039	100,000	39	-	-
	Yuanta De-Bao Money Market Fund	"	"	"	8,638	100,000	13,726	160,000	12,934	150,276	150,000	276	9,430	110,000
	Farglory Dome Co., Ltd.	Long-term equity investments accounted for under the equity method	"	Investee company accounted for under the equity method	31,000	310,000	60,000	600,000	-	-	-	-	91,000	910,000
	Straits Construction Investment (Holdings) Ltd.	"	"	"	9	2,667,950	4	1,156,922	-	-	-	-	13	3,824,872
						(USD 90,000)		(USD 39,500)						
Farglory Construction Co., Ltd.	Eastspring Inv Well Pool Money Market Fund	Financial assets at fair value through profit or loss – current	N/A	N/A	-	\$ -	11,045	\$ 145,000	11,045	\$ 145,087	\$ 145,000	87	-	-
	Hua Nan Kirin Money Market Fund	"	"	"	-	-	9,042	105,000	9,042	105,040	105,000	40	-	-
	Capital Money Market Fund	"	"	"	3,217	50,000	13,183	206,000	12,858	200,764	200,560	204	3,542	55,440
	JIM Sun Money Market Fund	"	"	"	2,381	33,803	18,770	269,000	17,669	253,041	252,803	238	3,482	50,000
	Mega Diamond Money Market Fund	"	"	"	2,809	33,806	8,231	100,000	6,925	83,906	83,806	100	4,115	50,000
	Yuanta Wan Tai Money Market Fund	"	"	"	-	-	14,963	220,000	13,402	197,117	197,046	71	1,561	22,954
	Hua Nan Phoenix Money Market Fund	"	"	"	3,184	50,000	6,951	110,000	10,135	160,093	160,000	93	-	-
Farglory Dome Co., Ltd.	Eastspring Inv Well Pool Money Market Fund	Financial assets at fair value through profit or loss – current	N/A	N/A	11,029	\$ 143,850	-	\$ -	11,029	\$ 144,768	\$ 143,850	918	-	-

(5) Acquisition of real estate exceeding the amount of NT\$100,000 or 20% of the Company's contributed capital for the year ended December 31, 2012:

If the counterparty is a related party, information pertaining to
previous transactions on the property is disclosed below:

Acquiring Company	Type of Property	Date of Transaction	Transaction amount	Payment status	Counterparty	Relationship with the Company	Original owner who sold the property to the counterparty	Relationship of the original owner with the Company	Date of the original transaction	Amount	Basis for price determination	Acquisition purpose and current status on usage	Other commitments
Farglory Land Development Co., Ltd.	Land held for construction	2012.08	\$ 108,000	Paid	Mr. Lee	None	-	-	-	\$ -	Negotiated price	Construction	None
	"	2012.06	1,035,139	Paid \$1,031,139	Mr. Chieh	"	-	-	-	-	Appraisal report	"	"
	"	2010.07.16	195,968	Paid	Mr. Wu	"	-	-	-	-	Negotiated price	"	"

(6) Disposals of real estates exceeding the amount of NT\$100,000 or 20% of the Company's contributed capital for the year ended December 31, 2012:

Acquiring Company	Type of Property	Acquisition date	Book value	Transaction amount	Collection status	Gain on disposal	Counterparty	Relationship of the original owner with the Company	Disposal purpose	Basis for price determination	Other commitments
Farglory Land Development Co., Ltd.	Land held for construction	2009.10	\$ 100,136	\$ 135,375	Received full amount according to the contract	\$ 35,239	Client X	N/A	Obtain gain on disposal	Negotiated Price	N/A
	Construction in progress ,buildings and land held for sale	N/A	N/A	157,650	Received \$25,545 according to the contract	N/A	Client A	N/A	Obtain gain on disposal	Negotiated Price	N/A
	"	"	"	122,070	Received \$24,504 according to the contract	"	Client B	"	"	"	"
	"	"	"	239,530	Received \$47,980 according to the contract	"	Client C	"	"	"	"
	"	"	"	235,730	Received \$46,471 according to the contract	"	Client D	"	"	"	"
	"	"	"	156,440	Received full amount according to the contract	"	Client F	"	"	"	"
	"	"	"	456,703	Received \$163,659 according to the contract	"	Client G	"	"	"	"
	"	"	"	182,880	Received \$51,220 according to the contract	"	Client H	"	"	"	"
	"	"	"	182,920	Received \$51,240 according to the contract	"	Client I	"	"	"	"
	"	"	"	192,520	Received \$55,850 according to the contract	"	Client J	"	"	"	"
	"	"	"	319,010	Received \$77,492 according to the contract	"	Client K	"	"	"	"
	"	"	"	110,000	Received full amount according to the contract	"	Client L	"	"	"	"

