

YC INOX CO., LTD.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2012 AND 2011
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
YC INOX Co., Ltd.

We have audited the accompanying balance sheets of YC INOX Co., Ltd. as of December 31, 2012 and 2011, 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 YC INOX Co., Ltd. as of December 31, 2012 and 2011, 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 YC INOX Co., Ltd. and subsidiaries as of and for the years ended December 31, 2012 and 2011.



Certified Public Accountants
Taipei, Taiwan R.O.C.
March 29, 2013

YC INOX CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2012 and 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	2012	%	2011	%
CURRENT ASSETS				
Cash and cash equivalents(Note4)	\$437,808	4.03	\$472,922	3.92
Financial assets at fair value through profit or loss-current(Note5)	7,629	0.07	6,183	0.05
Notes receivable - net	89,832	0.83	84,909	0.70
Accounts receivable - net(Note6)	2,300,684	21.21	2,635,610	21.83
Other receivables(Note6)	326,352	3.01	662,480	5.49
Inventories(Note7)	4,666,172	43.02	5,352,743	44.33
Prepayments	26,070	0.24	17,551	0.15
Other current assets(Note24)	7,720	0.07	2,299	0.02
Deferred income tax assets-current(Note20)	17,015	0.16	30,083	0.25
Total current assets	<u>7,879,282</u>	<u>72.64</u>	<u>9,264,780</u>	<u>76.74</u>
FUNDS AND INVESTMENTS				
Investments accounted for using equity method(Note8)	116,118	1.07	97,144	0.80
Financial assets carried at cost - non-current(Note9)	276,958	2.55	187,444	1.56
Total investments	<u>393,076</u>	<u>3.62</u>	<u>284,588</u>	<u>2.36</u>
PROPERTY, PLANT AND EQUIPMENT(Notes10&24)				
Land	1,087,269	10.03	1,087,269	9.01
Buildings	597,960	5.51	564,836	4.68
Machinery and equipment	1,540,198	14.20	1,495,998	12.38
Transportation equipment	89,211	0.82	79,948	0.66
Office equipment	32,287	0.30	31,393	0.26
Leasehold improvements	4,380	0.04	4,380	0.04
Other equipment	183,592	1.69	173,504	1.44
Total cost	3,534,897	32.59	3,437,328	28.47
Less : Accumulated depreciation	(1,244,852)	(11.47)	(1,097,056)	(9.09)
Construction in progress	78,454	0.72	27,183	0.23
Prepayment for equipment	64,072	0.59	12,059	0.10
Net property and equipment	<u>2,432,571</u>	<u>22.43</u>	<u>2,379,514</u>	<u>19.71</u>
OTHER ASSETS(Note6)				
Refundable deposits	153	0.00	160	0.00
Deferred charges	32,723	0.30	35,758	0.30
Deferred income tax assets - non-current(Note20)	16,356	0.15	16,143	0.13
Other assets(Note11)	92,352	0.86	91,660	0.76
Total other assets	<u>141,584</u>	<u>1.31</u>	<u>143,721</u>	<u>1.19</u>
TOTAL ASSETS	<u><u>\$10,846,513</u></u>	<u><u>100.00</u></u>	<u><u>\$12,072,603</u></u>	<u><u>100.00</u></u>

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

YC INOX CO., LTD.
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2012 and 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND SHAREHOLDERS' EQUITY	2012	%	2011	%
CURRENT LIABILITIES				
Short-term loans(Note12)	\$1,673,556	15.43	\$2,864,509	23.72
Short-term bills payable(Note13)	99,968	0.92	99,875	0.83
Notes payable	268	0.00	722	0.01
Accounts payable	234,208	2.16	245,086	2.03
Income tax payable(Note20)	0	0.00	92,749	0.77
Accrued expenses	186,697	1.72	219,033	1.81
Other payables	8,173	0.08	37,143	0.31
Advance receives	208,265	1.92	225,189	1.87
Current portion of long-term liabilities(Note15)	77,174	0.71	35,508	0.29
Other current liabilities	16,980	0.16	9,926	0.08
Total current liabilities	2,505,289	23.10	3,829,740	31.72
LONG-TERM LIABILITIES				
Long-term loans(Note15)	1,548,549	14.28	1,325,723	10.98
RESERVE				
Reserve for land tax revaluation increment	890	0.01	890	0.01
OTHER LIABILITIES				
Accrued pension liabilities(Note16)	125,119	1.16	125,199	1.04
Guarantee deposits	173,780	1.60	184,932	1.53
Deffered credit(Note8)	3,793	0.03	3,793	0.03
Total other liabilities	302,692	2.79	313,924	2.60
TOTAL LIABILITIES	4,357,420	40.18	5,470,277	45.31
SHAREHOLDERS' EQUITY				
Capital stock(Note17)				
Common stock	3,701,189	34.12	3,701,189	30.66
Capital surplus(Note18)				
Additional paid-in capital	1,473,499	13.59	1,473,499	12.21
Premium of convertible bonds payable	369,899	3.41	369,899	3.06
Interest payable for convertible bonds	5,239	0.05	5,239	0.04
Retained Earnings(Note19)				
Legal reserve	561,056	5.17	514,270	4.26
Special reserve	30,608	0.28	22,004	0.18
Unappropriated earnings	368,025	3.39	546,394	4.53
Other equity				
Unrecognized net loss on pension cost(Note16)	(29,227)	(0.27)	(30,608)	(0.25)
Unrealized gains(losses) on financial instruments(Note8)	8,693	0.08	328	0.00
Unrealized revaluation increments	112	0.00	112	0.00
Total shareholders' equity	6,489,093	59.82	6,602,326	54.69
Total liabilities and shareholders' equity	\$10,846,513	100.00	\$12,072,603	100.00

