

YC INOX CO., LTD.

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

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For the convenience of readers 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, 2013 and 2012, and January 1, 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of YC INOX Co., Ltd. as of December 31, 2013, December 31, 2012, and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

  
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Certified Public Accountants  
Taipei, Taiwan R.O.C.  
March 21, 2014

YC INOX CO., LTD.

CONSOLIDATED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|   | Note     | December 31, 2013   |            | December 31, 2012   |            | January 1, 2012     |               |
|---|----------|---------------------|------------|---------------------|------------|---------------------|---------------|
|   |          | Amount              | %          | Amount              | %          | Amount              | %             |
| <b>ASSETS</b>   |          |                     |            |                     |            |                     |               |
| <b>CURRENT ASSETS</b>   |          |                     |            |                     |            |                     |               |
| Cash  | 6(1)     | \$653,578           | 6          | \$449,818           | 4          | \$479,577           | 4             |
| Financial assets at fair value through profit or loss-current | 6(2)     | 97,596              | 1          | 67,482              | 1          | 58,882              | 1             |
| Available-for-sale financial assets-current                   | 6(3)     | 39,277              | 0          | 40,345              | 0          | 31,980              | 0             |
| Notes receivable - net  | 6(5)     | 54,667              | 0          | 89,832              | 1          | 84,909              | 1             |
| Accounts receivable - net                                     | 6(6)     | 2,476,120           | 21         | 2,300,684           | 21         | 2,635,610           | 22            |
| Other receivables   | 6(6)     | 425,308             | 4          | 300,319             | 3          | 662,456             | 6             |
| Current tax assets  |          | 25,919              | 0          | 26,034              | 0          | 25                  | 0             |
| Inventories   | 6(7)     | 4,897,312           | 42         | 4,666,172           | 43         | 5,352,743           | 44            |
| Prepayments   |          | 58,671              | 1          | 32,990              | 0          | 19,316              | 0             |
| Other current assets  | 8        | 800                 | 0          | 800                 | 0          | 800                 | 0             |
| Total current assets  |          | <u>8,729,248</u>    | <u>75</u>  | <u>7,974,476</u>    | <u>73</u>  | <u>9,326,298</u>    | <u>78</u>     |
| <b>NON-CURRENT ASSETS</b>                                     |          |                     |            |                     |            |                     |               |
| Financial assets carried at cost - non-current                | 6(4)     | 355,570             | 3          | 276,958             | 3          | 187,444             | 2             |
| Property, plant and equipment                                 | 6(8) 、 8 | 2,466,197           | 21         | 2,460,629           | 23         | 2,462,354           | 20            |
| Deferred tax assets   | 6(20)    | 45,994              | 0          | 46,517              | 0          | 48,312              | 0             |
| Prepayment for equipment                                      |          | 90,328              | 1          | 64,072              | 1          | 12,059              | 0             |
| Refundable deposits   |          | 141                 | 0          | 153                 | 0          | 160                 | 0             |
| Other non-current assets                                      | 6(6)     | 32,945              | 0          | 32,945              | 0          | 32,253              | 0             |
| Total other assets  |          | <u>2,991,175</u>    | <u>25</u>  | <u>2,881,274</u>    | <u>27</u>  | <u>2,742,582</u>    | <u>22</u>     |
| <b>TOTAL ASSETS</b>   |          | <u>\$11,720,423</u> | <u>100</u> | <u>\$10,855,750</u> | <u>100</u> | <u>\$12,068,880</u> | <u>100.00</u> |
| <b>LIABILITIES AND EQUITY</b>                                 |          |                     |            |                     |            |                     |               |
| <b>CURRENT LIABILITIES</b>                                    |          |                     |            |                     |            |                     |               |
| Short-term loans  | 6(9)     | \$2,193,086         | 19         | \$1,673,556         | 15         | \$2,864,509         | 24            |
| Short-term bills payable                                      | 6(10)    | 299,458             | 3          | 99,968              | 1          | 99,875              | 1             |
| Notes payable   |          | 276                 | 0          | 268                 | 0          | 722                 | 0             |
| Accounts payable  |          | 319,457             | 3          | 234,208             | 2          | 245,086             | 2             |
| Other payables  | 6(11)    | 281,076             | 2          | 194,940             | 2          | 256,246             | 2             |
| Current tax liabilities                                       | 6(20)    | 68,975              | 0          | 0                   | 0          | 92,749              | 1             |
| Advance receives  |          | 334,676             | 3          | 208,265             | 2          | 225,189             | 2             |
| Current portion of long-term liabilities                      | 6(12)    | 35,508              | 0          | 77,174              | 1          | 35,508              | 0             |
| Other current liabilities                                     |          | 6,789               | 0          | 16,980              | 0          | 9,926               | 0             |
| Total current liabilities                                     |          | <u>3,539,301</u>    | <u>30</u>  | <u>2,505,359</u>    | <u>23</u>  | <u>3,829,810</u>    | <u>32</u>     |
| <b>NON-CURRENT LIABILITIES</b>                                |          |                     |            |                     |            |                     |               |
| Long-term loans   | 6(12)    | 1,154,708           | 10         | 1,548,549           | 14         | 1,325,723           | 11            |
| Deferred tax liabilities                                      | 6(20)    | 890                 | 0          | 890                 | 0          | 890                 | 0             |
| Accrued pension liabilities                                   | 6(13)    | 196,108             | 2          | 171,956             | 2          | 171,285             | 1             |
| Guarantee deposits  |          | 3,251               | 0          | 173,780             | 2          | 184,932             | 2             |
| Total not-current liabilities                                 |          | <u>1,354,957</u>    | <u>12</u>  | <u>1,895,175</u>    | <u>18</u>  | <u>1,682,830</u>    | <u>14</u>     |
| <b>TOTAL LIABILITIES</b>                                      |          | <u>4,894,258</u>    | <u>42</u>  | <u>4,400,534</u>    | <u>41</u>  | <u>5,512,640</u>    | <u>46</u>     |
| <b>EQUITY</b>   |          |                     |            |                     |            |                     |               |
| Capital stock - common stock                                  | 6(14)    | 3,701,189           | 32         | 3,701,189           | 34         | 3,701,189           | 31            |
| Capital surplus   | 6(15)    | 1,848,637           | 16         | 1,848,637           | 17         | 1,848,637           | 15            |
| Retained Earnings   | 6(16)    |                     |            |                     |            |                     |               |
| Legal reserve   |          | 593,172             | 5          | 561,056             | 5          | 514,270             | 4             |
| Special reserve   |          | 29,227              | 0          | 30,608              | 0          | 22,004              | 0             |
| Unappropriated earnings                                       |          | 646,315             | 5          | 305,033             | 3          | 469,812             | 4             |
| Other equity  |          | 7,625               | 0          | 8,693               | 0          | 328                 | 0             |
| Total equity  |          | <u>6,826,165</u>    | <u>58</u>  | <u>6,455,216</u>    | <u>59</u>  | <u>6,556,240</u>    | <u>54</u>     |
| <b>Total liabilities and equity</b>                           |          | <u>\$11,720,423</u> | <u>100</u> | <u>\$10,855,750</u> | <u>100</u> | <u>\$12,068,880</u> | <u>100</u>    |