Acquiring Company	Type of Property	Acquisition date	Book value	Transaction amount	Collection status	Gain on disposal	Counterparty	Relationship of	Disposal purpose	Basis for price determination	Other commitments
								the original owner with the Company			
Farglory Land Development Co., Ltd.	Construction in progress ,buildings and land held for sale	N/A	N/A	187,110	Received \$31,902 according to the contract	N/A	Client M	N/A	Obtain gain on disposal	Negotiated Price	N/A
	"	"	"	656,820	Received \$126,162 according to the contract	"	Client O	"	"	"	"
	"	"	"	181,100	Received \$54,340 according to the contract	"	Client P	"	"	"	"
	"	"	"	172,200	Received \$30,628 according to the contract	"	Client Q	"	"	"	"
	"	"	"	139,080	Received \$38,950 according to the contract	"	Client R	"	"	"	"
	"	"	"	135,000	Received \$1,000 according to the contract	"	Client S	"	"	"	"
	"	"	"	105,505	Received \$78,717 according to the contract	"	Client T	"	"	"	"
	"	"	"	203,560	Received \$20,460 according to the contract	"	Client U	"	"	"	"

(7) Related party transactions with purchases or sales exceeding the amount of NT\$100,000 or 20% of the Company's contributed capital for the year ended December 31, 2012:

Company	Name of the counterparty	Relationship with the Company	Description of the transactions		% of total purchases (sales)	Credit terms	Description of and reasons for difference in transaction terms compared to non-related party transactions		Accounts or notes receivable (payable)		Note
			(Purchases) /sales	Amount			Unit price	Credit terms	Balance	% of total accounts or notes receivable /payable	
Farglory Land Development Co., Ltd.	Farglory Construction Co., Ltd.	Subsidiary	Purchase	(\$ 7,643,885)	58%	Note A	-	-	(\$ 3,059,424)	83%	
	Tung Yuan Construction Co., Ltd.	Affiliate	"	(1,110,428)	8%	"	-	-	(118,461)	3%	
Farglory Construction Co., Ltd.	Farglory Land Co., Ltd.	The parent company	Sales	7,515,752 (Note B)	75%	"	-	-	3,059,424	84%	
	Farglory Dome Co. Ltd.	The investee company accounted for under the equity method	"	643,087	7%	"	-	-	107,403	3%	
	Shin Yu Investment Ltd.	Common chairman	"	121,980	1%	"	-	-	-	-	

Note A: Progress payments were made in accordance with the contract terms.

Note B: Construction revenues of Farglory Construction Co., Ltd. were recognized under the percentage of completion method and supervised works during the year ended December 31, 2012.

(8) Receivables from related parties exceeding the amount of NT\$100,000 or 20% of the Company's contributed capital as of December 31, 2012:

Company	Name of the counterparty	Relationship	Balance of receivables from related parties	Turnover rate	Overdue receivables		Subsequent collections	Allowance made for bad debts
					Amount	Action Taken		
Farglory Construction Co., Ltd.	Farglory Land Development Co., Ltd.	The parent company	\$ 3,059,424	N/A	\$ -	-	\$ 1,254,737	\$ -
	Farglory Dome Co., Ltd.	The investee company accounted for under the equity method	107,403	"	-	-	74,793	-

(9) Information on derivative instruments transactions: N/A

B. Related information of investee companies as of December 31, 2012.

Investor	Investee company	Address	Major Business	Original Investment Amount		Holding Status		Carrying amount	Net income (loss) of investee company	Investment income (loss) recognized by the Company	Note
				December 31, 2012	December 31, 2011	Number of Shares	Percentage				
Farglory Land Development Co., Ltd.	Farglory Construction Co., Ltd.	Taipei	Construction	\$ 983,539	\$ 983,539	99,199	99.20%	\$ 1,395,724	\$ 218,945	\$ 113,094	Subsidiary
	Farglory Dome Co., Ltd.	Taipei	Specific development	910,000	310,000	91,000	45.50%	855,418	(15,309)	(4,657)	Investee company accounted for under the equity method
	Straits Construction Investment (Holdings) Ltd.	British Virgin Islands	Investment	3,824,872	2,667,950	13	28.78%	3,551,431	(947,003)	(265,794)	Investee company accounted for under the equity method
	Hua-Xiong Information Technology Co. Ltd.	China	Network construction development	8,568	-	-	49.00%	8,568	(711)	-	Investee company accounted for under the equity method
Farglory Construction Co., Ltd.	Farglory Dome Co., Ltd.	Taipei	Specific development	500,000	500,000	50,000	25.00%	504,508	(15,309)	(4,917)	Investee company accounted for under the equity method
	Taiwan OBAYASHI, Farglory Construction, Japan OBAYASHI Construction, Joint venture Entity (JV Entity)	Taipei	Specific construction development	-	-	-	45.00%	10,895	81,180	10,900	Investee company accounted for under the equity method

Note: Net income of Straits Construction Investment (Holdings) Ltd. and Hua-Xiong Information Technology Co., Ltd was RMB\$201,969 thousand and RMB\$152 thousand respectively, with exchange rate at 4.688.

