

YEUN CHYANG INDUSTRIAL CO., LTD.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2011 AND 2010
WITH
INDEPENDENT AUDITORS' REPORT

For the convenience of reader and the information purpose only, the auditors' report and the accompanying financial statements have been translated into English from 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 version, the Chinese-language auditors' report and financial statement shall prevail.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Yeun Chyang Industrial Co., Ltd.

We have audited the accompanying balance sheets of Yeun Chyang Industrial Co., Ltd. as of December 31, 2011 and 2010, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yeun Chyang Industrial Co., Ltd. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Criteria for Handling Business Accounting and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, effective from January 1, 2011, the Company has adopted the third revision of the Statement of Financial Accounting Standards No.34 "Financial Instruments : Recognition and Measurement" , and the newly issued Statement of Financial Accounting Standards No.41 "Operating Segments" of the Republic of China.

We have also expressed a unqualified opinion with amendment on those consolidated financial statements of Yeun Chyang Industrial Co., Ltd. and subsidiaries as of and for the years ended December 31, 2011 and 2010.



Certified Public Accountants

Taipei, Taiwan R.O.C.

March 16, 2012

YEUN CHYANG INDUSTRIAL CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2011 and 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	2011	%	2010	%
CURRENT ASSETS				
Cash and cash equivalents(Note4)	\$472,922	3.92	\$266,485	2.29
Financial assets at fair value through profit or loss-current(Note5)	6,183	0.05	10,274	0.09
Notes receivable - net(Note6)	84,909	0.70	42,121	0.36
Accounts receivable - net(Note7)	2,635,610	21.83	2,464,809	21.15
Other receivables	662,480	5.49	447,939	3.84
Inventories(Note8)	5,352,743	44.33	5,358,049	46.00
Prepayments	17,551	0.15	256,492	2.20
Other current assets(Note26)	2,299	0.02	68,072	0.58
Deferred income tax assets-current(Note22)	30,083	0.25	12,145	0.10
Total current assets	<u>9,264,780</u>	<u>76.74</u>	<u>8,926,386</u>	<u>76.61</u>
FUNDS AND INVESTMENTS				
Investments accounted for using equity method(Note9)	97,144	0.80	120,841	1.04
Financial assets carried at cost - non-current(Note10)	187,444	1.56	187,444	1.61
Total investments	<u>284,588</u>	<u>2.36</u>	<u>308,285</u>	<u>2.65</u>
PROPERTY, PLANT AND EQUIPMENT(Notes11&26)				
Land	1,087,269	9.01	1,087,269	9.33
Buildings	564,836	4.68	524,822	4.50
Machinery and equipment	1,495,998	12.38	1,324,683	11.37
Transportation equipment	79,948	0.66	83,820	0.72
Office equipment	31,393	0.26	29,203	0.25
Leasehold improvements	4,380	0.04	4,380	0.04
Other equipment	173,504	1.44	157,483	1.35
Total cost	3,437,328	28.47	3,211,660	27.56
Less : Accumulated depreciation	(1,097,056)	(9.09)	(957,847)	(8.22)
Construction in progress	27,183	0.23	0	0.00
Prepayment for equipment	12,059	0.10	41,639	0.36
Net property and equipment	<u>2,379,514</u>	<u>19.71</u>	<u>2,295,452</u>	<u>19.70</u>
INTANGIBLE ASSETS				
Deferred pension costs(Note18)	0	0.00	3,301	0.03
Total intangible assets	<u>0</u>	<u>0.00</u>	<u>3,301</u>	<u>0.03</u>
OTHER ASSETS(Note7)				
Refundable deposits	160	0.00	160	0.00
Deferred charges	35,758	0.30	29,469	0.25
Deferred income tax assets - non-current(Note23)	16,143	0.13	15,436	0.13
Other assets(Note12)	91,660	0.76	73,592	0.63
Total other assets	<u>143,721</u>	<u>1.19</u>	<u>118,657</u>	<u>1.01</u>
TOTAL ASSETS	<u>\$12,072,603</u>	<u>100.00</u>	<u>\$11,652,081</u>	<u>100.00</u>

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

YEUN CHYANG INDUSTRIAL CO., LTD.
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2011 and 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND SHAREHOLDERS' EQUITY	2011	%	2010	%
CURRENT LIABILITIES				
Short-term loans(Note13)	\$2,864,509	23.72	\$2,431,261	20.86
Short-term bills payable(Note14)	99,875	0.83	99,978	0.86
Notes payable	722	0.01	753	0.01
Accounts payable	245,086	2.03	225,516	1.94
Income tax payable(Note22)	92,749	0.77	44,586	0.38
Accrued expenses	219,033	1.81	218,504	1.88
Financial liabilities at fair value through profit or loss-current(Note15)	0	0.00	0	0.00
Other payables	37,143	0.31	64,573	0.55
Advance receives	225,189	1.87	258,864	2.22
Current portion of long-term liabilities(Note17)	35,508	0.29	357,022	3.06
Other current liabilities	9,926	0.08	9,185	0.08
Total current liabilities	<u>3,829,740</u>	<u>31.72</u>	<u>3,710,242</u>	<u>31.84</u>
LONG-TERM LIABILITIES				
Bonds payable(Note16)	0	0.00	0	0.00
Long-term loans(Note17)	1,325,723	10.98	943,730	8.10
Total long-term liabilities	<u>1,325,723</u>	<u>10.98</u>	<u>943,730</u>	<u>8.10</u>
RESERVE				
Reserve for land tax revaluation increment	890	0.01	890	0.01
Total reserve	<u>890</u>	<u>0.01</u>	<u>890</u>	<u>0.01</u>
OTHER LIABILITIES				
Accrued pension liabilities(Note18)	125,199	1.04	115,736	0.99
Guarantee deposits	184,932	1.53	268,785	2.31
Defferred credit(Note9)	3,793	0.03	3,793	0.03
Total other liabilities	<u>313,924</u>	<u>2.60</u>	<u>388,314</u>	<u>3.33</u>
TOTAL LIABILITIES	<u>5,470,277</u>	<u>45.31</u>	<u>5,043,176</u>	<u>43.28</u>
SHAREHOLDERS' EQUITY				
Capital stock(Note19)				
Common stock	3,701,189	30.66	3,698,582	31.75
Capital surplus(Note20)				
Additional paid-in capital	1,473,499	12.21	1,473,499	12.65
Premium of convertible bonds payable	369,899	3.06	357,231	3.07
Stock warrants	0	0.00	9,766	0.08
Interest payable for convertible bonds	5,239	0.04	5,239	0.04
Retained Earnings(Note21)				
Legal reserve	514,270	4.26	457,197	3.92
Special reserve	22,004	0.18	29,513	0.25
Unappropriated earnings	546,394	4.53	576,096	4.95
Other equity				
Unrecognized net loss on pension cost(Note18)	(30,608)	(0.25)	(22,004)	(0.19)
Unrealized gains(losses) on financial instruments(Note9)	328	0.00	23,674	0.20
Unrealized revaluation increments	112	0.00	112	0.00
Total shareholders' equity	<u>6,602,326</u>	<u>54.69</u>	<u>6,608,905</u>	<u>56.72</u>
Total liabilities and shareholders' equity	<u>\$12,072,603</u>	<u>100.00</u>	<u>\$11,652,081</u>	<u>100.00</u>

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

YEUN CHYANG INDUSTRIAL CO., LTD.
STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011 and 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNING PER SHARE)