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

YC INOX CO., LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNING PER SHARE)

|  | Note  | For the Years Ended December 31 |             |                     |             |
|--|-------|---------------------------------|-------------|---------------------|-------------|
|  |       | 2013                            |             | 2012                |             |
|  |       | Amount                          | %           | Amount              | %           |
| NET REVENUE  |       | \$23,846,654                    | 100         | \$24,249,640        | 100         |
| COST OF REVENUE  | 6(7)  | <u>(22,204,373)</u>             | <u>(93)</u> | <u>(22,899,224)</u> | <u>(94)</u> |
| GROSS PROFIT   |       | 1,642,281                       | 7           | 1,350,416           | 6           |
| OPERATING EXPENSES   |       |                                 |             |                     |             |
| Selling and marketing  |       | (836,244)                       | (3)         | (816,134)           | (3)         |
| General and administrative   |       | <u>(143,405)</u>                | <u>(1)</u>  | <u>(114,903)</u>    | <u>(1)</u>  |
| TOTAL OPERATING EXPENSES   |       | <u>(979,649)</u>                | <u>(4)</u>  | <u>(931,037)</u>    | <u>(4)</u>  |
| OPERATING INCOME   |       | <u>662,632</u>                  | <u>3</u>    | <u>419,379</u>      | <u>2</u>    |
| NON-OPERATING INCOME AND EXPENSES  |       |                                 |             |                     |             |
| Others gains and losses  | 6(17) | 112,012                         | 0           | (10,876)            | (0)         |
| Finance costs  | 6(18) | (37,068)                        | (0)         | (42,463)            | (0)         |
| Interest income  |       | 442                             | 0           | 395                 | 0           |
| Dividend income  |       | <u>5,586</u>                    | <u>0</u>    | <u>6,020</u>        | <u>0</u>    |
| Total Non-Operating Income and Expenses                                    |       | <u>80,972</u>                   | <u>0</u>    | <u>(46,924)</u>     | <u>(0)</u>  |
| INCOME BEFORE INCOME TAX   |       | 743,604                         | 3           | 372,455             | 2           |
| INCOME TAX EXPENSE   | 6(20) | <u>(90,697)</u>                 | <u>(0)</u>  | <u>(35,672)</u>     | <u>(0)</u>  |
| NET INCOME   |       | <u>652,907</u>                  | <u>3</u>    | <u>336,783</u>      | <u>2</u>    |
| OTHER COMPREHENSIVE INCOME   |       |                                 |             |                     |             |
| Unrealised gain (loss) on valuation of available-for-sale financial assets |       | (1,068)                         | (0)         | 8,365               | 0           |
| Actuarial losses from defined benefit plans                                | 6(13) | (26,273)                        | (0)         | (2,445)             | (0)         |
| Income tax relating to the components of other comprehensive income        | 6(20) | 4,466                           | 0           | 416                 | 0           |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR                                    |       | <u>\$630,032</u>                | <u>3</u>    | <u>\$343,119</u>    | <u>(0)</u>  |
| NET INCOME ATTRIBUTED TO   |       |                                 |             |                     |             |
| Owners of the parent   |       | \$652,907                       | 3           | \$336,783           | 2           |
| Non-controlling interests.   |       | <u>0</u>                        | <u>0</u>    | <u>0</u>            | <u>0</u>    |
|  |       | <u>\$652,907</u>                | <u>3</u>    | <u>\$336,783</u>    | <u>2</u>    |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO                                   |       |                                 |             |                     |             |
| Owners of the parent   |       | \$630,032                       | 3           | \$343,119           | 2           |
| Non-controlling interests.   |       | <u>0</u>                        | <u>0</u>    | <u>0</u>            | <u>0</u>    |
|  |       | <u>\$630,032</u>                | <u>3</u>    | <u>\$343,119</u>    | <u>2</u>    |
| EARNINGS PER SHARE   | 6(21) |                                 |             |                     |             |
| Basic earnings per share   |       | <u>\$1.76</u>                   |             | <u>\$0.91</u>       |             |
| Diluted earnings per share   |       | <u>\$1.76</u>                   |             | <u>\$0.91</u>       |             |

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

YC INOX CO., LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(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 | Unrealized Gains(Losses) on Available-for-sale Financial Assets |                    |       |
| BALANCE, JANUARY 1, 2012           | \$3,701,189        | \$1,848,637        | \$514,270         | \$22,004        | \$469,812               | \$328   | \$6,556,240        |       |
| Appropriation of 2011 earnings     |                    |                    |                   |                 |                         |   | 0                  |       |
| Legal reserve                      |                    |                    | 46,786            |                 | (46,786)                |   | 0                  |       |
| Special reserve                    |                    |                    |                   | 8,604           | (8,604)                 |   | 0                  |       |
| Cash dividends                     |                    |                    |                   |                 | (444,143)               |   | (444,143)          |       |
| Net income in 2012                 |                    |                    |                   |                 | 336,783                 |   | 336,783            |       |
| Other comprehensive income in 2012 |                    |                    |                   |                 | (2,029)                 | 8,365   | 6,336              |       |
| BALANCE AT DECEMBER 31, 2012       | <u>\$3,701,189</u> | <u>\$1,848,637</u> | <u>\$561,056</u>  | <u>\$30,608</u> | <u>\$305,033</u>        | <u>\$8,693</u>  | <u>\$6,455,216</u> |       |
| BALANCE, JANUARY 1, 2013           | \$3,701,189        | \$1,848,637        | \$561,056         | \$30,608        | \$305,033               | \$8,693   | \$6,455,216        |       |
| Appropriation of 2012 earnings     |                    |                    |                   |                 |                         |   |                    |       |
| Legal reserve                      |                    |                    | 32,116            |                 | (32,116)                |   | 0                  |       |
| Cash dividends                     |                    |                    |                   |                 | (259,083)               |   | (259,083)          |       |
| Special reserve reversed           |                    |                    |                   | (1,381)         | 1,381                   |   | 0                  |       |
| Net income in 2013                 |                    |                    |                   |                 | 652,907                 |   | 652,907            |       |
| Other comprehensive income in 2013 |                    |                    |                   |                 | (21,807)                | (1,068)   | (22,875)           |       |
| BALANCE, DECEMBER 31, 2013         | <u>\$3,701,189</u> | <u>\$1,848,637</u> | <u>\$593,172</u>  | <u>\$29,227</u> | <u>\$646,315</u>        | <u>\$7,625</u>  | <u>\$6,826,165</u> |       |