C. Information on investment in Mainland China

(1) Related information of investment in Mainland China:

Investee in Mainland China	Main activities	Paid-in capital	Investment method	Accumulated amount of remittance to Mainland China as of January 1, 2012	Amount remitted to Mainland China during the period	Amount remitted back to Mainland China during the period	Accumulated amount of remittance to Mainland China as of December 31, 2012	Ownership held by the Company (direct and indirect)	Investment income (loss) recognized by the Company for the period (Note B)	Book value of investments in Mainland China as of December 31, 2012	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2012
Nanjing Future City Development & Construction	Real Estate Development	\$ 20,377,543 (USD 692,000 in thousands)	Investment from the third country (Note E)	\$ 1,445,385 (USD 50,000 in thousands)	\$ 1,143,723 (USD 39,500 in thousands)	\$ -	\$ 2,589,108	28.78%	(\$ 84,436)	\$ 5,816,798	\$ -
Straits Construction Investment Management and Consultancy (Shanghai) Co., Ltd.	Management Consultant	92,629 (RMB 20,000 in thousands) (USD 3,044 in thousands)	Investment from the third country	24,636 (USD 822 in thousands)	-	-	24,636	28.78%	129	27,212	-
Pingtang Future City Development & Construction Co., Ltd.	Real Estate Development	2,931,657 (RMB 615,630 in thousands) (USD 96,341 in thousands)	Investment from the third country	781,033 (USD 26,610 in thousands)	-	-	781,033	28.78%	(48,484)	774,642	-
Pingtang Future City New City Development & Construction Co., Ltd.	Real Estate Development	1,076,461 (RMB 226,050 in thousands) (USD 35,375 in thousands)	Investment from the third country	286,779 (USD 9,771 in thousands)	-	-	286,779	28.78%	(34,597)	267,231	-
Shanghai Daosheng Industry Co., Ltd.	Construction Material Trade	165,045 (USD 5,500 in thousands)	Investment from the third country	15,719 (USD 527 in thousands)	30,936 (USD 1,027 in thousands)	-	46,655	28.78%	(56)	46,522	-
Hua-Xiong Information Technology Co. Ltd.	Network construction development	17,394 (USD 600 in thousands)	Direct investment	-	8,568 (USD 294 in thousands)	-	8,568	49.00%	-	8,568	-

(2) The ceiling on investment in Mainland China:

Accumulated amount of remittance from Taiwan to Mainland China	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs	Ceiling on investment in Mainland China
\$ 3,488,417	\$ 13,137,746	\$ 19,815,929

Note A: The column "Investment income (loss) recognized by the Company for the period": Except for Hua-Xiong Information Technology Co. Ltd., the others are based on the report of the independent accountants of these investee companies.

Note B: For details of the approval information, please refer to Note 4(7)D.

Note C: The ceiling on investment was calculated based on 60% of the net stockholders' equity on December 31, 2012.

Note D: \$3,624,330 (USD \$125,020 in thousands) of the investment in Straits Investment Ltd., Nanjing was raised by the company in the third territory.

(2) Major transactions with investee companies in Mainland China: None.

D. Information on transactions between Parent Company and Subsidiaries or between the subsidiaries

1. For the year ended December 31, 2012

No. (Note A)	Company name	Counterparty	Relationship (Note B)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note C)
0	Farglory Land Development Co., Ltd.	Farglory Construction Co., Ltd.	1	Construction in progress	\$ 7,739,761	Note D	10.34%
				Notes and accounts payable	3,059,424		4.09%
				Purchases	7,515,752		40.98%
1	Farglory Dome Co., Ltd.	Farglory Construction Co., Ltd.	3	Construction in progress	\$ 643,087		0.86%
				Notes and accounts payable	107,403		0.14%

2. For the year ended December 31, 2011

No. (Note A)	Company name	Counterparty	Relationship (Note B)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note C)
0	Farglory Land Development Co., Ltd.	Farglory Construction Co., Ltd.	1	Construction in progress	\$ 3,581,614	Note D	5.76%
				Notes and accounts payable	2,433,857		3.92%
				Purchases	5,070,401		25.08%

Note A: The numbers filled for inter-company transactions are as follows:

- (a) The parent company is numbered "0".
- (b) The subsidiaries are numbered starting from "1".