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

YC INOX CO., LTD.
STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012 and 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNING PER SHARE)

ITEMS	2012	%	2011	%
OPERATING REVENUES				
Sales	\$24,278,258	100.12	\$27,419,623	100.07
Sales Returns	(18,903)	(0.08)	(19,619)	(0.07)
Sales Discounts	(9,715)	(0.04)	(629)	(0.00)
NET SALES	<u>24,249,640</u>	<u>100.00</u>	<u>27,399,375</u>	<u>100.00</u>
OPERATING COSTS				
Cost of goods sold(Note7)	(22,901,135)	(94.44)	(26,056,898)	(95.10)
GROSS PROFIT	1,348,505	5.56	1,342,477	4.90
OPERATING EXPENSES				
Sales and marketing	(816,438)	(3.36)	(730,537)	(2.67)
General and administrative	(115,621)	(0.48)	(127,163)	(0.46)
TOTAL OPERATING EXPENSES	<u>(932,059)</u>	<u>(3.84)</u>	<u>(857,700)</u>	<u>(3.13)</u>
OPERATING INCOME	<u>416,446</u>	<u>1.72</u>	<u>484,777</u>	<u>1.77</u>
NON-OPERATING INCOME AND GAINS				
Interest income	390	0.00	253	0.00
Gains on equity-method investments(Note8)	10,609	0.04	0	0.00
Dividend income	492	0.00	214	0.00
Gains on disposal of property, plant and equipment	0	0.00	6,298	0.02
Gains on disposal of investments	218	0.00	351	0.00
Gains on foreign exchange	0	0.00	105,267	0.39
Gains on valuation of financial assets(Note5)	1,446	0.01	0	0.00
Others	13,702	0.06	34,541	0.13
Total Non-Operating Income and Gains	<u>26,857</u>	<u>0.11</u>	<u>146,924</u>	<u>0.54</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	(42,463)	(0.17)	(50,794)	(0.19)
Losses on equity-method investments	0	0.00	(351)	(0.00)
Losses on disposal of property, plant and equipment	(2,038)	(0.01)	0	0.00
Losses on foreign exchange	(28,733)	(0.12)	0	0.00
Losses on valuation of financial assets(Note5)	0	0.00	(3,667)	(0.01)
Losses on valuation of financial liabilities	0	0.00	(391)	(0.00)
Others	(2,589)	(0.01)	(1,260)	(0.00)
Total Non-Operating Expenses and Losses	<u>(75,823)</u>	<u>(0.31)</u>	<u>(56,463)</u>	<u>(0.21)</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	367,480	1.52	575,238	2.10
INCOME TAX BENEFIT(EXPENSE)(Note20)	(46,316)	(0.19)	(107,376)	(0.39)
INCOME FROM CONTINUING OPERATIONS	<u>321,164</u>	<u>1.33</u>	<u>467,862</u>	<u>1.71</u>
NET INCOME	<u>\$321,164</u>	<u>1.33</u>	<u>\$467,862</u>	<u>1.71</u>
Basic earnings per share(Note21)				
Before Income Tax	<u>\$0.99</u>		<u>\$1.56</u>	
After Income Tax	<u>\$0.87</u>		<u>\$1.26</u>	
Diluted earnings per share(Note21)				
Before Income Tax	<u>\$0.99</u>		<u>\$1.55</u>	
After Income Tax	<u>\$0.87</u>		<u>\$1.26</u>	