ITEMS	2011	%	2010	%
OPERATING REVENUES				
Sales	\$27,419,623	100.07	\$21,863,163	100.07
Sales Returns	(19,619)	(0.07)	(13,728)	(0.06)
Sales Discounts	(629)	(0.00)	(1,477)	(0.01)
NET SALES	<u>27,399,375</u>	<u>100.00</u>	<u>21,847,958</u>	<u>100.00</u>
OPERATING COSTS				
Cost of goods sold(Note8)	(26,056,898)	(95.10)	(20,255,347)	(92.71)
GROSS PROFIT	1,342,477	4.90	1,592,611	7.29
OPERATING EXPENSES				
Sales and marketing	(730,537)	(2.67)	(722,235)	(3.30)
General and administrative	(127,163)	(0.46)	(121,642)	(0.56)
TOTAL OPERATING EXPENSES	<u>(857,700)</u>	<u>(3.13)</u>	<u>(843,877)</u>	<u>(3.86)</u>
OPERATING INCOME	<u>484,777</u>	<u>1.77</u>	<u>748,734</u>	<u>3.43</u>
NON-OPERATING INCOME AND GAINS				
Interest income	253	0.00	212	0.00
Gains on equity-method investments(Note9)	0	0.00	5,389	0.02
Dividend income(Note5)	214	0.00	0	0.00
Gains on disposal of property, plant and equipment	6,298	0.02	0	0.00
Gains on disposal of investments	351	0.00	331	0.00
Gains on foreign exchange	105,267	0.39	0	0.00
Gains on valuation of financial asset	0	0.00	2,066	0.01
Others	34,541	0.13	28,478	0.14
Total Non-Operating Income and Gains	<u>146,924</u>	<u>0.54</u>	<u>36,476</u>	<u>0.17</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	(50,794)	(0.20)	(25,565)	(0.12)
Losses on equity-method investments	(351)	(0.00)	0	0.00
Losses on disposal of property, plant and equipment	0	0.00	(1,478)	(0.01)
Losses on foreign exchange	0	0.00	(69,038)	(0.32)
Losses on valuation of financial asset	(3,667)	(0.01)	0	0.00
Losses on valuation of financial liabilities	(391)	(0.00)	0	0.00
Others	(1,260)	(0.00)	(282)	(0.00)
Total Non-Operating Expenses and Losses	<u>(56,463)</u>	<u>(0.21)</u>	<u>(96,363)</u>	<u>(0.45)</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	575,238	2.10	688,847	3.15
INCOME TAX BENEFIT(EXPENSE)(Note22)	(107,376)	(0.39)	(118,115)	(0.54)
INCOME FROM CONTINUING OPERATIONS	<u>467,862</u>	<u>1.71</u>	<u>570,732</u>	<u>2.61</u>
NET INCOME	<u>\$467,862</u>	<u>1.71</u>	<u>\$570,732</u>	<u>2.61</u>
Basic earnings per share(Note23)				
Before Income Tax	<u>\$1.56</u>		<u>\$1.86</u>	
After Income Tax	<u>\$1.26</u>		<u>\$1.54</u>	
Diluted earnings per share(Note23)				
Before Income Tax	<u>\$1.55</u>		<u>\$1.86</u>	
After Income Tax	<u>\$1.26</u>		<u>\$1.53</u>	

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

YEUN CHYANG INDUSTRIAL CO., LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011 and 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ITEMS	Capital Stock		Capital surplus	Retained Earnings			Unrecognized net loss on pension cost	Other Equity		TOTAL
	Common stock	Capital collected in advance		Legal reserve	Special reserve	Unappropriated earnings		Unrealized gains(losses) on financial instrument	Unrealized revaluation increments	
BALANCE AT JANUARY 1,2010	\$3,692,317	\$2,661	\$1,841,475	\$434,191	\$6,900	\$236,983	(\$29,513)	\$11,706	\$112	\$6,196,832
APPROPRIATION 2009 RETAINED EARNINGS										
Legal reserve				23,006		(23,006)				0
Special reserve					22,613	(22,613)				0
Cash dividends						(186,000)				(186,000)
Conversion of convertible bonds to capital stock and capital reserve	6,265	(2,661)	5,733							9,337
Stock warrants			(1,473)							(1,473)
NET INCOME FOR 2010						570,732				570,732
Unrecognized net loss on pension cost							7,509			7,509
Unrealized gains(losses) on financial instrument								11,968		11,968
BALANCE AT DECEMBER 31,2010	3,698,582	0	1,845,735	457,197	29,513	576,096	(22,004)	23,674	112	6,608,905
Reserve of special reserve					(7,509)	7,509				0
APPROPRIATION 2010 RETAINED EARNINGS										
Legal reserve				57,073		(57,073)				0
Cash dividends						(448,000)				(448,000)
Conversion of convertible bonds to capital stock and capital reserve	2,607		2,902							5,509
NET INCOME FOR 2011						467,862				467,862
Unrecognized net loss on pension cost							(8,604)			(8,604)
Unrealized gains(losses) on financial instrument								(23,346)		(23,346)
BALANCE AT DECEMBER 31,2011	\$3,701,189	\$0	\$1,848,637	\$514,270	\$22,004	\$546,394	(\$30,608)	\$328	\$112	\$6,602,326

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

YEUN CHYANG INDUSTRIAL CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 and 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ITEMS	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$467,862	\$570,732
Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Revaluation(gains) losses on financial assets	3,667	(2,066)
Revaluation(gains) losses on financial liabilities	391	0
(Gains)losses on (recovery)decline of inventories value and obsolescence	146,200	(98,800)
Investment (gains)losses— equity method	351	(5,389)
Depreciation	168,027	141,311
Amortization	9,684	7,938
Transfer of property,plant and equipments to expense	0	36
(Gains)losses on disposal of property,plant and equipments	(6,298)	1,478
Amortization discount of convertible bonds payable	1,628	2,030
Changes in assets and liabilities:		
(Increase) Decrease in notes receivable	(42,788)	(29,121)
(Increase) Decrease in accounts receivable	(170,801)	(577,594)
(Increase) Decrease in other receivables	(214,541)	(41,034)
(Increase) Decrease in inventories	(140,894)	(958,406)
(Increase) Decrease in prepayments	238,941	(248,318)
(Increase) Decrease in other current assets	65,773	6,966
Increase (Decrease) in notes payable	(31)	621
Increase (Decrease) in accounts payable	19,570	(15,303)
Increase (Decrease) in income tax payable	48,163	44,586
Increase (Decrease) in accrued expenses	529	65,468
Increase (Decrease) in other payables	0	57,319
Increase (Decrease) in advance receives	(33,675)	256,445
Increase (Decrease) in other current liabilities	741	(205,065)
Increase (Decrease) in accrued pension liabilities	4,160	5,222
(Increase) Decrease in deferred income tax assets	(18,645)	71,794
Net cash provided by (used in) operating activities	<u>548,014</u>	<u>(949,150)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :		
Increase in financial assets carried at cost-non-current	0	(94,836)
Additions to property,plant and equipment	(277,573)	(321,250)
Proceeds from disposal of property,plant and equipment	11,965	6,271
Increase in deferred charges	(23,586)	(16,443)
(Increase) Decrease in refundable deposits	0	(17)
Additions to other assets	(18,068)	(5,800)
Net cash provided by (used in) investing activities	<u>(307,262)</u>	<u>(432,075)</u>
CASH FLOW FROM FINANCING ACTIVITIES :		
Increase (Decrease) in short-term loans	433,248	958,579
Increase (Decrease) in short-term bills payable	(103)	99,978
Redemption of bond payable	(50,100)	0
Increase in long-term loans	1,000,000	0
Payment in long-term loans	(885,507)	(35,509)
Increase (Decrease) in guarantee deposits	(83,853)	143,994
Cash dividends	(448,000)	(186,000)
Net cash provided by (used in) financing activities	<u>(34,315)</u>	<u>981,042</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>206,437</u>	<u>(400,183)</u>
CASH AND CASH EQUIVALENTS,BEGINNING OF THE YEAR	<u>266,485</u>	<u>666,668</u>
CASH AND CASH EQUIVALENTS,END OF THE YEAR	<u>\$472,922</u>	<u>\$266,485</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS :		
Cash paid during the period for :		
Interest (excluding amount capitalized)	<u>\$50,354</u>	<u>\$25,328</u>
Income tax	<u>\$77,857</u>	<u>\$1,736</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES :		
Current portion of long-term liabilities	<u>\$35,508</u>	<u>\$357,022</u>
Conversion of convertible bonds to capital stock and capital reserve	<u>\$5,509</u>	<u>\$9,337</u>