Note B: Relationship with the transaction company:

- (a) Parent company to subsidiary is numbered "1"
- (b) Subsidiary to parent company is numbered "2"
- (c) Subsidiary to subsidiary is numbered "3"

Note C: For the calculation on the percentage of consolidated total operating revenues or of consolidated total assets, for balance sheet accounts, the calculation was based on the ratio of ending balance of such accounts over the consolidated total assets; as for income statement accounts, the calculation was based on the ratio of the accumulated amount during the period over the consolidated total operating revenues.

Note D: For the construction contracts commissioned through the related party, the contract prices were negotiated and progress payments were made in accordance with terms under the contracts.

Note E: The transactions with subsidiaries had been eliminated when preparing consolidated financial statements.

12. **Operating Segment Information**

(1) **General Information**

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The chief operating decision-maker manages the Company from the perspective of “products” which emphasizes on the marketing of development and construction projects. Thus, the Company considers development segment, construction segment and Dome segment as the reportable segments.

(2) **Measurement of Segment Information**

The Company adopts the same methods in measurement not only in preparing net income (loss) before tax of each department for the chief operating decision-maker but revenues and expenses shown in the statements of income. The chief operating decision-maker assesses the performance of each department according to the net income (loss) before tax.

(3) The segment information provided to the chief operating decision-maker for the reportable segments for the years ended December 31, 2012 and 2011 is as follows:

	<u>Development Segment</u>	<u>Construction Segment</u>	<u>Dome Segment</u>	<u>Elimination</u>	<u>Total</u>
For the year ended December 31, 2012					
<u>Total segment revenue</u>					
Revenue from external customers	\$ 16,498,214	\$ 1,840,211	\$ -	\$ -	\$ 18,338,425
Inter-segment revenue	-	8,138,060	-	(8,138,060)	-
Subtotal	<u>\$ 16,498,214</u>	<u>\$ 9,978,271</u>	<u>\$ -</u>	<u>(\$ 8,138,060)</u>	<u>\$ 18,338,425</u>
<u>Segment revenue</u>	<u>\$ 5,522,914</u>	<u>\$ 265,659</u>	<u>(\$ 15,309)</u>	<u>(\$ 208,363)</u>	<u>\$ 5,564,901</u>
<u>Segment assets</u>	<u>\$ 70,706,054</u>	<u>\$ 5,844,599</u>	<u>\$ 4,494,955</u>	<u>(\$ 6,207,207)</u>	<u>\$ 74,838,401</u>
For the year ended December 31, 2011					
<u>Total segment revenue</u>					
Revenue from external customers	\$ 18,816,930	\$ 1,402,112	\$ -	\$ -	\$ 20,219,042
Inter-segment revenue	-	5,070,401	-	(5,070,401)	-
Subtotal	<u>\$ 18,816,930</u>	<u>\$ 6,472,513</u>	<u>\$ -</u>	<u>(\$ 5,070,401)</u>	<u>\$ 20,219,042</u>
<u>Segment revenue</u>	<u>\$ 6,706,583</u>	<u>\$ 100,752</u>	<u>\$ 237,617</u>	<u>(\$ 168,444)</u>	<u>\$ 6,876,508</u>
<u>Segment assets</u>	<u>\$ 60,604,946</u>	<u>\$ 4,909,150</u>	<u>\$ 1,423,541</u>	<u>(\$ 4,783,591)</u>	<u>\$ 62,154,046</u>

(4) Reconciliation for segment profit (loss), assets and liabilities:

Information for the segments and the subsidiaries' reportable segments and income from continuing operations before income tax is as follows:

	<u>2012</u>	<u>2011</u>
Development Segment	\$ 5,522,914	\$ 6,706,583
Construction Segment	265,659	100,752
Dome Segment	(15,309)	237,617
	5,773,264	7,044,952
Elimination	(208,363)	(168,444)
Income before tax for reportable segments	<u>\$ 5,564,901</u>	<u>\$ 6,876,508</u>

Reportable segments' assets are reconciled to total assets as follows:

	<u>December 31 , 2012</u>	<u>December 31 , 2011</u>
Segment assets for reportable segments	\$ 76,550,653	\$ 65,514,096
Dome Segment assets	4,494,955	1,423,541
Elimination	(6,207,207)	(4,783,591)
	<u>\$ 74,838,401</u>	<u>\$ 62,154,046</u>

(5) Revenue information by category:

Breakdown of the revenue from all sources is as follows:

	<u>2012</u>	<u>2011</u>
Development Segment	\$ 16,498,214	\$ 18,816,930
Construction Segment	1,840,211	1,402,112
	<u>\$ 18,338,425</u>	<u>\$ 20,219,042</u>

(1) Revenue information by geographic area:

The revenue information by region for the years ended December 31, 2012 and 2011 is as follows:

<u>Region</u>	<u>2012</u>		<u>2011</u>	
	<u>Revenue</u>	<u>Non-current Assets</u>	<u>Revenue</u>	<u>Non-current Assets</u>
Taiwan	<u>\$ 18,338,425</u>	<u>\$ 10,982,645</u>	<u>\$ 20,219,042</u>	<u>\$ 6,834,137</u>

(2) Information on major customers:

For the years ended December 31, 2012 and 2011, the operating revenue from each customer did not exceed 10% of total operating revenue in the statement of income; thus, not applicable.

13. Disclosures relating to the adoption of IFRSs

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations/bulletins (collectively referred herein as the IFRSs) developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the Financial Supervisory Commission, Executive Yuan, R.O.C.

The Company discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

A. Major contents and status of execution of the Company's plan for IFRSs adoption:

The Company has formed an IFRSs group headed by the Company's Vice President of Financial Department, which is responsible for setting up a plan relative to the Company's transition to IFRSs. The major contents and status of execution of this plan are outlined below:

Working Items for IFRSs Adoption	Status of Execution
1. Formation of an IFRSs group	Completed
2. Setting up a plan relative to the Company's transition to IFRSs	Completed
3. Identification of the differences between current accounting policies and IFRSs	Completed
4. Identification of consolidated entities under the IFRSs framework	Completed
5. Evaluation of the impact of each exemption and option on the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
6. Evaluation of needed information system adjustments	Completed
7. Evaluation of needed internal control adjustments	Completed
8. Establish IFRSs accounting policies	Completed
9. Selection of exemptions and options available under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
10. Preparation of statement of financial position on the date of transition to IFRSs	Completed
11. Preparation of IFRSs comparative financial information for 2012	In progress
12. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments	Completed

B. Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future:

The Company uses the IFRSs already recognized currently by the Financial Supervisory Commission and the "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be applied in 2013 as the basis for evaluation of material differences in

accounting policies as mentioned above. However, the Company's current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs and relevant interpretations that are subsequently recognized by the Financial Supervisory Commission or amendments to the "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statement in the future, and the effects of exemptions selected by the Company under IFRS 1-First-time Adoption of International Financial Reporting Standards (refer to Note13(3)) are set forth below:

a)Reconciliation of significant differences as of January 1, 2012

	R.O.C. GAAP	Adjustments	IFRSs	Description
Inventories	\$ 44,051,998	(\$ 4,028,027)	\$40,023,971	(a)
Construction contract receivable	-	205,420	205,420	(j)
Construction in progress	1,610,895	(1,610,895)	-	(j)
Less:Advance construction receipts	(1,405,475)	1,405,475	-	(j)
Deferred marketing expenses	1,454,531	(1,454,531)	-	(i)
Other current assets- Others	58,574	1,454,531	1,513,105	(i)
Financial assets carried at cost - non-current	422,364	(422,364)	-	(b)
Available-for-sale financial assets- non-current	-	409,597	409,597	(b)
Property, plant and equipment	3,360,948	(3,010,068)	350,880	(f)
Other assets-others	80,222	(26,275)	53,947	(f)
Idle assets	778	(778)	-	(f)
Investment property	-	3,037,121	3,037,121	(f)
Deferred income tax assets- non-current	-	52,770	52,770	(c)(d)(h)
Long-term prepaid rents	-	204,281	204,281	(g)
Other intangible assets	204,427	(204,281)	146	(g)
Prepaid pension	-	648	648	(c)
Others	12,314,784	-	12,314,784	
Total Assets	<u>\$ 62,154,046</u>	<u>(\$ 3,987,376)</u>	<u>\$58,166,670</u>	
Deferred income tax liabilities -current	\$ 337,788	(\$ 337,788)	\$ -	(h)
Other current liabilities-others	33,250	9,756	43,006	(d)
Deferred income tax liabilities -non-current	12,358	27,391	39,749	(c)(h)
Accrued pension liabilities	23,492	15,148	38,640	(c)
Others	29,429,378	-	29,429,378	
Total Liabilities	<u>\$ 29,836,266</u>	<u>(\$ 285,493)</u>	<u>\$29,550,773</u>	
Capital surplus	\$ 6,073,093	(\$ 44,275)	\$ 6,028,818	(e)
Retained earnings	17,843,071	(3,656,899)	14,186,172	(a)(b)(c)(d)(e)
Minority interest	583,785	(709)	583,076	(a)(c)(d)
Others	7,817,831	-	7,817,831	
Total Stockholders' Equity	<u>\$ 32,317,780</u>	<u>(\$ 3,701,883)</u>	<u>\$28,615,897</u>	