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

YC INOX CO., LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012 and 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ITEMS	Capital Stock		Retained Earnings			Other Equity			TOTAL
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Unrecognized net loss on pension cost	Unrealized gains(losses) on financial instrument	Unrealized revaluation increments	
BALANCE AT JANUARY 1, 2011	\$3,698,582	\$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	1,848,637	514,270	22,004	546,394	(30,608)	328	112	6,602,326
APPROPRIATION 2011 RETAINED EARNINGS									
Legal reserve			46,786		(46,786)				0
Special reserve				8,604	(8,604)				0
Cash dividends					(444,143)				(444,143)
NET INCOME FOR 2012					321,164				321,164
Unrecognized net loss on pension cost						1,381			1,381
Unrealized gains(losses) on financial instrument							8,365		8,365
BALANCE AT DECEMBER 31, 2012	<u>\$3,701,189</u>	<u>\$1,848,637</u>	<u>\$561,056</u>	<u>\$30,608</u>	<u>\$368,025</u>	<u>(\$29,227)</u>	<u>\$8,693</u>	<u>\$112</u>	<u>\$6,489,093</u>

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

YC INOX CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012 and 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ITEMS	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$321,164	\$467,862
Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Revaluation(gains) losses on financial assets	(1,446)	3,667
Revaluation(gains) losses on financial liabilities	0	391
Investment (gains)losses – equity method	(10,609)	351
Depreciation	166,598	168,027
Amortization	8,098	9,684
(Gains)losses on disposal of property, plant and equipments	2,038	(6,298)
Amortization discount of convertible bonds payable	0	1,628
Changes in assets and liabilities:		
(Increase) Decrease in notes receivable	(4,923)	(42,788)
(Increase) Decrease in accounts receivable	334,926	(170,801)
(Increase) Decrease in other receivables	336,128	(214,541)
(Increase) Decrease in inventories	686,571	5,306
(Increase) Decrease in prepayments	(8,519)	238,941
(Increase) Decrease in other current assets	(5,421)	65,773
Increase (Decrease) in notes payable	(454)	(31)
Increase (Decrease) in accounts payable	(10,878)	19,570
Increase (Decrease) in income tax payable	(92,749)	48,163
Increase (Decrease) in accrued expenses	(32,336)	529
Increase (Decrease) in advance receives	(16,924)	(33,675)
Increase (Decrease) in other current liabilities	7,054	741
Increase (Decrease) in accrued pension liabilities	1,300	4,160
(Increase) Decrease in deferred income tax assets	12,855	(18,645)
Net cash provided by (used in) operating activities	<u>1,692,473</u>	<u>548,014</u>
CASH FLOWS FROM INVESTING ACTIVITIES :		
Increase in financial assets carried at cost-non-current	(89,514)	0
Additions to property, plant and equipment	(265,295)	(277,573)
Proceeds from disposal of property, plant and equipment	12,386	11,965
Increase in deferred charges	(2,816)	(23,586)
(Increase) Decrease in refundable deposits	7	0
Additions to other assets	(692)	(18,068)
Net cash provided by (used in) investing activities	<u>(345,924)</u>	<u>(307,262)</u>
CASH FLOW FROM FINANCING ACTIVITIES :		
Increase (Decrease) in short-term loans	(1,190,953)	433,248
Increase (Decrease) in short-term bills payable	93	(103)
Redemption of bond payable	0	(50,100)
Increase in long-term loans	300,000	1,000,000
Payment in long-term loans	(35,508)	(885,507)
Increase (Decrease) in guarantee deposits	(11,152)	(83,853)
Cash dividends	(444,143)	(448,000)
Net cash provided by (used in) financing activities	<u>(1,381,663)</u>	<u>(34,315)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(35,114)	206,437
CASH AND CASH EQUIVALENTS,BEGINNING OF THE YEAR	472,922	266,485
CASH AND CASH EQUIVALENTS,END OF THE YEAR	<u><u>\$437,808</u></u>	<u><u>\$472,922</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS :		
Cash paid during the period for :		
Interest (excluding amount capitalized)	<u>\$42,909</u>	<u>\$50,354</u>
Income tax	<u>\$126,210</u>	<u>\$77,857</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES :		
Current portion of long-term liabilities	<u>\$77,174</u>	<u>\$35,508</u>
Conversion of convertible bonds to capital stock and capital reserve	<u>\$0</u>	<u>\$5,509</u>

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

YC INOX CO., LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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

1. ORGANIZATION AND OPERATIONS

(1) YC INOX Co., Ltd (the "Company") was incorporated under the Company Law of the Republic of China on January 31, 1973. The Company engages in the manufacturing, processing and trading of stainless steel pipe, and cutting processing and trading of stainless steel plate and stainless steel coil.