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

YEUN CHYANG INDUSTRIAL CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, UNLESS OTHERWISE
STATED)

1. ORGANIZATION AND OPERATIONS

(1) Yeun Chyang Industrial Co., Ltd (the "Company") was incorporated under the Company Law of the Republic of China on January 31, 1973. The main activities of the company are as following:

A. Steel Re-processing.

B. Heat Treatment.

C. Surface Treatment.

D. Piping Engineering.

E. Hardware Wholesale.

F. International Trade.

G. All above business transitions as allowed. Except the business under the commercial law in Taiwan, others prohibited.

(2) As of December 31, 2011 and 2010, the company had 757 and 653 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the company are prepared in accordance with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Business Accounting Law", "Criteria for Handling Business Accounting", and accounting principles generally accepted in the Republic of China. Significant accounting policies are summarized as below :

(1) 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:

(a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within 12 months from the balance sheet date;

(d) 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 12 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:

- (a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities to be paid off within 12 months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than 12 months after the balance sheet date.

(2) Foreign currency transactions

- A. The accounts of the Company are maintained in New Taiwan Dollars. Transactions settled in terms of foreign currencies are recorded in New Taiwan Dollars at the exchange rates when the transactions occurred. Gains or losses, caused by different foreign exchange rates applied when the foreign-currencies receivable or payable are settled, are credited to or charged against income in the year of actual settlement.
- 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.
- C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. 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. For long-term investments in foreign subsidiaries and investees, which are accounted for by the equity method, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. These adjustments are accumulated and reported as a separate component of stockholders' equity, and upon sale or liquidation of the the foreign subsidiaries and investees, these adjustments are charged to income.

(3) Cash equivalents

The Company considers all highly liquid instruments with maturity of three months or less to be cash equivalents.

(4) Financial assets and Financial liabilities

The Company has financial assets classified into financial assets at fair value through profit or loss, held-to-maturity investment, derivative financial assets as hedge fund, bond investment without active market trade, and available-for-sale financial assets in accordance with the R.O.C SFAS No.34 "Accounting for Financial Instruments" and "Guidelines Governing the Preparation of Financial Reports by Securities Issuers." Financial asset was originally valued at fair value;

however, financial asset that is not valued at fair value and with the change of fair value booked in the Income Statement must include the trade cost of acquisition or issuance. Financial liabilities are classified into the categories of financial liabilities with the change of fair value booked in the Income Statement, derivative financial liabilities for hedge, and financial liabilities valued at cost.

The financial asset purchased or sold by the Company is processed in accounting on the trade day.

A. Financial assets(liabilities) at fair value through profit or loss

The said financial assets/liabilities are valued at fair value and with the change of fair value booked in the Income Statement. The fair value of listed stocks and OTC stocks is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.

The financial assets(liabilities) designated as at fair value through profit or loss only when either of the following conditions is met:

- (a) A hybrid financial instruments.
- (b) It eliminates or significantly reduces a measurement or recognition inconsistency.
- (c) A group of financial assets(liabilities) is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. Financial assets carried at cost

It is the equity investment valued at cost since the fair value cannot be measured reliably. If the impairment loss of the financial asset is evidenced, an impairment loss is recognized and booked and it cannot be reversed.

C. Derivative financial liabilities for hedge

Derivative financial liabilities for hedge meant for the derivative financial liabilities designated in accordance with the hedge accounting and it is an effective hedge tool.

D. Compound financial instrument

The Company has a compound financial instrument recognized in accordance with its composing elements. The compound financial instrument includes two elements: (a) financial liabilities (b) equity instrument. The preliminary amount of the equity instrument is equal to the fair value of the compound financial instrument deducting the fair value of the liability element measured independently. Financial liabilities are valued at the fair value and with the change of fair value booked in the Income Statement. The equity instrument is divided in accordance with the equity instrument received or delivered in exchange for cash or financial assets and it is classified as equity. The value received in exchange is credited to the Shareholder's Equity while the value paid

is debited to the Shareholder's Equity. The change of the fair value of the equity instrument issued by the business may not be booked in the financial statements.

(5)Notes receivable and accounts receivable, other receivables

A. Notes receivable and accounts receivable are claims generated from the sale of goods or services. Other receivables are those receivables arising from transactions other than the sale of goods or services. Notes receivable, accounts receivable and other receivables are initially recognized at fair value, and are subsequently measured at amortized cost less impairment using the effective interest method.

B. The Company recognizes impairment loss on the financial instruments when there is an objective evidence of impairment. The amount of impairment is the book value less the present value of estimated future cash flows, discounted by original effective interest rate. If, subsequently, an event, directly related to impairment, indicates a decrease in impairment, the impairment loss recognized in prior years shall be recovered. The book value of the financial instruments after recovering the impairment shall not exceed the amortized cost that would have been had no impairment been previously recognize.

(6)Inventories

Inventories are valued in accordance with the perpetual inventory method. Cost is determined using the weighted-average method. Fixed manufacturing overhead is allocated on the basis of the normal capacity of the production equipment. If production fluctuates over interim periods, the cost variances resulting from such fluctuation are deferred in the interim financial statements. At the end of year, inventories are evaluated at the lower of cost or net realizable value, and 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 the estimated costs necessary to make the sale.

(7)Investment accounted for using equity-method

A. Investments in which the company holds more than 20 percent of the investees' voting shares has the ability to exercise significant influence on the investees' operational decisions are accounted for under the equity method. Investments in which the company holds more than 50% of the investees' voting shares or has control over the investee company (a subsidiary company), are accounted for under the equity method and are in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers in preparing the Consolidated Financial Statement.

- B. Effective Jan. 1st 2006, the Company has prepared financial statements in accordance with Statement of Financial Accounting Standards No.5 Long-term Investments under Equity Method, for the difference of acquisition cost and net equity value, are in accordance with Statement of Financial Accounting Standards No.25 Business Combinations, for those arise from depreciation, amortization of assets, are amortized over the remaining economic life since the acquisition year. The excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. The revaluation process will be conducted every year.
- C. When the Corporation subscribes for its investee's newly issued shares at a percentage differs from its percentage of ownership in the investee, the Corporation records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or debited to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.
- D. When preparing financial statements, the unrealized gain/loss arising from Long-Term Investment accounted for under the Equity method and those stated in investee company's records, will be eliminated. If the unrealized gain/lose is from depreciable assets, the gain/loss will be realized throughout the economic life.

(8) Property, plant and equipment

- A. 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. Major renewals and betterment which extend the life of an assets are capitalized, while repairs and maintenance are expensed as incurred. When an asset is sold or retired, the cost (including revaluation increment) and accumulated depreciation are removed from the respective accounts and any resulting gain or loss on disposal is recorded as non-operating.
- C. Depreciation is determined using the straight-line method over the estimated economic useful lives. The estimated useful lives of buildings are 3 ~ 35 years, machinery and equipment are 3 ~ 15 years, transportation equipment are 5 years, and others are 3 ~ 10 years.
- D. Idle assets are stated at the lower of book value or net realizable value and are classified as other assets. The difference between the book value and net

realizable value is recorded as a loss in the current period. Depreciation recognized for the period is recorded as non-operating expense and loss.

(9)Deferred charges

Deferred charges are software, etc., which are stated at cost and are amortized over a period of three to five years.

(10)Impairment of non-financial assets

The Company recognizes impairment loss when there is indication that the recoverable amount of an asset 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.