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

YC INOX CO., LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|  | For the Years Ended December 31 |                    |
|--|---------------------------------|--------------------|
|  | 2013                            | 2012               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>                                      |                                 |                    |
| Income before income tax   | \$743,604                       | \$372,455          |
| Adjustments for:   |                                 |                    |
| Depreciation   | 167,614                         | 174,430            |
| Net gains on financial assets and liabilities at fair value through profit or loss | (29,826)                        | (8,600)            |
| Finance costs  | 37,068                          | 42,463             |
| Interest income  | (442)                           | (395)              |
| Losses on disposal of property, plant and equipments                               | 2,826                           | 2,038              |
| Property, plant and equipments reclassified to expenses                            | 9                               | 0                  |
| Gains on disposal of investments   | 10,666                          | (218)              |
| Changes in operating assets and liabilities:                                       |                                 |                    |
| (Increase) Decrease in notes receivable  | 35,165                          | (4,923)            |
| (Increase) Decrease in accounts receivable   | (175,436)                       | 334,926            |
| (Increase) Decrease in other receivables   | (124,990)                       | 362,137            |
| (Increase) Decrease in inventories   | (231,140)                       | 686,571            |
| (Increase) Decrease in prepayments   | (25,681)                        | (13,674)           |
| Increase (Decrease) in notes payable   | 8                               | (454)              |
| Increase (Decrease) in accounts payable  | 85,249                          | (10,878)           |
| Increase (Decrease) in other payables  | 81,180                          | (31,890)           |
| Increase (Decrease) in advance receives  | 126,411                         | (16,924)           |
| Increase (Decrease) in other current liabilities                                   | (10,191)                        | 7,054              |
| Increase (Decrease) in accrued pension liabilities                                 | (2,121)                         | (1,775)            |
| Cash generated from operations   | 689,973                         | 1,892,343          |
| Interest received  | 442                             | 395                |
| Interest paid  | (37,257)                        | (42,909)           |
| Income tax paid  | (16,617)                        | (152,219)          |
| Net cash generated from (used in) operating activities                             | <u>636,541</u>                  | <u>1,697,610</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>                                      |                                 |                    |
| Acquisitions of financial assets at fair value through profit or loss              | (394,754)                       | (360,000)          |
| Proceeds from disposal of financial assets at fair value through profit or loss    | 383,800                         | 360,218            |
| Acquisitions of financial assets carried at cost-non-current                       | (78,612)                        | (89,514)           |
| Acquisitions of property, plant and equipment                                      | (215,603)                       | (268,111)          |
| Proceeds from disposal of property, plant and equipment                            | 18,476                          | 12,386             |
| Refundable deposits refunded   | 12                              | 7                  |
| Additions to other assets  | 0                               | (692)              |
| Net cash generated from (used in) investing activities                             | <u>(286,681)</u>                | <u>(345,706)</u>   |
| <b>CASH FLOW FROM FINANCING ACTIVITIES :</b>                                       |                                 |                    |
| Increase in short-term loans   | 519,530                         | 0                  |
| Decrease in short-term loans   | 0                               | (1,190,953)        |
| Increase in short-term bills payable   | 199,490                         | 93                 |
| Increase in long-term loans  | 600,000                         | 300,000            |
| Payment in long-term loans   | (1,035,508)                     | (35,508)           |
| Guarantee deposits refunded  | (170,529)                       | (11,152)           |
| Cash dividends   | (259,083)                       | (444,143)          |
| Net cash generated from (used in) financing activities                             | <u>(146,100)</u>                | <u>(1,381,663)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                                   | 203,760                         | (29,759)           |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR                                   | 449,818                         | 479,577            |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR   | <u>\$653,578</u>                | <u>\$449,818</u>   |

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

# YC INOX CO., LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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

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### 1. ORGANIZATION AND OPERATIONS

- (1) YC INOX Co., Ltd (the “Company”) was incorporated on January 31, 1973 under the provisions of the Company Act of the Republic of China. 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) The Company’s stocks was listed on the Taiwan Stock Exchange since September ,2001.

### 2. THE AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorised for issuance by the Board of Directors on March 21, 2014.

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

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs”) as endorsed by the Financial Supervisory Commission (“FSC”)

Not applicable as it is the first-time adoption of IFRSs by the Company this year.

- (2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

A. IFRS 9, ‘Financial Instruments’: Classification and measurement of financial assets

- (a) The International Accounting Standards Board (“IASB”) published IFRS 9, ‘Financial Instruments’, in November 2009, which will take effect on January 1, 2013 with early application permitted (Through the amendments to IFRS 9 published on November 19, 2013, the IASB has removed the previous mandatory effective date, but the standard is available for immediate application). Although the FSC has endorsed IFRS 9, FSC does not permit early application of IFRS 9 when IFRSs are adopted in R.O.C. in 2013. Instead, enterprises should apply International Accounting Standard No. 39 (“IAS 39”), ‘Financial Instruments: Recognition and Measurement’ reissued in 2009.
- (b) IFRS 9 was issued as the first step to replace IAS 39. IFRS 9 outlines the new classification and measurement requirements for financial instruments, which might affect the accounting treatments for financial instruments of the Company.
- (c) The Company has not yet evaluated the overall effect of the IFRS 9 adoption. However, based on our preliminary evaluation, it was noted that the IFRS 9 adoption might have an impact on those instruments classified as ‘available-for-sale financial assets’ held by the Company, as IFRS 9 specifies that the fair value changes in the equity instruments that meet certain criteria may be reported in other comprehensive income, and such amount that has been recognised in other comprehensive income should not be reclassified to profit or loss when such assets are derecognised. The Company recognised gain (or loss) on equity instruments amounting to (\$1,068) thousand in other comprehensive income for the year ended December 31, 2013