(2)As of December 31, 2012 and 2011, the Company had 784 and 757 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) 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.

(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:

(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.

(3) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value from fluctuations in interest rates.

(4) Financial Assets and Liabilities at Fair Value through Profit or Loss

A. Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

B. Fair values of financial assets and financial liabilities, which consist of publicly traded stocks, are determined at their closing prices.

(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 has ownership of at least 20% or exercises significant influence on operating decisions are accounted for under the equity method.
- B. Unrealized gains and losses arising from intercompany transactions are deferred and recognized when realized. If the unrealized gain/lose is from depreciable assets, the gain/loss will be realized throughout the economic life.

(8)Financial Assets Carried at Cost

Investments for which the Company does not exercise significant influence and that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such as non-publicly traded stocks and mutual funds, are carried at their original cost. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective evidence which indicates that a financial assets is impaired, a loss is recognized. A subsequent reversal of such impairments loss is not allowed.

(9)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 8 years, and others are 3 ~ 10 years.

(10) Deferred charges

Deferred charges are stated at cost and are amortized over a period of 3~5 years.

(11) 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.

(12) Pension costs

A. 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, and amortization of unrecognized net transition obligation and gains or losses on pension assets. Unrecognized net transition obligation is amortized on straight-line basis over 19 years.

B. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

(13) Income tax

A. The Company applies an inter-period allocation for its income tax whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Over or under provision of prior years' income tax liabilities is included in current years' income tax.

B. Investment tax credit arising from expenditures incurred on acquisitions of equipment or technology, research and development, employees' training, and equity investments 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 income tax expense in the year the stockholders resolve 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

The Company recognizes revenue when the goods have been delivered, the significant risks and rewards of ownership of the goods have been transferred to the buyer, the price is fixed or determinable, and collectibility is reasonably assured.

(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, 2012 and 2011.

(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, 2012 and 2011.

4.CASH AND CASHEQUIVALENTS

	December 31	
	2012	2011
Cash on hand	\$1,484	\$519
Petty cash	230	230
Cash in banks-checking and demand deposits	436,094	472,173
Total	<u>\$437,808</u>	<u>\$472,922</u>

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

	December 31	
	2012	2011
Financial asset held for trading		
Listed stocks	\$15,250	\$15,250
Add(Less) : Adjustment of financial assets held	(7,621)	(9,067)
for trading		
Net	<u>\$7,629</u>	<u>\$6,183</u>

The Company recognized net gain(loss) of \$1,446 thousand and(\$3,667) for the year periods ended December 31, 2012 and 2011, respectively.

6. ACCOUNTS RECEIVABLE-NET

	December 31	
	2012	2011
Accounts receivable	\$2,316,267	\$2,651,193
Less : Allowance for doubtful accounts	(15,583)	(15,583)
Net	<u>\$2,300,684</u>	<u>\$2,635,610</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, 2012, the outstanding accounts receivable sold to bank were as follow :

Purchaser	Charge rate	Account receivable sold	Amount advanced	Amount retained (Note)
Fubon Bank	0.5%~1.5%	USD 16,594 thousand	USD 14,926 thousand	USD 1,668 thousand
Fubon Bank	0.55%~0.60%	EUR 556 thousand	EUR 500 thousand	EUR 56 thousand
Mega Bank	1.38%	USD 513 thousand	USD 410 thousand	USD 103 thousand

Note : Amount retained 1,827 thousand is recognized in other receivables.

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

	December 31	
	2012	2011
Overdue receivable	\$161	\$172
Less : Allowance for doubtful accounts	(161)	(172)
Net	<u>\$0</u>	<u>\$0</u>

As of Year 2012 and 2011, doubtful accounts that can no longer be collected are written off by \$0 and \$929 thousand.

7. INVENTORIES

	December 31	
	2012	2011
Finished goods	\$2,494,602	\$2,816,901
Work in process	53,383	51,270
Semi-finished goods	371,824	373,771
Raw materials	1,821,427	2,250,515
Supplies	43,536	47,586
Total	4,784,772	5,540,043
Less : Allowance for the decline of inventory	(118,600)	(187,300)
Net	<u>\$4,666,172</u>	<u>\$5,352,743</u>

Inventory related operating costs of December 31, 2012 and 2011, respectively are listed as below:

	<u>2012</u>	<u>2011</u>
Cost of goods sold	\$23,068,834	\$26,072,560
Loss(Gain) on physical inventory	(1,636)	2,110
Inventory disposal	6,716	7,137
Scrap Sales	(104,079)	(171,109)
Loss for value declined(Gain from value recovery)(Note)	(68,700)	146,200
Total	<u>\$22,901,135</u>	<u>\$26,056,898</u>

Note: Gain from value recovery in 2012 results mainly from the increase in price of raw materials and the positive actions taken in dealing with inventory obsolescence.