(11)Convertible bonds payable

A. For bonds payable issued after January 1, 2006, the issuer shall classify the instrument, on initial recognition as a financial liability, a financial asset or an equity instrument (capital surplus from stock warrants). 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 interest 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 remeasured 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 redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the put option is recognized as "paid-in capital"; 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 option and resetting option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized in "capital reserve from stock warrants". The amount of fair value reduction due to the reset of conversion price is recognized in "gain or loss". When a bondholder exercises his/her conversion rights, the liability component of bonds shall be

revalue 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 warrants.

(d) Costs incurred on issuance of convertible bonds are proportionately charged to the liabilities and equities of the underlying instruments based on initial recognition costs.

B. If the event that the bondholders may exercise put options within the following years, 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.

(12) Pension costs

A. The accounting for the Company’s pension liability is computed in accordance with R.O.C SFAS No.18 “Accounting for Pension” , 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, unrecognized net obligation, and amortization of gains or losses on plan assets. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

B. The adjustment of minimum liability made to the balance as of the last balance sheet date with the subsequent net pension cost recognized and contributions made to the pension fund when the Company prepares the financial statements. The Company has accrued pension liabilities recognized and booked with the data of actuary and with relevant information disclosed in accordance with R.O.C SFAS No.18 “Accounting for Pension” since 1996. Net pension cost has been recognized since 1997.

(13) Income tax

A. The Company adopted the R.O.C SFAS No.22 “Accounting for Income Taxes” for inter-period and intra-period income tax allocation. Provision for income tax includes deferred income tax resulting from temporary differences, loss carry-forward and investment tax credits. Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowance on deferred income tax assets is provided to the extent that is more likely than not that the tax benefits will not be realized. When a change in the tax laws is enacted, the

deferred tax assets or liabilities are recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax assets or liabilities, is recognized as an adjustment to current income tax expense (benefit).

B. According to the R.O.C SFAS No.12, the Company recognized the investment tax credits arising from expenditures incurred on acquisitions of equipment or technology, research and development expenditure, employee training, and equity investment are recognized in the year the related expenditures are incurred.

C. An additional 10% tax is levied on the unappropriated earnings and is recorded as expense in the year the shareholders resolved to retain the earnings.

(14) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and the amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, "Criteria for Listed Companies in Calculating the Number of Shares of Employees' Stock Bonus", the Company calculates the number of shares of employees' stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(15) Revenue recognition

Revenues are recognized when titles to products and evident risks of ownerships are transferred to customers, primarily upon shipment, since the major part of the earning process is completed and are realized or realizable.

(16) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of

revenues and expenses during the reporting period. Actual results could differ from those estimates.

(17)Operating segments

The identification and disclosure of operating segments of the Company is on the basis of how the Company’s chief operating decision maker regularly reviews information in order to allocate resources and assess performance. The chief operating decision maker of the Company is general manager.

3.CHANGES IN ACCOUNTING PRINCIPLES

(1) Notes receivable, accounts receivable and other receivables

Effective January 1, 2011, the Company prospectively adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, “Financial Instruments: Recognition and Measurement.” The Company recognizes impairment loss on notes receivable, accounts receivable and other receivables when there is an objective evidence of impairment. This change in accounting principles had no significant effect on net income and earning per share for the year ended December 31, 2011 and 2010.

(2) Operating segments

Effective January 1, 2011, the Company adopted the newly issued SFAS No. 41, “Operating Segments” which supersedes SFAS No. 20, “Segment Reporting.” This statement requires identification and disclosure of operating segments based on how the Company’s chief operating decision maker regularly reviews information in order to allocate resources and assess performance.

The Company conformed to the disclosure requirements as of and for the year period ended December 31, 2011. The information for the year period ended December 31, 2010 has been restated to reflect the new segment reporting requirement. This change in accounting principles had no significant effect on net income and earning per share for the year ended December 31, 2011 and 2010.

4.CASH AND CASHEQUIVALENTS

	December 31	
	2011	2010
Cash on hand	\$519	\$648
Petty cash	230	230
Cash in banks-checking and demand deposits	472,173	265,607
Total	\$472,922	\$266,485

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-CURRENT

	December 31	
	2011	2010
Financial asset held for trading		
Listed stocks	\$15,250	\$15,250
Redemption of Corporate bonds	0	4,220
Total	15,250	19,470
Add(Less) : Adjustment of financial assets held for trading	(9,067)	(9,196)
Net	<u>\$6,183</u>	<u>\$10,274</u>

The Company recognized net gain of \$214 thousand and \$0 for the year periods ended December 31, 2011 and 2010, respectively.

6. NOTES RECEIVABLE-NET

	December 31	
	2011	2010
Notes receivable	\$85,120	\$42,332
Less : Allowance for doubtful accounts	(211)	(211)
Net	<u>\$84,909</u>	<u>\$42,121</u>

7. ACCOUNTS RECEIVABLE-NET

	December 31	
	2011	2010
Accounts receivable	\$2,651,193	\$2,480,392
Less : Allowance for doubtful accounts	(15,583)	(15,583)
Net	<u>\$2,635,610</u>	<u>\$2,464,809</u>

1. The Company entered into an agreement with bank to sell its accounts receivable. Under the agreement, the Company is not required to bear uncollectible risk of the underlying accounts receivable. The Company has derecognized the accounts receivable. As of December 31, 2011, the outstanding accounts receivable sold to bank were as follow :

Purchaser	Bank charge rate	Account receivable sold	Amount advanced	Amount retained (Note)
Taipei Fubon Commercial Bank Co., Ltd	0.5%~1.25%	USD 9,203 thousand	USD 0 thousand	USD 9,203 thousand
Taipei Fubon Commercial BankCo., Ltd	0.6%~0.90%	EUR 2,079 thousand	EUR 564 thousand	EUR 1,515 thousand

Note : Amount retained is recognized in other receivables.

2.Overdue receivable (was booked as other assets) :

	December 31	
	2011	2010
Overdue receivable	\$172	\$1,121
Less : Allowance for doubtful accounts	(172)	(1,121)
Net	<u>\$0</u>	<u>\$0</u>

As of Year 2011 and 2010, doubtful accounts that can no longer be collected are written off by \$929 thousand and \$0.

8.INVENTORIES

	December 31	
	2011	2010
Merchandise	\$149,943	\$162,912
Finished goods	2,622,525	2,378,084
Work in process	51,270	119,972
Semi-finished goods	373,771	317,075
Raw materials	2,250,515	2,342,968
Supplies	47,586	39,823
Residual product	44,433	38,315
Total	<u>5,540,043</u>	<u>5,399,149</u>
Less : Allowance for the decline of inventory	(187,300)	(41,100)
Net	<u>\$5,352,743</u>	<u>\$5,358,049</u>

Inventory related operating costs of December 31, 2011 and 2010, respectively are listed as below:

	2011	2010
Cost of goods sold	\$26,072,560	\$20,487,914
Loss (gain) on physical inventory	2,110	7,730
Inventory disposal	7,137	5,572
Scrap Sales	(171,109)	(147,069)
(Gains)Losses on (recovery) decline of inventories value and obsolescence	146,200	(98,800)
Total	<u>\$26,056,898</u>	<u>\$20,255,347</u>

9.INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investee	%	December 31	
		2011	2010
Ji-mao Investment corporation,Ltd	100.00	<u>\$97,144</u>	<u>\$120,841</u>

- (1) The Company's investment in Ji-mao Investment Corporation, Ltd. is valued with the Equity Method. The 2011 and 2010 certified financial statements of the invested company were retrieved and with investment income/loss for an amount of (\$351) thousand and \$5,389 thousand and unrealized financial

instrument gain/loss recognized for an amount of (\$23,346) thousand and \$11,968 thousand, respectively.

- (2) As of December 31, 2011 and 2010, unrealized income for the sale of marketable security to the related party amounted to \$3,793 thousand, respectively, and was booked as “other liabilities.”