(3) IFRSs issued by IASB but not yet endorsed by the FSC

A. The following are the assessment of new standards, interpretations and amendments issued by IASB but not yet endorsed by the FSC (application of the new standards and amendments should follow the regulations of the FSC):

| <u>New Standards, Interpretations and Amendments</u> |   | <u>Main Amendments</u>   | <u>IASB Effective Date</u> |
|--|---|--|----------------------------|
| IFRS 1   | Limited exemption from comparative IFRS 7 disclosures for first-time adopters | The amendment provides first-time adopters of IFRSs with the same transition relief that existing IFRS preparer received in IFRS 7, 'Financial Instruments: Disclosures' and exempts first-time adopters from providing the additional comparative disclosures.  | July 1, 2010               |
| Amendments to IFRS                                   | Improvements to IFRSs 2010  | Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 34 and IFRIC 13.  | January 1, 2011            |
| IFRS 7   | Disclosures - transfers of financial assets                                   | The amendment enhances qualitative and quantitative disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in transferred assets, existing at the reporting date.   | July 1, 2011               |
| IFRS 1   | Severe hyperinflation and removal of fixed dates for first-time adopters      | When an entity's date of transition to IFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs. Firsttime adopters are allowed to apply the derecognition requirements in IAS 39, ' Financial instruments: Recognition and measurement', prospectively from the date of transition to IFRSs, and they are allowed not to retrospectively recognize related gains on the date of transition to IFRSs. | July 1, 2011               |



| New Standards, Interpretations and Amendments |   | Main Amendments   | IASB Effective Date |
|---|---|---|---------------------|
| IAS 12  | Deferred tax: recovery of underlying assets | The amendment gives a rebuttable presumption that the carrying amount of investment properties measured at fair value is recovered entirely by sale, unless there exists any evidence that could rebut this presumption. The amendment also replaces SIC 21, ‘Income taxes—recovery of revalued non-depreciable assets’.                    | January 1, 2012     |
| IFRS 10                                       | Consolidated financial statements           | The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. | January 1, 2013     |
| IFRS 11                                       | Joint arrangements                          | Judgments applied when assessing the types of joint arrangements-joint operations and joint ventures, the entity should assess the contractual rights and obligations instead of the legal form only. The standard also prohibits the proportional consolidation for joint ventures.  | January 1, 2013     |
| IFRS 12                                       | Disclosure of interests in other entities   | The standard requires the disclosure of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities.  | January 1, 2013     |
| IAS 27  | Separate financial statements               | The standard removes the requirements of consolidated financial statements from IAS 27 and those requirements are addressed in IFRS 10, ‘Consolidated financial statements’.  | January 1, 2013     |

| <u>New Standards, Interpretations and Amendments</u> |  | <u>Main Amendments</u>  | <u>IASB Effective Date</u> |
|--|--|---|----------------------------|
| IAS 28   | Investments in associates and joint ventures | As consequential amendments resulting from the issuance of IFRS 11, 'Joint arrangements', IAS 28 (revised) sets out the requirements for the application of the equity method when accounting for investments in joint ventures.  | January 1, 2013            |
| IFRS 13  | Fair value measurement                       | IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.  | January 1, 2013            |
| IAS 19   | Employee benefits                            | The revised standard eliminates corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past-service costs will be recognised immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expenses, is recognised in other comprehensive income. | January 1, 2013            |

| New Standards, Interpretations and Amendments |   | Main Amendments  | IASB Effective Date |
|---|---|--|---------------------|
| IAS 1   | Presentation of items of other comprehensive income               | The amendment requires profit or loss and other comprehensive income (OCI) to be presented separately in the statement of comprehensive income. Also, the amendment requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss subsequently.  | July 1, 2012        |
| IFRIC 20                                      | Stripping costs in the production phase of a surface mine         | Stripping costs that meet certain criteria should be recognised as the ‘stripping activity asset’. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with IAS 2, ‘Inventories’.  | January 1, 2013     |
| IFRS 7  | Disclosures—Offsetting financial assets and financial liabilities | The amendment requires disclosures to include quantitative information that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements.  | January 1, 2013     |
| IFRS 1  | Government loans  | The amendment provides exception to first-time adopters to apply the requirements in IFRS 9, ‘Financial instruments’, and IAS 20, ‘Accounting for government grants and disclosure of government assistance’, prospectively to government loans that exist at the date of transition to IFRSs; and first-time adopters should not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. | January 1, 2013     |
| Amendments to IFRS                            | Improvements to IFRSs 2009-2011                                   | Amendments to IFRS 1 and IAS 1, IAS 16, IAS 32 and IAS 34.   | January 1, 2013     |

| New Standards, Interpretations and Amendments |  | Main Amendments   | IASB Effective Date                  |
|---|--|---|--------------------------------------|
| IFRS 10, IFRS 11 and IFRS 12                  | Consolidated financial statements, joint arrangements and disclosure of interests in other Entities: Transition guidance | The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10, 11 and 12 is adopted.  | January 1, 2013                      |
| IFRS 9  | Financial instruments: Classification and measurement of financial liabilities   | IFRS 9 requires gains and losses on financial liabilities designated at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and cannot be reclassified to profit or loss when derecognising the liabilities; and all other changes in fair value are recognised in profit or loss. The new guidance allows the recognition of the full amount of change in the fair value in the profit or loss only if there is reasonable evidence showing on initial recognition that the recognition of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch (inconsistency) in profit or loss. (That determination is made at initial recognition and is not reassessed subsequently.) | November 19, 2013<br>(Not mandatory) |

| New Standards, Interpretations and Amendments   |   | Main Amendments  | IASB Effective Date                  |
|---|---|--|--------------------------------------|
| IAS 32  | Offsetting financial assets and financial liabilities | The amendments clarify the requirements for offsetting financial instruments on the statement of financial position: (i) the meaning of 'currently has a legally enforceable right to set off the recognised amounts'; and (ii) that some gross settlement mechanisms with certain features may be considered equivalent to net settlement.  | January 1, 2014                      |
| IFRS 9 and amendments to IFRS9, IFRS7 and IAS39 | Financial assets: hedge accounting                    | <ol style="list-style-type: none"> <li>1. IFRS 9 relaxes the requirements for hedged items and hedging instruments and removes the bright line of effectiveness to better align hedge accounting with the risk management activities of an entity.</li> <li>2. An entity can elect to early adopt the requirement to recognise the changes in fair value attributable to changes in an entity's own credit risk from financial liabilities that are designated under the fair value option in 'other comprehensive income'.</li> </ol> | November 19, 2013<br>(Not mandatory) |
| IFRS 10, IFRS 12 and IAS 27)                    | Investment entities                                   | The amendments define 'Investment Entities' and their characteristics. The parent company that meets the definition of investment entities should measure its subsidiaries using fair value through profit or loss instead of consolidating them.  | January 1, 2014                      |
| IFRIC 21  | Levies  | The interpretation addresses the accounting for levies imposed by governments in accordance with legislation (other than income tax). A liability to pay a levy shall be recognised in accordance with IAS 37, 'Provisions, contingent liabilities and contingent assets'.   | January 1, 2014                      |

| New Standards, Interpretations and Amendments |  | Main Amendments   | IASB Effective Date |
|---|--|---|---------------------|
| IAS 36  | Recoverable amount disclosures for non-financial assets        | The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or intangible assets with indefinite useful lives that were not impaired.  | January 1, 2014     |
| IAS 39  | Novation of derivatives and continuation of hedge accounting   | The amendment states that the novation of a hedging instrument would not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when the hedging instrument that is being novated complies with specified criteria.  | January 1, 2014     |
| IAS 19R                                       | Services related contributions from employees or third parties | The amendment allows contributions from employees or third parties that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits. | July 1, 2014        |
| Amendments to IFRS                            | Improvements to IFRSs 2010-2012                                | Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.   | July 1, 2014        |
| Amendments to IFRS                            | Improvements to IFRSs 2011-2013                                | Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.   | July 1, 2014        |