8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

<u>Investee</u>	<u>%</u>	<u>December 31</u>	
		<u>2012</u>	<u>2011</u>
Ji-mao Investment corporation,Ltd	100.00	<u>\$116,118</u>	<u>\$97,144</u>

(1) The Company's investment in Ji-mao Investment Corporation, Ltd. is valued with the Equity Method. The 2012 and 2011 certified financial statements of the invested company were retrieved and with investment income/loss for an amount of \$10,609 thousand and (\$351) thousand and unrealized financial instrument gain/loss recognized for an amount of \$8,365 thousand and (\$23,346) thousand, respectively.

(2)As of December 31, 2012 and 2011, unrealized income for the sale of marketable security to Ji-mao Investment Corporation,Ltd. amounted to \$3,793 thousand, respectively, and was booked as "other liabilities."

9. FINANCIAL ASSETS CARRIED AT COST-NON-CURRENT

<u>Asset items</u>	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Unlisted stocks	\$276,958	\$187,444
Less : Accumulated impairment	0	0
Net	<u>\$276,958</u>	<u>\$187,444</u>

These unquoted equity instruments were not carried at fair value because their fair value could not be reliably measured; thus, the Company accounted for these investments by the cost method.

10. PROPERTY, PLANT AND EQUIPMENT

Asset	December 31, 2012		
	Original cost	Accumulated depreciation	Book value
Land	\$1,087,269	\$0	\$1,087,269
Buildings	597,960	185,974	411,986
Machinery and equipment	1,540,198	900,163	640,035
Transportation equipment	89,211	23,017	66,194
Office equipment	32,287	17,336	14,951
Leasehold improvements	4,380	883	3,497
Other equipment	183,592	117,479	66,113
Construction in progress	78,454	0	78,454
Prepayment for equipment	64,072	0	64,072
Total	<u>\$3,677,423</u>	<u>\$1,244,852</u>	<u>\$2,432,571</u>

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	<u>\$3,476,570</u>	<u>\$1,097,056</u>	<u>\$2,379,514</u>

(1) Interest capitalization amounted to \$449 thousand and \$730 thousand for the year ended December 31, 2012 and 2011, respectively.

(2) The range of interest rates is 1.13%~1.56% and 1.07% for the year ended December 31, 2012 and 2011, respectively.

(3) Please refer to Note 24 for property, plant and equipment pledged as collateral.

11. OTHER ASSETS

	December 31	
	2012	2011
Other assets – Land	\$59,407	\$59,407
Other assets – Artwork	32,945	32,253
Total	<u>\$92,352</u>	<u>\$91,660</u>

The aforementioned Other assets – Land meant for Lot 73 (9,621 m²), 75-1, and 75-2 (2,044 m²), and 74-6, 74-18 and 74-19(1,547 m²) located at Jiumei Section, Xizho Township, Changhua County and land meant for Lot 115 (171 m²) , 115-1 and 115-2 (3,218 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 ten lots of land are used as collateral for a mortgage loan for an amount of \$95,000 thousand.

12. SHORT-TERM LOANS

ITEMS	Collateral	December 31	
		2012	2011
Short-term loans for			
exporting	—	\$988,468	\$824,710
material purchase	—	285,088	2,039,799
Unsecured loans	—	400,000	0
Total		<u>\$1,673,556</u>	<u>\$2,864,509</u>
Range of interest rates		0.45375%~1.715%	0.2257%~2.73%

13. SHORT-TERM BILLS PAYABLE

Short-term bills payable	Collateral	December 31	
		2012	2011
Commercial paper	—		
Mega bills		\$0	\$100,000
China bills		100,000	0
Unamortized discounts		(32)	(125)
Net		<u>\$99,968</u>	<u>\$99,875</u>
Range of interest rates		0.84%	0.912%

14. BONDS PAYABLE

On October 27, 2006, the company issued 2nd domestic unsecured convertible bonds. Total issuance amounted to \$300 million. As of October 26, 2011, bonds have been paid in a lump sum on the due date except for parts of redemption, call option, and conversion.