10. FINANCIAL ASSETS CARRIED AT COST-NON-CURRENT

Asset items	December 31	
	2011	2010
Unlisted stocks	\$187,444	\$187,444
Less : Accumulated impairment	0	0
Net	\$187,444	\$187,444

11. PROPERTY, PLANT AND EQUIPMENT

Asset	December 31, 2011		
	Original cost	Accumulated depreciation	Book value
Land	\$1,087,269	\$0	\$1,087,269
Buildings	564,836	156,169	408,667
Machinery and equipment	1,495,998	791,473	704,525
Transportation equipment	79,948	26,933	53,015
Office equipment	31,393	12,940	18,453
Leasehold improvements	4,380	515	3,865
Other equipment	173,504	109,026	64,478
Construction in progress	27,183	0	27,183
Prepayment for equipment	12,059	0	12,059
Total	\$3,476,570	\$1,097,056	\$2,379,514

Asset	December 31, 2010		
	Original cost	Accumulated depreciation	Book value
Land	\$1,087,269	\$0	\$1,087,269
Buildings	524,822	130,804	394,018
Machinery and equipment	1,324,683	684,409	640,274
Transportation equipment	83,820	33,625	50,195
Office equipment	29,203	9,866	19,337
Leasehold improvements	4,380	172	4,208
Other equipment	157,483	98,971	58,512
Prepayment for equipment	41,639	0	41,639
Total	\$3,253,299	\$957,847	\$2,295,452

- (1) The insurance coverage for property, plant and equipment were \$473,382 thousand and \$478,804 thousand as of December 31, 2011 and 2010.

- (2) Interest capitalized amounted to \$730 thousand and \$1,839 thousand for the year ended December 31, 2011 and 2010, respectively.
- (3) Refer to Note 26 for information on property, plant and equipment.

12. OTHER ASSETS

	December 31	
	2011	2010
Other assets – Land	\$59,407	\$41,339
Other assets – Artist	32,253	32,253
Total	\$91,660	\$73,592

The aforementioned Other assets – Land meant for Lot 73 (9,621 m²), 75-1, and 75-2 (2,044 m²), and 74-6(1,606 m²) located at Jiumei Section, Xizho Township, Changhua County and land meant for Lot115 (171 m²) , 115-1 and 115-2 (3,128 m²), and 116(120 m²) located at Xinguan Section, Puxin Township, it is zoned for agriculture and ranch but used for a parking lot and finished goods storage, and delivery loading/unloading area ; moreover, the ownership to the lot cannot be transferred by law temporarily; therefore, it is registered in the name of Mr. G.Y. Chang, General manager of the Company. The said eight lots of land are used as collateral for a mortgage loan for an amount of \$95,000 thousand.

13. SHORT-TERM LOANS

ITEMS	Collateral	December 31	
		2011	2010
Short-term loans for			
exporting	—	\$824,710	\$922,231
material purchase	—	2,039,799	1,509,030
Total		\$2,864,509	\$2,431,261
Range of interest rates		0.2257% ~ 2.73%	0.45520% ~ 2.59%

14. SHORT-TERM BILLS PAYABLE

		December 31	
<u>Short-term bills payable</u>	<u>Collateral</u>	<u>2011</u>	<u>2010</u>
Commercial paper	—	\$100,000	\$100,000
Unamortized discounts		(125)	(22)
Net		<u>\$99,875</u>	<u>\$99,978</u>
Range of interest rates		1.038% ~ 1.158%	0.688% ~ 0.710%

15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS-CURRENT

		December 31	
		<u>2011</u>	<u>2010</u>
Financial liabilities held for trading			
Reset provision value of corporate bond		\$0	\$1,680
Put option value of corporate bond investor		0	2,205
Total		0	3,885
Less : Adjustment of financial liabilities held for trading		0	(3,885)
Total		<u>\$0</u>	<u>\$0</u>

16. BONDS PAYABLE

		December 31	
<u>Bonds payable</u>		<u>2011</u>	<u>2010</u>
Domestic unsecured convertible bonds in 2006		\$300,000	\$300,000
Less : Converted amount		(249,700)	(244,100)
Less : Redeemed amount		(200)	(200)
Less : Discount of bonds		(0)	(1,686)
Less : Mature on October 26, 2011		(50,100)	(0)
Net		0	54,014
Less : Current portion		(0)	(54,014)
Non-current portion		<u>\$0</u>	<u>\$0</u>

On October 27, 2006, the company issued 2nd domestic unsecured convertible bonds. Main issuance clauses are as follows:

- (1) Total issuance amount: NT\$300 million. The 2nd domestic unsecured convertible bonds are issued at NT\$100,000 par in full value.
- (2) Issuance period: Five years from October 27, 2006 to October 26, 2011.
- (3) Redemption method: Except for redemption, call option, and conversion, the

loan is paid in a lump sum on the due date.

(4) Call option of the Company:

The Company may have the bonds called from creditors in the following occasions:

- A. If the close-price of the Company's common stock exceeding the conversion price for over 50% 30 business days consecutively in the time period from the next day of the 1st domestic unsecured convertible bonds issued for one month to 40 days prior to the expiration date, the Company may inform bondholders and GreTai Securities Market in writing in 30 business days thereafter to have the call price calculated in accordance with the call yield rate listed in clause (c) and to have all bonds called with cash.
- B. If the outstanding 2nd domestic unsecured convertible bonds is less than 10% of the total issuance in the time period from the next day of the 2nd domestic unsecured convertible bonds issued for one month to forty days prior to the expiration date, the Company may inform bondholders and GreTai Securities Market in writing to have the call price calculated in accordance with the call yield rate listed in clause (c) and to have all bonds called with cash.
- C. Call yield rate:
 - (a) For the 2nd domestic unsecured convertible bonds that are issued from the next day of the 2nd domestic unsecured convertible bonds issued for one year to the end of the fourth year, the call price is the face value of the bond plus interest compensation (from the issuance date of the bond to the call baseline date) that is equivalent to 1% yield.
 - (b) For the 2nd domestic unsecured convertible bonds that are issued from the next day of the 2nd domestic unsecured convertible bonds issued for three years to forty days prior to the expiration date, the 2nd domestic unsecured convertible bonds is called at the face value.

(5) Put option of creditors:

Holder of the 2nd domestic unsecured convertible bonds may request the Company to have the bonds called at 103.03% and 104.06% of the face value with cash 30 days prior to the bonds issued for three years and four years, respectively.

(6) Conversion method:

Creditors may request to have the 2nd domestic unsecured convertible bonds converted to the common stock shares of the Company in the time period from the day the bonds are issued for one month to 10 days prior to the expiration date.

- A. Conversion price: The conversion price at the time of issuance is \$41.6/share. The conversion price was adjusted to \$32.5/share on August 14, 2007. The conversion price was adjusted to \$25.2/share on September 8, 2008. The conversion price was adjusted to \$23.3/share on September 18, 2009. The conversion price was adjusted to \$22.7/share on July 24, 2010. The conversion price was adjusted to \$21.4/share on August 1, 2011.

B. Conversion price adjustment:

Upon the issuance of the 2nd domestic unsecured convertible bonds, except for the conversion to common stock of the Company's marketable security that is convertible to common stock or stock option, conversion price is to be adjusted according to the formula (adjusted down but not up) upon the increase of common stock shares (including but not limiting to subscription issuance or

private subscription for the process of depository receipts with cash capitalization, capitalization from retained earnings, capitalization from capital surplus, capitalization from employee's bonus, merger or accepting stock shares from other companies for stock issuance, stock split or cash capitalization). In addition to the aforementioned anti-dilution clauses for conversion price adjustment, conversion price is defined downwards (not upwards) in accordance with formula on the baseline date (cash dividend baseline date or stock dividend baseline date whichever is sooner, or, on September 30 if not stock dividend or cash dividend is distributed) that is also the cash dividend baseline date or stock dividend baseline date throughout the issuance period; however, the price may not be below 80% of conversion price (could be adjusted due to the change of the Company's total common stock shares) at the issuance time.