b)Reconciliation of significant differences as of December 31, 2012

	R.O.C. GAAP	Adjustments	IFRSs	Description
Inventories	\$50,945,379	(\$ 4,997,063)	\$45,948,316	(a)
Construction contract	-	84,327	84,327	(j)
Construction in progress	559,558	(559,558)	-	(j)
Less:Advance construction	(475,231)	475,231	-	(j)
Deferred marketing expenses	1,533,823	(1,533,823)	-	(i)
Other current assets-others	117,950	1,533,823	1,651,773	(i)
Financial assets carried at cost	329,929	(329,929)	-	(b)
Available-for-sale financial assets- non-current	-	317,162	317,162	(b)
Property, plant and equipment	6,806,191	(5,793,038)	1,013,153	(d)(f)
Other assets-others	48,248	(16,332)	31,916	(f)
Idle assets	771	(771)	-	(f)
Investment property	-	5,810,249	5,810,249	(f)
Deferred income tax assets-non-current	-	54,290	54,290	(c)(d)(h)
Long-term prepaid rents	-	182,197	182,197	(g)
Other intangible assets	182,197	(182,197)	-	(g)
Others	14,789,586	-	14,789,586	
Total Assets	\$74,838,401	(\$ 4,955,432)	\$69,882,969	
Deferred income tax liabilities –current	\$ 233,718	(\$ 233,718)	\$ -	(h)
Other current liabilities-others	197,459	11,773	209,232	(d)
Deferred income tax liabilities –non-current	7,428	458	7,886	(a)(c)(h)
Accrued pension liabilities	24,828	74,584	99,412	(c)
Others	40,763,539	-	40,763,539	
Total Liabilities	\$41,226,972	(\$ 146,903)	\$41,080,069	
Capital surplus	\$ 6,331,920	(\$ 43,451)	\$ 6,288,469	(e)(1)
Retained earnings	18,944,027	(4,719,042)	14,224,985	(a)(b)(c) (d)(e)(1)
Minority interest	584,881	4,685	589,566	(a)(c) (d)(1)
Others	7,750,601	(50,721)	7,699,880	(c)
Total Stockholders' Equity	\$33,611,429	(\$ 4,808,529)	\$28,802,900	

c)Reconciliation of significant differences for the year ended December 31,2012:

	R.O.C. GAAP	Adjustments	IFRSs	Description
Operating revenues	\$18,338,425	(\$ 2,758,524)	\$15,579,901	(a)
Operating cost	(10,731,372)	1,574,291	(9,157,081)	(a)(c) (d)(k)
Operating expenses	(1,399,432)	247,690	(1,151,742)	(a)(c)
Operating income	6,207,621	(936,543)	5,271,078	
Non-operating income and expenses	(642,720)	-	(642,720)	
Income before tax	5,564,901	(936,543)	4,628,358	
Income tax expenses	(760,393)	(119,239)	(879,632)	(a)(c) (d)(k)
Consolidated net income	<u>\$ 4,804,508</u>	(1,055,782)	3,748,726	
Other comprehensive income				
Currency translation differences		(81,000)	(81,000)	(m)
Actuarial loss on defined		(61,282)	(61,282)	(c)(m)
Income tax relating to the components of other comprehensive income		24,188	24,188	(m)
Other comprehensive income for the year, net of tax		(118,094)	(118,094)	
Total comprehensive income for the year		<u>(\$ 1,173,876)</u>	<u>\$ 3,630,632</u>	

Reasons for reconciliation are outlined below:

- (a) If the Company is required to provide construction services together with construction materials in order to perform its contractual obligation to deliver real estate to the buyers, the revenue from the ‘off plan’ houses sale transactions is recognized on a percentage-of-completion basis, simultaneously when it meets the recognition criteria specified in EITF 78-099. An agreement for the construction of real estate is a construction contract within the scope of IAS 11, “Construction Contracts”, and IAS 11 applies only when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress. The buyers of the Company’s ‘off plan’ houses sale contracts have only

limited ability to affect the design of the real estate or have ability to specify minor changes to the basic design of the real estate only. Therefore, in accordance with IFRIC 15, “Agreements for the Construction of Real Estate”, the Company’s ‘off plan’ houses sale contracts belong to the agreements of sale of goods, which are within the scope of IAS 18, “Revenue” and, accordingly, revenue from those ‘off plan’ houses sale contracts is accounted for as sale of goods under IAS 18. Therefore, the Group decreased inventories by \$4,028,027, decreased retained earnings and decreased minority interest by \$3,668,308 and \$675, respectively, and decreased deferred income tax liabilities-non-current by \$359,044 as of January 1, 2012. The Group decreased inventories by \$4,997,063, decreased retained earnings and decreased minority interest by \$3,668,308 and \$1,338, respectively, and decreased deferred income tax liabilities-non-current by \$272,886 as of December 31, 2012. And the Group decreased operating revenues, decreased operating cost, and decreased operating expenses by \$2,758,524, \$1,573,804 and \$215,684, respectively, and increased income tax expense by \$86,158 for the year ended December 31, 2012.