15. LONG-TERM LOANS

Types of Loans	Collateral	December 31	
		2012	2011
Secured loans :			
Bank Of Taiwan	Land	\$458,800	\$232,000
Bank Of Taiwan	Buildings	166,923	129,231
Mega International Commercial Bank	Land 、 buildings	500,000	500,000
Hua Nan Bank	Land 、 buildings	380,000	380,000
Unsecured loans :			
Hua Nan Bank	—	120,000	120,000
Total		1,625,723	1,361,231
Less : Current portion		(77,174)	(35,508)
Long-term loans		\$1,548,549	\$1,325,723
Range of interest rates		1.4750% ~ 1.4850%	1.3319% ~ 1.5539%

The Company had issued guarantee notes totaling \$500,000 thousand for long-term loans, collateral information for long-term loans please refer to Note.24.

16. 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, 2012 and 2011 were as follows :

	2012	2011
Service cost	\$1,286	\$1,440
Interest cost	3,518	3,644
Expected return of pension assets	(272)	(214)
Amortization of net transition assets or obligation	0	3,301
Amortization of pension loss (income)	2,777	2,203
Net periodic pension cost	\$7,309	\$10,374

B.Reconciliation of funded status of the plan and accrued pension cost at December 31, 2012 and 2011 :

	December 31	
	2012	2011
Benefit obligation :		
Vested benefit obligation	\$44,041	\$40,704
Non-vested benefit obligation	96,947	98,263
Accumulated benefit obligation	140,988	138,967
Additional benefit based on future salaries	40,709	40,055
Projected benefit obligation	181,697	179,022
Fair value of plan assets	(15,380)	(13,237)
Funded status	166,317	165,785
Unrecognized net transition obligation	(0)	(0)
Unrecognized net loss(gain)	(69,936)	(70,663)
Additional liability	29,227	30,608
Accrued pension liabilities	125,608	125,730
Booked as accrued expenses	(489)	(531)
Booked as accrued pension liabilities	\$125,119	\$125,199

C.Primary Actuarial assumptions :

	December 31	
	2012	2011
Discount rate used in determining present values	1.75%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	1.75%	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, 2012 and 2011 were \$17,724 thousand and \$17,080 thousand respectively.

17.CAPITAL STOCK

As of December 31, 2012 and 2011, at NT\$10 par value per share, the company's total authorized outstanding common stock consisted of 370,118,857 shares, respectively.

18. CAPITAL SURPLUS

The Company Act requires that capital reserve arising from paid-in capital in excess of par value on issuance of common stock and donations can be used to cover accumulated deficit, or to increase capital or payment of cash in proportion to ownership percentage when the Company has no accumulated deficit. Besides, the Securities and Exchange Act requires that the capital reserve can be capitalized once a year and the amount shall not exceed 10% of the paid-in capital. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

19. RETAINED EARNINGS

- (1) The Company's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years and pay taxes and then set aside the following items accordingly:
- Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals the Company's paid-in capital;
 - Special capital reserve in accordance with relevant laws or regulations;
 - To pay remuneration to directors and supervisors at 2%;
 - To pay bonus to employees at 5%;
 - Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

- (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 2011 and 2010 earnings had been resolved at the stockholders' meeting on June 18, 2012 and June 22, 2011, respectively. Details are summarized below:

	2011		2010	
	Amount	Dividends per share(in dollars)	Amount	Dividends per share(in dollars)
Legal reserve	\$46,786		\$57,073	
Special reserve	8,604		0	
Cash dividends	444,143	\$1.20	448,000	\$1.21127486
Total	<u>\$499,533</u>		<u>\$505,073</u>	
Remuneration to directors and supervisors	\$8,249		\$10,423	
Bonus to employees	20,624		26,058	
Total	<u>\$28,873</u>		<u>\$36,481</u>	

The information about the appropriations of profit sharing to employees and bonus to directors is available at the Market Observation Post System website.

- (4)The estimated amount of employees' bonuses of 2012 and 2011 are \$14,521 thousand and \$20,624 thousand respectively, and the estimated amount of directors' and supervisors' remuneration of 2012 and 2011 are \$5,809 thousand and \$8,249 thousand respectively, based on a certain percentage prescribed by the Company's Articles of Incorporation of net income.

20. INCOME TAX

- (1)The company's income tax returns prior to 2010 have been assessed and approved by the Tax Authority.