B. Base on the Company's assessments, except the increasing volume of disclosures requirements, the rests do not have significant impact on the financial statements.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

A. These consolidated financial statements are the first consolidated financial statements prepared by the Company in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

B. In the preparation of the balance sheet of January 1, 2012 (“the opening IFRS balance sheet”), the Company has adjusted the amounts that were reported in the consolidated financial statements in accordance with previous R.O.C. GAAP. Please refer to Note 15 for the impact of transitioning from R.O.C. GAAP to IFRSs on the Company’s financial position, and cash flows.

##### (2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Liabilities on cash-settled share-based payment arrangements measured at fair value.
- (d) Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised past service cost and unrecognised actuarial losses, and less unrecognised actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

##### (3) Basis of consolidation

A. Basis for preparation of consolidated financial statements

- (a) The consolidated financial statements incorporate the financial statements of YC INOX and entities controlled by YC INOX. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(b) All intra-company transactions, balances, income and unrealized expenses are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B. Basis for preparation of consolidated financial statements

| Name of investor | Name of subsidiary                 | Main business activities | Ownership(%)      |                   |                 |
|------------------|------------------------------------|--------------------------|-------------------|-------------------|-----------------|
|                  |                                    |                          | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| The Company      | Ji-mao investment Corporation, Ltd | Investment               | 100%              | 100%              | 100%            |

(4) Foreign currency translation

A. Items included in the financial statements of each of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company’s functional and the Company’s presentation currency.

B. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

C. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

D. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

E. All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses’.



(5) 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 realised, or are intended to be sold or consumed within the normal operating cycle;
- (b)Assets held mainly for trading purposes;
- (c)Assets that are expected to be realised within twelve 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 twelve months after the balance sheet date.

B.Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a)Liabilities that are expected to be paid off within the normal operating cycle;
- (b)Liabilities arising mainly from trading activities;
- (c)Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d)Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Financial assets at fair value through profit or loss

A.Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- (a)Hybrid (combined) contracts; or
- (b)They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c)They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B.On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting, designated at initial recognition as financial assets at fair value through profit or loss using settlement date accounting.

C.Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured and stated at fair value, and any

changes in the fair value are recognised in profit or loss.

D. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss. Investments in equity instruments that do not have a listed market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are recognized in a separate line item as financial assets carried at cost.

(7) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using settlement date accounting.

C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘financial assets measured at cost’.

(8) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, except for short-term accounts receivable when the effect of discounting is immaterial.

(9) Impairment of financial assets

A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Company, for economic or legal reasons relating to the borrower’s financial

difficulty, granted the borrower a concession that a lender would not otherwise consider;

- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

- (a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

- (b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the

carrying amount of the asset through the use of an impairment allowance account.

(c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Company derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Company neither transfers nor retains substantially all risks and rewards of the financial asset, however, the Company has not retained control of the financial asset.

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of land improvements are 10 years, buildings are 10~35 years, machinery and equipment are 3~15 years, transportation equipment are 8 years, and others are 1~20 years.

(13) Leases

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Company assumes substantially all the risks and rewards incidental to ownership of the leased asset.

B. Operating lease is a lease other than a finance lease. Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(14) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(15) Borrowings cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore,

should be capitalised. Capitalisation should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. Other borrowing costs are recognised as an expense

(16) Employee benefits

A. Employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions, and the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Defined benefit plans are all pension plans other than defined contribution plans. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise.

iii. Past-service costs are recognised immediately in profit or loss if vested immediately; if not, the past-service costs are amortised on a straight-line basis over the vesting period.

C. Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal

obligation or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognised based on the accounting for changes in estimates. The Company calculates the number of shares of employees' stock bonus based on the fair value per share 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.

(17) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures, employees' training costs and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(18) Revenue recognition

A. The Company manufactures and sells stainless steel products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

C. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(19) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.



## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The information is addressed below:

### (1) Realisability of deferred income tax assets

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred income tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

As of December 31, 2013, the Company recognised deferred income tax assets amounting to \$45,994 thousand.

### (2) Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2013, the carrying amount of inventories was \$4,897,312 thousand.

### (3) Calculation of accrued pension obligations

When calculating the present value of defined pension obligations, the Company must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and expected rate of return on plan assets. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

As of December 31, 2013, the carrying amount of accrued pension obligations was \$196,108 thousand.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) CASH

|                                       | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---------------------------------------|----------------------|----------------------|--------------------|
| Cash on hand and petty cash           | \$1,405              | \$1,714              | \$749              |
| Checking accounts and demand deposits | 652,173              | 448,104              | 478,828            |
| Total                                 | <u>\$653,578</u>     | <u>\$449,818</u>     | <u>\$479,577</u>   |

A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Company's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. Please refer to Note 8 for cash and cash equivalents pledged as collateral.

### (2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-CURRENT

| Items                             | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|-----------------------------------|----------------------|----------------------|--------------------|
| Financial assets held for trading |                      |                      |                    |
| Listed stocks                     | \$90,004             | \$89,715             | \$89,715           |
| Valuation adjustment              | (1,809)              | (22,233)             | (30,833)           |
| Subtotal                          | 88,195               | 67,482               | 58,882             |
| Non-hedging derivatives           |                      |                      |                    |
| Exchange contracts futures        | 9,401                | 0                    | 0                  |
| Total                             | <u>\$97,596</u>      | <u>\$67,482</u>      | <u>\$58,882</u>    |

A. The Company recognized net gain(loss) of \$28,439 thousand and \$8,818 thousand for the year periods ended December 31, 2013 and 2012, respectively.