(b) In accordance with the amended “Rules Governing the Preparation of Financial Statements by Securities Issuers”, dated July 7, 2011, unlisted stocks and emerging stocks held by the Company should be measured at cost and recognized in “Financial assets carried at cost”. However, in accordance with IAS 39, “Financial Instruments: Recognition and Measurement”, investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability of the estimation interval of reasonable fair values of such equity instruments is insignificant, or the probability for these estimates can be made reliably) should be measured at fair value. The fair value of the instruments is declining. Therefore, the Group decreased financial assets carried at cost-non-current by \$422,364, decreased retained earnings by \$12,767 and increased available-for-sale financial assets - non-current by \$409,597 as of January 1, 2012. In addition, the Group decreased financial assets at cost-non-current by \$329,929, decreased retained earnings by \$12,767 and increased available-for-sale financial assets - non-current by \$317,162 as of January 1, 2012.

(c) Pensions

- a. The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, “Employee Benefits”, requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead.
- b. In accordance with the Company’s accounting policy, the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits.

However, since it is the first time adoption of International Financial Reporting Standards, the transitional rule of IAS 19 “Employee Benefits ” is not applicable. Therefore, the Group did not recognize the transitional liabilities.

- c. In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Company is recognized in net pension cost of current period using the ‘corridor’ method. However, IAS 19, “Employee Benefits”, requires that actuarial pension gain or loss should be recognized immediately in other comprehensive income. Besides, the Group has elected to recognize all cumulative actuarial gains and losses relating to all employees benefit plans in ‘retained earnings’ at the transition date. Therefore, the Group increased prepaid pension, increased accrued pension liabilities, increased deferred income tax assets-non-current and increased deferred income tax liabilities-non-current by \$648, \$15,148, \$2,575 and \$110, respectively, decreased retained earnings by \$12,040 and increased minority interest of \$5 as of January 1, 2012. The Group increased accrued pension liabilities, increased deferred income tax assets-non-current and increased deferred income tax liabilities-non-current by \$74,584, \$12,865 and \$184, respectively, and decreased retained earnings by \$12,040 as of December 31, 2012. And the Group decreased operating cost and operating expenses by \$245 and 953, respectively, increased income tax expense by \$202, and decreased minority interest and other comprehensive income by \$134 and \$50,721, respectively, for the year ended December 31, 2012.
- (d) The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such costs as expenses upon actual payment. However, IAS 19, “Employee Benefits”, requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Group increased other current liabilities-others and deferred income tax assets-non-current by \$9,756 and \$1,658, respectively, and decreased retained earnings and minority interest by \$8,059 and \$39 as of January 1, 2012. The Group increased other current liabilities-others, increased property, plant and equipment and increased deferred income tax assets-non-current by \$11,773, \$108 and \$1,983, respectively, as of December 31, 2012. And the Group decreased operating cost by \$242, increased operating expenses by \$2,151, and decreased income tax expense, decreased retained earnings and decreased minority interest by \$325, \$8,059 and \$64, respectively, for the year ended December 31, 2012.
- (e) The Group has elected not to apply the requirements of IFRS 3, “Business Combinations”, retrospectively to business combinations that occurred before the date of transition to IFRSs. Therefore, the Group reclassified ‘capital surplus’ of \$44,275 to ‘retained earnings’ as of January 1, 2012.
- (f) In accordance with current accounting standards in R.O.C., the Company’s property that is

leased to others is presented in 'Property, plant and equipment' and 'Other assets' account. In accordance with IAS 40, "Investment Property", property that meets the definition of investment property is classified and accounted for as 'Investment property'. Therefore, the Group decreased property, plant and equipment, decreased other assets-others and decreased idle assets by \$3,010,068, \$26,275 and \$778, respectively, and increased investment property by \$3,037,121 as of January 1, 2012. The Group decreased property, plant and equipment, decreased other assets-others and decreased idle assets by \$5,793,146, \$16,332 and \$771, respectively, and increased investment property by \$5,810,249 as of December 31, 2012.