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

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Income tax at the statutory tax rate	\$62,472	\$97,791
Tax effect of permanent differences	(1,476)	1,571
Tax effect of investment tax credits	(15,132)	(119)
Under provision of prior year's income tax	452	816
10% tax on unappropriated earnings	0	7,317
Income tax expense	<u>46,316</u>	<u>107,376</u>
Less : Net changes of deferred income tax assets	(12,855)	18,644
Payment of prior year's income tax	(452)	(816)
Prepaid and withholding taxes	(59,042)	(32,455)
Income tax payable	<u><u>\$ (26,033)</u></u>	<u><u>\$92,749</u></u>

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

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Deferred tax assets(liabilities)-current :		
Unrealized losses on decline of inventories value obsolescence	\$20,162	\$31,841
Unrealized losses(gains) on foreign exchange	(1,883)	(493)
Allowance for bad debts(ratified amount)	(1,414)	(1,415)
Recognize permanent loss of investment in valuation (Cost Method)	150	150
Net	<u><u>\$17,015</u></u>	<u><u>\$30,083</u></u>
Deferred tax assets-non-current :		
Accrued pension cost	<u>\$16,356</u>	<u>\$16,143</u>
Net	<u><u>\$16,356</u></u>	<u><u>\$16,143</u></u>

(4)At December 31,2012 and 2011, the related formation of shareholders' deductible income tax is as follow :

	December 31	
	2012	2011
Shareholders' deductible income tax account	\$56,253	\$42,637
Creditable ratio-predicated	15.28%	—
Creditable ratio-actual	—	22.54%

(5)The unappropriated retained earnings information :

	December 31	
	2012	2011
For 1997 and prior years	\$0	\$0
For 1998 and thereafter	368,025	546,394
Total	\$368,025	\$546,394

(6)The Company's expansion plan is eligible for a five-year(1st January, 2012—31th December, 2016) exemption on income tax.

21.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, 2012</u>					
Basic EPS	\$367,480	\$321,164	370,119	\$0.99	\$0.87
Diluted EPS	\$367,480	\$321,164	370,958	\$0.99	\$0.87
<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

(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.

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSE

	2012		
	Operating Costs	Operating Expenses	Total
Personnel expenses			
Salary	\$338,551	\$105,310	\$443,861
Labor and health insurance	32,910	6,432	39,342
Pension	19,260	5,773	25,033
Other	38,182	7,633	45,815
Depreciation	152,704	13,894	166,598
Amortization	4,826	3,272	8,098

	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

23. 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

(2) Significant transactions with related parties

Others revenue

Name of related parties	2012		2011	
	Amount	%	Amount	%
Ji-Mao Investment Corporation.,Ltd	\$36	0.10	\$36	0.10

(3) Compensation to directors, supervisors and managers

	2012	2011
Salaries, incentives and special compensation	\$32,250	\$34,435
Compensation to directors and supervisors	5,809	8,249
Employees' bonuses	3,180	4,674
Professional fee	5,657	6,491
	<u>\$46,896</u>	<u>\$53,849</u>

The compensation to directors, supervisors and managers for the year ended December 31, 2012 included the bonus appropriation from 2011 earnings approved in 2012 AGM. While that for the year ended December 31, 2011 included the broad's proposed bonus appropriation from 2010 earnings subject to approval in 2011 AGM. More detailed information may be referred in the Corporation's annual reports.

24. ASSETS PLEDGED OR MORTGAGED

	Book value		Mortgaged with
	December 31, 2012	December 31, 2011	
Land	\$1,055,468	\$1,055,468	Loan-term loans
Buildings	355,857	340,415	Loan-term loans
Restricted assets-current	800	800	For the use of natural gas.
Total	<u>\$1,412,125</u>	<u>\$1,396,683</u>	

25. COMMITMENTS AND CONTINGENT EVENTS

As of December 31, 2012, 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 \$10,566,678 thousand for loans and raw material acquisition.
- (2) The Company had a outstanding L/C issued for raw material acquisition for an amount of \$821,883 thousand.
- (3) The Company had a guaranteed letter issued for an amount of \$27,600 thousand by the bank as collateral for raw material acquisition.
- (4) The Company had outstanding commitments on new plant building and purchase of machinery contracts totaling \$45,722 thousand.