B. The Derivative financial instruments transaction and contract information are as follows:

| Financial Instruments      | December 31, 2013                                     |                     |
|----------------------------|---|---------------------|
|                            | Contract Amount<br>(Notional Principal)<br>(thousand) | Contract Period     |
| Exchange contracts futures |   |                     |
| Sell JPY/Buy NT            | JPY 1,014,000   | 102.10.02~103.03.31 |

The Company entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

C. No financial assets at fair value through profit or loss by the Company were pledged to others.

(3) AVAILABLE-FOR-SALE FINANCIAL ASSETS

| Items                | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|----------------------|----------------------|----------------------|--------------------|
| OTC stocks           | \$31,652             | \$31,652             | \$31,652           |
| Valuation adjustment | 7,625                | 8,693                | 328                |
| Total                | \$39,277             | \$40,345             | \$31,980           |

No available-for-sale financial assets by the Company were pledged to others.

(4) FINANCIAL ASSETS CARRIED AT COST-NON-CURRENT

| Items                  | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|------------------------|----------------------|----------------------|--------------------|
| Unlisted stocks        | \$355,570            | \$276,958            | \$187,444          |
| Accumulated impairment | 0                    | 0                    | 0                  |
| Total                  | \$355,570            | \$276,958            | \$187,444          |

A. According to the Company's intention, its investment in ABGENOMICS INTERNATIONAL INC. stocks should be classified as available-for-sale financial assets. However, as ABGENOMICS INTERNATIONAL INC. stocks are not traded in active market, and no sufficient industry information of companies similar to ABGENOMICS INTERNATIONAL INC. or ABGENOMICS INTERNATIONAL INC's financial information cannot be obtained, the fair value of the investment in ABGENOMICS INTERNATIONAL INC. stocks cannot be measured reliably. The Company classified those stocks as 'financial assets measured at cost'.

B. No financial assets measured at cost held by the Company were pledged to others.

(5) NOTES RECEIVABLE

|                               | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|-------------------------------|----------------------|----------------------|--------------------|
| Notes receivable stocks       | \$54,667             | \$89,832             | \$84,909           |
| Less: allowance for bad debts | 0                    | 0                    | 0                  |
| Total                         | \$54,667             | \$89,832             | \$84,909           |

(6) ACCOUNTS RECEIVABLE

|                               | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|-------------------------------|----------------------|----------------------|--------------------|
| Accounts receivable           | \$2,478,815          | \$2,316,267          | \$2,651,193        |
| Less: allowance for bad debts | (2,695)              | (15,583)             | (15,583)           |
| Total                         | \$2,476,120          | \$2,300,684          | \$2,635,610        |

|                               | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|-------------------------------|----------------------|----------------------|--------------------|
| Overdue receivable            | \$161                | \$161                | \$172              |
| Less: allowance for bad debts | (161)                | (161)                | (172)              |
| Total                         | <u>\$0</u>           | <u>\$0</u>           | <u>\$0</u>         |

A. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

|                | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|----------------|----------------------|----------------------|--------------------|
| Up to 30 days  | \$130,417            | \$140,885            | \$247,018          |
| 31 to 90 days  | 1,643                | 81,786               | 78,110             |
| 91 to 180 days | 0                    | 0                    | 0                  |
| Over 181 days  | 0                    | 0                    | 0                  |
| Total          | <u>\$132,060</u>     | <u>\$222,671</u>     | <u>\$325,128</u>   |

B. Movement analysis of financial assets that were impaired is as follows:

|                              | 2013           | 2012            |
|------------------------------|----------------|-----------------|
| At January 1                 | \$15,744       | \$15,755        |
| Reversal of impairment       | (12,888)       | 0               |
| Write-offs during the period | 0              | (11)            |
| At December 31               | <u>\$2,856</u> | <u>\$15,744</u> |

C. The Company's accounts receivable that were neither past due nor impaired had good credit quality.

D. The maximum exposure to credit risk at balance sheet date was the carrying amount of each class of accounts receivable.

E. The Company does not hold any collateral as security.

F. 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, 2013, December 31, 2012 and January 1, 2012, the outstanding accounts receivable sold to bank were as follow :

| December 31, 2013 |                     |                     |                    |
|-------------------|---------------------|---------------------|--------------------|
| Purchaser         | Sold                | Amount advanced     | Amount retained    |
| Fubon Bank        | USD 17,496 thousand | USD 15,739 thousand | USD 1,757 thousand |
| Fubon Bank        | EUR 2,664 thousand  | EUR 2,397 thousand  | EUR 267 thousand   |
| Mega Bank         | USD 980 thousand    | USD 0 thousand      | USD 980 thousand   |

## December 31, 2012

| Purchaser  | Sold                | Amount advanced     | Amount retained    |
|------------|---------------------|---------------------|--------------------|
| Fubon Bank | USD 16,594 thousand | USD 14,926 thousand | USD 1,668 thousand |
| Fubon Bank | EUR 556 thousand    | EUR 500 thousand    | EUR 56 thousand    |
| Mega Bank  | USD 513 thousand    | USD 410 thousand    | USD 103 thousand   |

## January 1, 2012

| Purchaser  | Sold               | Amount advanced  | Amount retained    |
|------------|--------------------|------------------|--------------------|
| Fubon Bank | USD 9,203 thousand | USD 0 thousand   | USD 9,203 thousand |
| Fubon Bank | EUR 2,079 thousand | EUR 564 thousand | EUR 1,515 thousand |

(7) INVENTORIES

|                                       | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---------------------------------------|----------------------|----------------------|--------------------|
| Finished goods(including merchandise) | \$2,652,294          | \$2,494,602          | \$2,816,901        |
| Work in process                       | 50,969               | 53,383               | 51,270             |
| Semi-finished goods                   | 304,703              | 371,824              | 373,771            |
| Raw materials                         | 1,935,517            | 1,821,427            | 2,250,515          |
| Supplies                              | 40,029               | 43,536               | 47,586             |
| Subtotal                              | 4,983,512            | 4,784,772            | 5,540,043          |
| Less : Allowance for valuation loss   | (86,200)             | (118,600)            | (187,300)          |
| Net                                   | \$4,897,312          | \$4,666,172          | \$5,352,743        |

The cost of goods sold for the years ended December 31, 2013 and 2012 was \$22,204,373 thousand and \$22,899,224 thousand, respectively, including the amount of \$32,400 thousand and \$68,700 thousand, respectively, that the Company reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold, because the increase in price of raw materials.