- (g) In accordance with current accounting standards in R.O.C., the Group's payments for the acquisition of land use rights are classified as "Other intangible assets". However, transactions that meet the criteria of long-term operating leases shall be classified as "long-term prepaid rent" under IAS 17 "lease". Therefore, the Group reclassified "other intangible assets" by \$204,281 and \$182,197 to 'long-term prepaid rental' at January 1, 2012 and December 31, 2012, respectively.
- (h) In accordance with current accounting standards in R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting, should be classified as current or noncurrent according to the expected time period to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of Financial Statements", an entity should not classify a deferred tax asset or liability as current. Deferred income tax assets and liabilities cannot be offset as they do not meet the criteria of offsetting assets and liabilities under IAS 12, 'Income Taxes'. Therefore, the Group decreased deferred income tax liabilities-current by \$337,788, increased deferred income tax assets-non-current and increased deferred income tax assets-non-current by \$386,325 and \$48,537, respectively as of January 1, 2012. The Group decreased deferred income tax assets-current by \$233,718, increased deferred income tax assets-non-current and increased deferred income tax liabilities-non-current by \$39,442 and \$273,160, respectively, as of December 31, 2012.
- (i) The Group incurred pre-project premises selling expenses. In accordance with IFRSs, sales commission expenses, which is directly attributed to a particular contract and had future economic benefits should be deferred and be reclassified as prepayments. Therefore, the Group decreased deferred marketing expenses and increased other current assets-others by \$1,454,531 as of January 1, 2012. The Group decreased deferred marketing expenses and increased other current assets-others by \$1,533,823 as of December 31, 2012.
- (j) In accordance with IAS 11 "Construction Contracts", an entity should report as assets or liabilities, the contracts receivable or payable from customers. Therefore, the Group increased construction contract receivable and decreased construction in progress less

advance construction receipts by \$205,420 as of January 1, 2012. The Group increased construction contract receivable and decreased construction in progress less advance construction receipts by \$84,327 as of December 31, 2012.

- (k) The current accounting standards in R.O.C. regulate that land revaluation increment tax should be presented as an item of operating expenses. However, under IFRSs, the land revaluation increment tax arising from selling land should be presented as an item of income tax. Therefore, the Group decreased operating expenses and increased income tax expense by \$33,204 for the year ended as of December 31, 2012.
- (l) In accordance with current accounting standards in R.O.C., where the parent company changes its share ownership of the subsidiary after control was obtained, the purchase method of accounting is used to account for the increase in ownership interest and recognized as 'capital surplus'. In accordance with IAS 27, 'Consolidated and Separate Financial Statements', changes in a parent company's ownership interest that do not result in the parent company losing control of the subsidiary are equity transactions, which would not affect profit or loss. Therefore, the Group increased capital surplus by \$824, increased minority interest by \$6,221, and decreased retained earnings by \$7,045 as of December 31, 2012.
- (m) Financial statement disclosure of the current accounting standards in R.O.C. was prepared using a statement of income, but should be prepared using the statement of comprehensive income under IAS 1, "Presentation of Financial Statements". Because of the differences in the financial statement components, the Group increased other comprehensive income items by \$142,282 and income tax relating to the components of other comprehensive income by \$24,188 for the year ended December 31, 2012.

B. Exemptions elected in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and the "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be applied in 2013 are set forth below:

(a) Employee benefits

The Group has elected to recognize all cumulative actuarial gains and losses relating to all employee benefit plans in 'retained earnings' at the transition date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A(P), IAS 19, 'Employee Benefits', based on their prospective amounts for financial periods from the transition date.

(b) Borrowing costs

The Group has elected to apply the transitional provisions in paragraphs 27 and 28 of IAS 23, 'Borrowing Costs', amended in 2007 and apply IAS 23 from the transition date.

(c) Business combinations

The Group has elected not to apply the requirements in IFRS 3, 'Business Combinations',

retrospectively to business combinations that occurred prior to the date of transition to IFRSs (“the transition date”). This exemption also applies to the Group’s previous acquisitions of investments in associates and joint ventures.

(d) The Group has elected not to apply the requirements in IFRS 2, ‘Share-based Payment’, retrospectively to equity instruments/liabilities that were vested arising from share-based payment transactions prior to the transition date.

(e) Designation of previously recognized financial instruments

The Group has elected to designate investments which were originally measured at cost, as available-for-sale financial assets.

The accounting policies and election of exemptions listed above may be different from those applied in the first year-end IFRSs consolidated financial statements due to the issuance of related regulations by regulatory authorities, changes in economic environment, or changes in the evaluation of the impact of application of accounting policies and exemptions by the Group.