(7)The conversion of the Company's second unsecured convertible bonds are separated from liabilities at the time of issuance in accordance with R.O.C. SFAS No. 36; also, it is booked in "Capital surplus – stock warrants" for an amount of \$52,599 thousand. The correlated call option, put option, and price reset provision inserted are also separated for process in accordance with R.O.C. SFAS No. 34 since it is not closely related to the economic features and risk of the contracted liability instrument; moreover, it is booked in "Financial assets at fair value through profit or loss - current" and "Financial liabilities at fair value through profit or loss - current".

17. LONG-TERM LOANS

Types of Loans	Collateral	December 31	
		2011	2010
Secured loans :			
Bank Of Taiwan	Land	\$232,000	\$255,200
Bank Of Taiwan	Buildings	129,231	141,538
Mega International Commercial Bank	Land 、 buildings	500,000	500,000
Hua Nan Bank	Land 、 buildings	380,000	130,000
Unsecured loans :			
Hua Nan Bank	—	120,000	220,000
Total		1,361,231	1,246,738
Less : Current portion		(35,508)	(303,008)
Long-term loans		\$1,325,723	\$943,730
Range of interest rates		1.3319% ~ 1.5539%	1.1945% ~ 1.3319%

The Company had issued guarantee notes totaling \$500,000 thousand for long-term loans, collateral information for long-term loans please refer to Note.26.

18. PENSION PLANS

(1) The Company has set up a defined benefit pension plan in accordance with the Labor Standards Law, which applies to formal employees before the enforcement of the Labor Pension Act (the "Act") on July 1, 2005 and the employees who choose to be covered under the pension scheme of the Labor Standards Law after the enforcement of the Act. Under the defined benefit plan, two units are granted for each year of service for the first 15 years and one unit is granted for each additional year thereafter, subject to a maximum of 45 units. Pensions paid upon retirement are based on the number of units granted and the average monthly salaries and wages of the last six months prior to retirement. The Company contributes monthly an amount equal to 5% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan under the name of the independent retirement fund committee. The Company has pension arranged in accordance with R.O.C. SFAS No.18 also, pension disclosure is made in accordance with the actuary's report:

A. The item of net periodic pension cost as of December 31, 2011 and 2010 were as follows :

	2011	2010
Service cost	\$1,440	\$1,953
Interest cost	3,644	3,711
Expected return of pension assets	(214)	(131)
Amortization of net transition asset or obligation	3,301	3,301
Amortization of pension loss (income)	2,203	2,660
Net periodic pension cost	<u>\$10,374</u>	<u>\$11,494</u>

B. Reconciliation of funded status of the plan and accrued pension cost at December 31, 2011 and 2010 :

	December 31	
	2011	2010
Benefit obligation :		
Vested benefit obligation	\$40,704	\$30,358
Non-vested benefit obligation	98,263	95,679
Accumulated benefit obligation	138,967	126,037
Additional benefit based on future salaries	40,055	38,505
Projected benefit obligation	179,022	164,542
Fair value of plan assets	(13,237)	(9,763)
Funded status	165,785	154,779
Unrecognized net transition obligation	(0)	(3,301)
Unrecognized net loss(gain)	(70,663)	(60,508)
Additional liability	30,608	25,305
Accrued pension liabilities	\$125,730	116,275
Pension payable	(531)	(539)
Accrued pension liabilities	<u>\$125,199</u>	<u>\$115,736</u>

C. Primary Actuarial assumptions :

	December 31	
	2011	2010
Discount rate used in determining present values	2.00%	2.25%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

(2) As a result of the enforcement of the Act, the Company set up a defined contribution pension plan which took effect from July 1, 2005. The local employees are eligible for the defined contribution plan. For employees who choose to be covered under the pension scheme of the Act, the Company contributes monthly an amount of not less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. Pensions are paid in monthly installments or in lump sum based on the accumulated balances of the employees' individual pension accounts. The net pension costs recognized under the defined contribution plan for the year periods ended December 31, 2011 and 2010 were \$17,080 thousand and \$9,058 thousand respectively.

19. CAPITAL STOCK

- (1) As of December 31, 2011 and 2010, at NT\$10 par value per share, the company's total authorized outstanding common stock consisted of 370,118,857 shares and 369,858,250 shares.
- (2) On October 27, 2006, the company issued 2nd domestic unsecured convertible bonds. As of December 31, 2011, bondholders had converted to and registered 7,709,481 common stock shares at \$10 par.

20. CAPITAL SURPLUS

The R.O.C Company Law requires that capital reserve shall be exclusively used to cover accumulated deficits or to increase capital and shall not be used for any other purpose. However, capital reserve arising from paid-in capital in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficits and the amount to be capitalized does not exceed 10% of paid-in capital.

21. RETAINED EARNINGS

- (1) The net income of the Company, if any, is distributed in the order of:
 - A. Paying taxes
 - B. Making up losses
 - C. Deduction A & B afterwards, Appropriating 10% of the balance as legal reserve.
 - D. Appropriating special reserve from the net income according to law or regulations, special reserve will be transferred to retained earnings for distribution once the conditions of appropriation are cancelled or reversed.
 - E. Deducting A to D item and adding the appropriation of special surplus

reversed amount :

- (a) Remuneration to directors and supervisors – 2%.
- (b) Bonus to employees – 5%.

F.The balance of A to E item is partially or entirely distributed to shareholders proportionally to shareholdings.

(2) Dividend policy :

The Company is in a traditional business operation and is in a “mature” business lifecycle; therefore, a stable dividend policy is preferred. For the protection of shareholder’s equity and the working capital needed by the Company, shareholders bonus is distributed with \$0.5/per share in cash. If the Company is with significant expansion or transfer investment planned in the year of dividend distribution, the distribution of cash dividend can be adjusted proportionally or replaced by stock dividend for the fund demand of the Company.

(3) The appropriation of 2010 and 2009 earnings had been resolved at the stockholders' meeting on June 22, 2011 and June 17, 2010, respectively. Details are summarized below:

	2010		2009	
	Amount	Dividends per share(in dollars)	Amount	Dividends per share(in dollars)
Legal reserve	\$57,073		\$23,006	
Special reserve	0		22,613	
Cash dividends	448,000	\$1.21127486	186,000	\$0.503386027
Total	<u>\$505,073</u>		<u>\$231,619</u>	
Remuneration to directors and supervisors	\$10,423		\$3,689	
Bonus to employees	26,058		9,222	
Total	<u>\$36,481</u>		<u>\$12,911</u>	

Please refer to the Market Observation Post System for the distribution of bonus to employees and remunerations to the Directors and Supervisors drafted up by the Board of Directors and resolved by the Shareholder’s Meeting.

(4) The estimated amount of employees’ bonuses of 2011 and 2010 are \$20,624 thousand and \$26,058 thousand respectively, and the estimated amount of directors’ and supervisors’ remuneration of 2011 and 2010 are \$8,249 thousand and \$10,423 thousand respectively, based on a certain percentage prescribed by the Company’s Articles of Incorporation of net income.

22.INCOME TAX

(1) The company’s income tax returns prior to 2008 have been assessed and

approved by the Tax Authority.