## (8) PROPERTY, PLANT AND EQUIPMENT

|                                 | Year ended December 31, 2013     |                  |                   |                       |                         |
|---------------------------------|----------------------------------|------------------|-------------------|-----------------------|-------------------------|
|                                 | Balance,<br>Beginning of<br>Year | Additions        | Disposals         | Reclassificati<br>ons | Balance,<br>End of Year |
| <u>Cost</u>                     |                                  |                  |                   |                       |                         |
| Land                            | \$1,146,676                      | \$7,686          | \$0               | \$0                   | \$1,154,362             |
| Land improvements               | 0                                | 7,619            | 0                 | 0                     | 7,619                   |
| Buildings                       | 597,960                          | 6,549            | 0                 | 63,053                | 667,562                 |
| Machinery and equipment         | 1,540,198                        | 123,739          | (3,625)           | 0                     | 1,660,312               |
| Transportation equipment        | 89,211                           | 3,800            | (27,728)          | 0                     | 65,283                  |
| Office equipment                | 58,986                           | 580              | (1,222)           | 0                     | 58,344                  |
| Other equipment                 | 201,492                          | 7,170            | (906)             | 15,401                | 223,157                 |
| Construction in progress        | 78,454                           | 37,349           | 0                 | (78,454)              | 37,349                  |
|                                 | <u>3,712,977</u>                 | <u>\$194,492</u> | <u>(\$33,481)</u> | <u>\$0</u>            | <u>3,873,988</u>        |
| <br>                            |                                  |                  |                   |                       |                         |
| <u>Accumulated depreciation</u> |                                  |                  |                   |                       |                         |
| Land improvements               | 0                                | \$571            | \$0               | \$0                   | 571                     |
| Buildings                       | 185,974                          | 33,363           | 0                 | 220                   | 219,557                 |
| Machinery and equipment         | 900,163                          | 104,047          | (3,509)           | 0                     | 1,000,701               |
| Transportation equipment        | 23,017                           | 9,355            | (6,611)           | 0                     | 25,761                  |
| Office equipment                | 20,494                           | 7,474            | (1,213)           | 0                     | 26,755                  |
| Other equipment                 | 122,700                          | 12,804           | (838)             | (220)                 | 134,446                 |
|                                 | <u>1,252,348</u>                 | <u>\$167,614</u> | <u>(\$12,171)</u> | <u>\$0</u>            | <u>1,407,791</u>        |
|                                 | <u>\$2,460,629</u>               |                  |                   |                       | <u>\$2,466,197</u>      |
| <br>                            |                                  |                  |                   |                       |                         |
|                                 | Year ended December 31, 2012     |                  |                   |                       |                         |
|                                 | Balance,<br>Beginning of<br>Year | Additions        | Disposals         | Reclassifications     | Balance,<br>End of Year |
| <u>Cost</u>                     |                                  |                  |                   |                       |                         |
| Land                            | \$1,146,676                      | \$0              | \$0               | \$0                   | \$1,146,676             |
| Buildings                       | 564,836                          | 11,675           | (2,482)           | 23,931                | 597,960                 |
| Machinery and equipment         | 1,495,998                        | 46,797           | (2,597)           | 0                     | 1,540,198               |
| Transportation equipment        | 79,948                           | 34,903           | (25,640)          | 0                     | 89,211                  |
| Office equipment                | 57,325                           | 2,492            | (831)             | 0                     | 58,986                  |
| Other equipment                 | 187,444                          | 12,808           | (2,012)           | 3,252                 | 201,492                 |
| Construction in progress        | 27,183                           | 78,454           | 0                 | (27,183)              | 78,454                  |
|                                 | <u>3,559,410</u>                 | <u>\$187,129</u> | <u>(\$33,562)</u> | <u>\$0</u>            | <u>3,712,977</u>        |

| <u>Accumulated depreciation</u> |                    |                  |                   |            |                    |
|---------------------------------|--------------------|------------------|-------------------|------------|--------------------|
| Buildings                       | 156,169            | \$29,973         | (\$168)           | \$0        | 185,974            |
| Machinery and equipment         | 791,473            | 110,973          | (2,283)           | 0          | 900,163            |
| Transportation equipment        | 26,933             | 10,008           | (13,924)          | 0          | 23,017             |
| Office equipment                | 12,940             | 8,344            | (790)             | 0          | 20,494             |
| Other equipment                 | 109,541            | 15,132           | (1,973)           | 0          | 122,700            |
|                                 | <u>1,097,056</u>   | <u>\$174,430</u> | <u>(\$19,138)</u> | <u>\$0</u> | <u>1,252,348</u>   |
|                                 | <u>\$2,462,354</u> |                  |                   |            | <u>\$2,460,629</u> |

A. Interest capitalization amounted to \$408 thousand and \$449 thousand for the year ended December 31, 2013 and 2012, respectively.

B. The range of interest rates is 1.16%~1.45% and 1.13%~1.56% for the year ended December 31, 2013 and 2012, respectively.

C. The Company's land meant for 75-1, 75-2 (2,044 m<sup>2</sup>) located at Jiumei Section, Xizho Township, Changhua County and land meant for Lot 115 (171 m<sup>2</sup>), 115-1 and 115-2 (3,218 m<sup>2</sup>), and 116 (120 m<sup>2</sup>) 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 six lots of land are used as collateral for a mortgage loan for an amount of \$40,000 thousand.

D. The Company's land meant for Lot 73,73-3 (9,621 m<sup>2</sup>), and 74-6, 74-18 and 74-19(1,547 m<sup>2</sup>) located at Jiumei Section, Xizho Township, Changhua County had transferred from Mr. G.Y. Chang, General manager of the Company, to the Company in April 26, 2013, and registered the mortgage right to rescind in April 30, 2013.

E. Please refer to Note 8 for property, plant and equipment pledged as collateral.

#### (9) SHORT-TERM LOANS

|                         | <u>December 31,</u><br><u>2013</u> | <u>December 31,</u><br><u>2012</u> | <u>January 1,</u><br><u>2012</u> |
|-------------------------|------------------------------------|------------------------------------|----------------------------------|
| Unsecured bank loans    |                                    |                                    |                                  |
| Material purchase       | \$733,648                          | \$285,088                          | \$2,039,799                      |
| Exporting               | 1,159,438                          | 988,468                            | 824,710                          |
| Unsecured loans         | 300,000                            | 400,000                            | 0                                |
| Net                     | <u>\$2,193,086</u>                 | <u>\$1,673,556</u>                 | <u>\$2,864,509</u>               |
| Range of interest rates | <u>0.4913%~1.55%</u>               | <u>0.4538%~1.715%</u>              | <u>0.2257%~2.73%</u>             |

(10) SHORT-TERM BILLS PAYABLE

|                             | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|-----------------------------|----------------------|----------------------|--------------------|
| Short-term bills payable    | \$300,000            | \$100,000            | \$100,000          |
| Less: Unamortized discounts | (542)                | (32)                 | (125)              |
| Net                         | \$299,458            | \$99,968             | \$99,875           |
| Range of interest rates     | 0.84%~1%             | 0.84%                | 0.912%             |