26. OTHERS

(1) Financial instrument at fair value

Non-derivative financial instruments	December 31, 2012	
	Book value	Fair value
Assets		
Cash and cash equivalents	\$437,808	\$437,808
Financial assets at fair value through profit or loss-current	7,629	7,629
Notes receivable – net	89,832	89,832
Accounts receivable – net	2,300,684	2,300,684
Financial assets carried at cost - non-current	276,958	—
Refundable deposits	153	153
Liabilities		
Short-term loans	\$1,673,556	\$1,673,556
Short-term bills payable	99,968	99,968
Notes payable	268	268
Accounts payable	234,208	234,208
Long-term loans(including current portion of long-term loans)	1,625,723	1,625,723
Guarantee deposits	173,780	173,780
Non-derivative financial instruments		
December 31, 2011		
Assets		
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>	<u>Book value</u>	<u>Fair value</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
Long-term loans(including current portion of long-term loans)	1,361,231	1,361,231
Guarantee deposits	184,932	184,932
<u>Derivative financial instruments</u>		
	<u>December31,2010</u>	
<u>Assets</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets at fair value through profit or loss-current	\$0	\$0
<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 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.

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

	December 31, 2012		
	Foreign Currency (in thousands)	Exchange Rate	NTD
<u>Financial assets</u>			
<u>Currency item</u>			
USD	\$33,753	29.040	\$980,185
EUR	630	38.490	24,259
JPY	63,399	0.3364	21,328
<u>Financial liabilities</u>			
<u>Currency item</u>			
USD	5,859	29.040	170,157

	December 31, 2011		
	Foreign Currency (in thousands)	Exchange Rate	NTD
<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

27. ADDITIONAL DISCLOSURE

(1) 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, 2012			
				(In thousands of New Taiwan dollars)			
				Shares/Units (thousands)	Book value	Percentage of ownership	Market value or net assets value
YC INOX CO., LTD	<u>Common stock</u> YEOU YIH STEEL CO., LTD	—	Financial assets held for trading	615	\$7,629	—	@12.40
“	Ji-Mao Investment Corporation., Ltd	The Company’s subsidiary	Investee accounted for using equity method	10,000	116,118	100%	@11.61
“	ABGENOMICS INTERNATIONAL INC.	—	Financial assets carried at cost-non-current	733	31,900	3.64%	—
“	<u>Peferred stock</u> ABGENOMICS INTERNATIONAL INC.	—	Financial assets carried at cost-non-current	1,600	245,058	—	—
Ji-Mao Investment Corporation., Ltd	<u>Common stock</u> YEOU YIH STEEL CO., LTD	—	Available-for-sale financial assets-current	3,560	44,138	—	@12.40
“	KENDA RUBBER IND CO., LTD	—	Financial assets held for trading-current	709	26,635	—	@37.55
“	GRAND PACIFIC PETROCHEMICAL CORPORATION	—	Financial assets held for trading-current	1,000	15,300	—	@15.30
“	Jiin YEEH DING ENTERPRISE CO.,LTD	—	Financial assets held for trading-current	640	17,918	—	@28.00

(2) 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 31,2012			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 31,2012	December 31,2011	Shares (thousands)	Percentage of ownership	Book value				Stock dividend	Cash dividend	
YCINOX CO.,LTD	Ji-Mao Investment Corporation,Ltd	Chang-Hwa ,Taiwan	Investment	100,120	100,120	10,000	100%	116,118	116,118	10,609	10,609	0	0	

28. 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, 2012

	<u>Stainless Steel Sheet/Coil</u>	<u>Stainless Steel Welded Pipe/Tube</u>	<u>Others</u>	<u>Total</u>
Revenue				
External revenue-net	\$14,569,283	\$9,259,829	\$420,528	\$24,249,640
Internal revenue-net	\$0	\$0	\$0	\$0
Segment profit(loss)	(\$17,495)	\$459,157	(\$18,397)	\$423,265
Segment assets	\$1,140,278	\$2,127,927	\$299,415	\$3,567,620

As of and for the year ended December 31, 2011

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

(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:

	2012	2011
Income of reportable segments	\$423,265	\$493,026
Directors' and supervisors' remuneration	(6,819)	(8,249)
Non-operating income and gain	26,857	146,924
Non-operating expenses and losses	(75,823)	(56,463)
Income from continuing operations before income tax	\$367,480	\$575,238

(5) Geographical Information

The geographical information for the year ended December 31, 2012 and 2011 are as follow:

	2012		2011	
	Sales	Percentage of net sales	Sales	Percentage o f net sales
Asia	\$9,764,505	40.27	\$9,677,072	35.31
Europe	6,198,266	25.56	7,830,381	28.58
America	4,645,000	19.15	6,399,828	23.36
Other	3,641,869	15.02	3,492,094	12.75
Total	\$24,249,640	100.00	\$27,399,375	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 2012 and 2011.

29. RECLASSIFICATION

To Conform with the presentation of financial statements of 2012, certain accounts of the 2011 financial statements have been reclassified.