(2) Income tax expense is comprised of the followings :

	December 31	
	2011	2010
Income tax at the statutory tax rate	\$97,791	\$117,104
Tax effect of permanent differences	1,571	(538)
Tax effect of change in tax rate	0	13,992
Tax effect of investment tax credits	(119)	(14,158)
Under provision of prior year's income tax	816	1,715
10% tax on unappropriated earnings	7,317	0
Income tax expense	<u>107,376</u>	<u>118,115</u>
Less : Net changes of deferred income tax assets (liabilities)	18,644	(71,793)
Payment of prior year's income tax	(816)	(1,715)
Prepaid and withholding taxes	<u>(32,455)</u>	<u>(21)</u>
Income tax payable	<u><u>\$92,749</u></u>	<u><u>\$44,586</u></u>

(3)Deferred income tax assets(liabilities) arising from :

	December 31	
	2011	2010
Deferred tax assets(liabilities)-current :		
Unrealized losses on decline of inventories value obsolescence	\$31,841	\$6,987
Unrealized losses(gains) on foreign exchange	(493)	6,423
Allowance for bad debts(ratified amount)	(1,415)	(1,415)
Recognize permanent loss of investment in valuation (Cost Method)	150	150
Net	<u>\$30,083</u>	<u>\$12,145</u>
Deferred tax assets-non-current :		
Accrued pension cost	<u>\$16,143</u>	<u>\$15,436</u>
Net	<u>\$15,143</u>	<u>\$15,436</u>

(4)At December 31,2011 and 2010, the related information of shareholders' deductible income tax is as follow :

	December 31	
	2011	2010
Shareholders' deductible income tax account	<u>\$42,637</u>	<u>\$29,158</u>
Creditable ratio-predicated	<u>22.54%</u>	—

Creditable ratio-actual	—	<u>12.94%</u>
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(5)The unappropriated retained earnings information :

	December 31	
	2011	2010
For 1997 and prior years	\$0	\$0
For 1998 and thereafter	546,394	576,096
Total	\$546,394	\$576,096

23. EARNINGS PER SHARE

	Amounts(Numerator)		shares(Denominator) (Thousands)	EPS(NT\$)	
	Before Income tax	After Income tax		Before Income tax	After Income tax
<u>For the year ended December 31, 2011</u>					
Basic EPS	\$575,238	\$467,862	369,910	\$1.56	\$1.26
Diluted EPS	\$575,238	\$467,862	371,184	\$1.55	\$1.26
<u>For the year ended December 31, 2010</u>					
Basic EPS	\$688,847	\$570,732	369,574	\$1.86	\$1.54
Diluted EPS	\$690,877	\$572,416	373,275	\$1.85	\$1.53

(1)Dilutive effect of potential common shares including employees' bonus and convertible bonds.

(2)Effective January 1. 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would increase from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, taking into account the dilutive effects of stock bonus on potential common shares.

24. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSE

	2011
--	------

	Operating Costs	Operating Expenses	Total
Personnel expenses			
Salary	\$347,633	\$113,991	\$461,624
Labor and health insurance	29,738	5,953	35,691
Pension	21,049	6,405	27,454
Other	55,638	10,322	65,960
Depreciation	153,700	14,327	168,027
Amortization	8,441	1,243	9,684

	2010		
	Operating Costs	Operating Expenses	Total
Personnel expenses			
Salary	\$311,882	\$119,072	\$430,954
Labor and health insurance	21,818	5,046	26,864
Pension	14,399	6,153	20,552
Other	43,244	8,705	51,949
Depreciation	128,590	12,721	141,311
Amortization	6,497	1,441	7,938

25. RELATED PARTY TRANSACTIONS

(1) Related parties and relationship

Name of related parties	Relationship
Ji-Mao Investment Corporation.,Ltd	A company which is accounted for by equity method
All the directors,key management and personnel	The company's director,key management and personnel

(2) Significant transactions with related parties

Others revenue

Name of related parties	2011		2010	
	Amount	Percentage of account	Amount	Percentage of account
Ji-Mao Investment Corporation.,Ltd	\$36	0.10	\$36	0.13

(3) Compensation to directors, supervisors and managers

	2011	2010
Salaries, incentives and special compensation	\$34,435	\$34,736
Compensation to directors and supervisors	8,249	10,423
Employees' bonuses	4,674	6,226
Professional fee	6,491	6,049
	\$53,849	\$57,434

The compensation to directors, supervisors and managers for the year ended December 31, 2011 included the bonus appropriation from 2010 earnings

approved in 2011 AGM. While that for the year ended December 31, 2010 included the board's proposed bonus appropriation from 2009 earnings subject to approval in 2010 AGM. More detailed information may be referred in the Corporation's annual reports.

26. ASSETS PLEDGED OR MORTGAGED

	Book value		Mortgaged with
	December31,2011	December31,2010	
Land	\$1,055,468	\$1,055,468	Loan-term loans
Buildings	340,415	334,089	Loan-term loans
Restricted assets-current	800	800	For the use of natural gas.
Total	<u>\$1,396,683</u>	<u>\$1,390,357</u>	

27. COMMITMENTS AND CONTINGENT EVENTS

As of December 31, 2011, the following events were not included in the financial statements of the company:

- (1) The Company had issued guaranteed notes to banks and suppliers for an amount of \$10,783,603 thousand for loans and raw material acquisition.
- (2) The Company had a outstanding L/C issued for raw material acquisition for an amount of \$407,952 thousand.
- (3) The Company had a guaranteed letter issued for an amount of \$8,680 thousand by the bank as collateral for raw material acquisition.
- (4) The Company had outstanding commitments on new plant building contracts totaling \$9,470 thousand.

28. OTHERS

(1) Financial instrument at fair value

Non-derivative financial instruments	December31,2011	
	Book value	Fair value
<u>Assets</u>		
Cash and cash equivalents	\$472,922	\$472,922
Financial assets at fair value through profit or loss-current	6,183	6,183
Notes receivable - net	84,909	84,909
Accounts receivable - net	2,635,610	2,635,610
Financial assets carried at cost - non-current	187,444	—
Refundable deposits	160	160
<u>Liabilities</u>		
Short-term loans	\$2,864,509	\$2,864,509
Short-term bills payable	99,875	99,875
Notes payable	722	722
Accounts payable	245,086	245,086
Bonds payable(including current portion of bonds payable)	0	0
Long-term loans(including current portion of long-term loans)	1,361,231	1,361,231

Guarantee deposits	184,932	184,932
<u>Non-derivative financial instruments</u>		
	December 31, 2010	
<u>Assets</u>	<u>Book value</u>	<u>Fair value</u>
Cash and cash equivalents	\$266,485	\$266,485
Financial assets at fair value through profit or loss-current	10,274	10,274
Notes receivable - net	42,121	42,121
Accounts receivable - net	2,464,809	2,464,809
Financial assets carried at cost - non-current	187,444	187,444
Refundable deposits	160	160
<u>Liabilities</u>	<u>Book value</u>	<u>Fair value</u>
Short-term loans	\$2,431,261	\$2,431,261
Short-term bills payable	99,978	99,978
Notes payable	753	753
Accounts payable	225,516	225,516
Bonds payable(including current portion of bonds payable)	54,014	54,014
Long-term loans(including current portion of long-term loans)	1,246,738	1,246,738
Guarantee deposits	268,785	268,785
<u>Derivative financial instruments</u>		
	December 31, 2010	
<u>Assets</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets at fair value through profit or loss-current	\$556	\$556
<u>Liabilities</u>	<u>Book value</u>	<u>Fair value</u>
Financial liabilities at fair value through profit or loss-current	\$0	\$0

(2) The methods and significant assumptions applied in determining fair value of financial instruments were as follows :

- A. The fair value of the short-term financial instrument is estimated according to the face value on the Balance Sheet. Since the short-term financial instrument is with a relatively short due date, it is reasonable to have the fair value estimated according to the face value. The said method is applied for cash and cash equivalent, notes receivable and accounts receivable, short-term loans, short-term bills payable, and notes payable and accounts payable.
- B. If there is market price available for reference, the said market price is the fair value of the financial instrument. If there is no market price available for reference, the fair value of the financial instrument is estimated in accordance with the Valuation Method. The estimation and assumption applied is in compliance with the information used by market participants to price financial instrument. The discount rate of the company is same as the return rate of the financial instrument that is equivalent in terms and traits. The said terms and traits include the creditability of debtors, remaining time period of interest charged with a fixed rate, remaining time period to pay principal, and currency of payment.

- C. Long-term loan is a financial liability with floating rate; therefore, the face value is the fair value.
- D. The market value of the bond payable that was issued on January 1, 2006 is the fair value. The discount value of the call cash flow for bond payable that was issued before December 31, 2005 is the fair value.
- E. The guarantee margin and deposit paid and received is cash expense; therefore, the book value is the fair value.

(3) Risks of the Company's financial instruments :

A. Market risk

The company does not have substantial investment in the equity of the listed/OTC company; therefore, even though the fair value does fluctuate along with the market price; however, the company faces no significant price risk. The loans of the company are with floating rate; therefore, no significant market risk is expected.

B. Credit risk

Credit risk meant for the risk of loss resulted from the non-performance of the contract parties. The company has the risk of receivables from debtors evaluated in accordance with the credit policy; therefore, no significant credit risk is expected. The company deals with reputable financial institutes only; therefore, the counter party of the company's loan is less likely to breach a contract.

C. Liquidity risk

The company has sufficient working funds reserved; therefore, no liquidity risk of insufficient funds for performance is expected. Except for the financial instrument valued with Cost Method and equity investment valued with Equity Method are with significant liquidity risk due to the lack of active market for trade, the company's investment in stock shares is with active market for trade; therefore, financial instrument can be traded promptly in market at a price close to the fair value.

D. Cash flow risk of interest rate change

The company's short-term loans and long-term loans are with a floating rate; therefore, market rate change will cause the effective interest rate of short-term loan and long-term loan to change and with future cash flow fluctuated. Moreover, the company's corporate bond payable is a bond with zero rate; therefore, market rate change does not affect the company's future cash flow.

(4) The significant financial assets and liabilities denominated in foreign currencies

	December 31, 2011		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>			
<u>Currency item</u>			
USD	\$51,801	30.275	\$1,568,284
EUR	3,311	39.180	129,736
<u>Financial liabilities</u>			
<u>Currency item</u>			
USD	11,512	30.275	348,517

	December 31, 2010		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>			
<u>Currency item</u>			
USD	\$34,745	29.13	\$1,012,108
EUR	2,314	38.920	90,069
<u>Financial liabilities</u>			
<u>Currency item</u>			
USD	3,530	29.13	102,821

29. ADDITIONAL DISCLOSURE

(3) Significant transactions

No.	Items	Remark
1	Financing provided.	None
2	Endorsement/guarantee provide.	None
3	Marketable securities held.	Table 1
4	Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital.	None
5	Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital.	None
6	Disposal of individual real estate at price of at least \$100 million or 20% of the paid-in capital.	None
7	Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital.	None
8	Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital.	None
9	Derivative transactions.	None

Tables 1 : Marketable securities held

Holding Company Name	Marketable securities type and name	Relationship with the company	Financial statement account	December 31, 2011			
				(In thousands of New Taiwan dollars)			
				Shares/Units (thousands)	Book value	Percentage of ownership	Market value or net assets value
YEUN CHYANG INDUSTRIAL CO., LTD	<u>Common stock</u> YEOU YIH STEEL CO., LTD	—	Financial assets held for trading	615	\$6,183	—	@10.05
“	Ji-Mao Investment Corporation, Ltd	The Company's subsidiary	Investee accounted for using equity method	10,000	97,144	100%	@9.7144
“	ABGENOMICS INTERNATIONAL INC.	—	Financial assets carried at cost-non-current	733	31,900	3.64%	—
“	<u>Pefered stock</u> ABGENOMICS INTERNATIONAL INC.	—	Financial assets carried at cost-non-current	1,000	155,544	—	—
Ji-Mao Investment Corporation, Ltd	<u>Common stock</u> YEOU YIH STEEL CO., LTD	—	Available-for-sale financial assets-current	3,560	35,773	—	@10.05
“	KENDA RUBBER IND CO., LTD	—	Financial assets held for trading-current	666	20,114	—	@30.20
“	GRAND PACIFIC PETROCHEMICAL CORPORATION	—	Financial assets held for trading-current	1,000	13,000	—	@13.00
“	Jiin Yeeh Ding Enterprise CORP.	—	Financial assets held for trading-current	616	19,585	—	@31.80

(4) Name, Locations and related information of investee over which the company exercises significant influence

Investor	Investee	Location	Main business and products	Original investment amount		Balance as of December 31, 2011			Shareholding rate * invested company's year end net value	Net income (loss) of the investment	Investment Income(loss)	The invested company's dividend distribution of the year		Note
				December 31, 2011	December 31, 2010	Shares (thousands)	Percentage of ownership	Book value				Stock dividend	Cash dividend	
YEUN CHYANG INDUSTRIAL CO., LTD	Ji-Mao Investment Corporation, Ltd	Chang-Hwa, Taiwan	Investment	100,120	100,120	10,000	100%	97,144	97,144	(351)	(351)	0	0	

30. OPERATING SEGMENT INFORMATION

(1) Basic information

The Company recognizes the operating segments based on the reporting information used by chief operating decision maker to allocate resources to the segments and assess their performance. The chief operating decision maker operates the business by products, and the Company's reportable segments are segregated into stainless steel sheet/coil, stainless steel welded pipe/tube, and other operating segments (such like stainless steel angles, flat bar, and U-Channel) which did not exceed the quantitative threshold so that they are not the reportable segments. The reportable segments' revenue are arising from manufacturing and selling stainless steel products.

(2) Measurement of Segment Information

The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 2. The Company's segment profit(loss) is measured with the operating profit(loss) exclude directors' and supervisors' remuneration, which is used as a basis for the Company assessing the performance of the operating segment.

(3) Information on profit or loss, assets and liabilities

The segment information provided to the chief operating decision maker for the reportable segments is as follows:

As of and for the year ended December 31, 2011

	Stainless Steel Sheet/Coil	Stainless Steel Welded Pipe/Tube	Others	Total
Revenue				
External revenue-net	\$16,949,759	\$9,984,816	\$464,800	\$27,399,375
Internal revenue-net	\$0	\$0	\$0	\$0
Segment profit(loss)	\$170,073	\$349,135	(\$26,182)	\$493,026
Segment assets	\$1,138,754	\$2,044,839	\$289,493	\$3,473,086

As of and for the year ended December 31, 2010

	Stainless Steel Sheet/Coil	Stainless Steel Welded Pipe/Tube	Others	Total
Revenue				
External	\$13,232,333	\$8,174,210	\$441,415	\$21,847,958
revenue-net				
Internal	\$0	\$0	\$0	\$0
revenue-net				
Segment	\$369,659	\$385,249	\$4,249	\$759,157
profit(loss)				
Segment assets	\$989,175	\$1,966,786	\$285,168	\$3,241,129

(4)Reconciliations Information of Segment Income

The sales between segments were under the fair trading principle. The external revenues reported to chief operating decision maker adopts the same measurement for revenues in income statement.

The reconciliations of pre-tax income between reportable segments and continuing operation were as follows:

	2011	2010
Income of reportable segments	\$493,026	\$759,157
Directors' and supervisors' remuneration	(8,249)	(10,423)
Non-operating income and gain	146,924	36,476
Non-operating expenses and losses	(56,463)	(96,363)
Income from continuing operations before income tax	\$575,238	\$688,847

(5)Geographical Information

The geographical information for the year ended December 31, 2011 and 2010 are as follow:

	2011		2010	
	Sales	Percentage of net sales	Sales	Percentage o f net sales
Asia	\$9,677,072	35.31	\$8,456,134	38.71
Europe	7,830,381	28.58	5,498,993	25.17
America	6,399,828	23.36	4,422,752	20.24
Other	3,492,094	12.75	3,470,079	15.88
Total	\$27,399,375	100.00	\$21,847,958	100.00

Note : All non-current assets are located in the Company's country of

domicile.

(6) Major customers

The company had no customers with exceeding 10% of the total operating revenues for 2011 and 2010.

31. RECLASSIFICATION

To Conform with the presentation of financial statements of 2011, certain accounts of the 2010 financial statements have been reclassified.