(11) OTHER PAYABLE

|   | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---|----------------------|----------------------|--------------------|
| Accrued employees' bonuses and directors' and supervisors' remuneration | \$41,652             | \$20,330             | \$28,873           |
| Salary and bonus payable  | 109,657              | 70,567               | 85,553             |
| Payable on equipment  | 13,318               | 8,173                | 37,143             |
| Commissions payable   | 22,148               | 30,244               | 19,950             |
| Other payable   | 94,301               | 65,626               | 84,727             |
|   | \$281,076            | \$194,940            | \$256,246          |

(12) LONG-TERM LOANS

|                                       | Loan content | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---------------------------------------|--------------|----------------------|----------------------|--------------------|
| Secured loans :                       |              |                      |                      |                    |
| Bank Of Taiwan                        | NoteA        | \$185,600            | \$208,800            | \$232,000          |
| Bank Of Taiwan                        | NoteB        | 104,616              | 116,923              | 129,231            |
| Bank Of Taiwan                        | NoteC        | 250,000              | 250,000              | 0                  |
| Bank Of Taiwan                        | NoteD        | 50,000               | 50,000               | 0                  |
| Mega International<br>Commercial Bank | NoteE        | 600,000              | 0                    | 0                  |
| Mega International<br>Commercial Bank | NoteF        | 0                    | 500,000              | 500,000            |
| Hua Nan Bank                          | NoteG        | 0                    | 380,000              | 380,000            |
| Unsecured loans :                     |              |                      |                      |                    |
| Hua Nan Bank                          | NoteH        | 0                    | 120,000              | 120,000            |
| Total                                 |              | 1,190,216            | 1,625,723            | 1,361,231          |
| Less : Current portion                |              | (35,508)             | (77,174)             | (35,508)           |
| Long-term loans                       |              | \$1,154,708          | \$1,548,549          | \$1,325,723        |
| Range of interest rates               |              | 1.4746%~1.485%       | 1.475%~1.485%        | 1.475%~1.485%      |

A. Payable semi-annually in 25 installments from November 22, 2009.

B. Payable semi-annually in 26 installments from July 22, 2009.



- C. Payable semi-annually in 6 installments from February 6, 2015.
- D. Payable semi-annually in 24 installments from February 6, 2016.
- E. Payable quarterly in 12 installments from November 30, 2015.
- F. Payable quarterly in 12 installments from December 28, 2013, and the Company has prepaid in August 30, 2013.
- G. Payable quarterly in 20 installments from January 14, 2013, and the Company has prepaid in September 27, 2013.
- H. Payable quarterly in 20 installments from January 14, 2013, and the Company has prepaid in September 27, 2013.
- I. The Company at December 31, 2013, December 31, 2012 and January 1, 2012 had issued guarantee notes for long-term loans, amounted to \$800,000 thousand, \$500,000 thousand and \$500,000 thousand, respectively, collateral information for long-term loans please refer to Note 8.

(13) PENSION

A. Defined benefit plans

(a) The Company have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 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, the trustee, under the name of the independent retirement fund committee.

(b) The amounts recognised in the balance sheet are determined as follows:

|                                       | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---------------------------------------|----------------------|----------------------|--------------------|
| Present value of funded obligations   | \$215,686            | \$187,825            | \$185,054          |
| Fair value of plan assets             | (19,057)             | (15,380)             | (13,237)           |
| Net liability in the balance sheet    | 196,629              | 172,445              | 171,817            |
| Booked as other payable               | (521)                | (489)                | (532)              |
| Booked as Accrued pension liabilities | \$196,108            | \$171,956            | \$171,285          |

(c) Changes in present value of funded obligations are as follows:

|                                     | 2013             | 2012             |
|-------------------------------------|------------------|------------------|
| Present value of funded obligations |                  |                  |
| At January 1                        | \$187,825        | \$185,054        |
| Current service cost                | 963              | 1,322            |
| Interest expense                    | 3,232            | 3,184            |
| Benefits paid                       | (2,531)          | (4,033)          |
| Actuarial gains/losses on defined   | 26,197           | 2,298            |
| At December 31                      | <u>\$215,686</u> | <u>\$187,825</u> |

(d) Changes in fair value of plan assets are as follows:

|                                | 2013            | 2012            |
|--------------------------------|-----------------|-----------------|
| Fair value of plan assets      |                 |                 |
| At January 1                   | \$15,380        | \$13,237        |
| Expected return on plan assets | 272             | 272             |
| Contribution on plan assets    | 6,012           | 6,051           |
| Benefits paid                  | (2,531)         | (4,032)         |
| profit and loss on plan assets | (76)            | (148)           |
| At December 31                 | <u>\$19,057</u> | <u>\$15,380</u> |

(e) Amounts of expenses recognised in comprehensive income statements are as follows:

|                                | 2013           | 2012           |
|--------------------------------|----------------|----------------|
| Current service cost           | \$963          | \$1,322        |
| Interest cost                  | 3,232          | 3,184          |
| Expected return on plan assets | (272)          | (272)          |
| Current pension costs          | <u>\$3,923</u> | <u>\$4,234</u> |

Details of cost and expenses recognised in comprehensive income statements are as follows:

|                                     | 2013           | 2012           |
|-------------------------------------|----------------|----------------|
| Operating cost                      | \$2,658        | \$2,963        |
| Selling expenses                    | 309            | 287            |
| General and administrative expenses | 956            | 984            |
|                                     | <u>\$3,923</u> | <u>\$4,234</u> |

(f) Amounts recognised under other comprehensive income are as follows:

|                                | 2013            | 2012           |
|--------------------------------|-----------------|----------------|
| Recognition for current period | \$26,273        | \$2,445        |
| Accumulated amount             | <u>\$28,718</u> | <u>\$2,445</u> |

(g) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for

the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of December 31, 2013 and 2012 is given in the Annual Labor Retirement Fund Utilisation Report published by the government. Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilisation by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. For the years ended December 31, 2013 and 2012, the actual return on plan assets were \$196 thousand and \$125 thousand, respectively.

(h)The principal actuarial assumptions used were as follows:

|  | 2013  | 2012  |
|--|-------|-------|
| Discount rate used in determining present values | 1.75% | 1.75% |
| Future salary increase rate                      | 3.00% | 2.00% |
| Expected rate of return on plan assets           | 1.75% | 1.75% |

Assumptions regarding future mortality experience are set based on Taiwan Standard Ordinary Experience 5<sup>th</sup> Mortality Table.

(i)Historical information of experience adjustments was as follows:

|   | 2013        | 2012        |
|---|-------------|-------------|
| Present value of defined benefit obligation | (\$215,686) | (\$187,825) |
| Fair value of plan assets                   | 19,057      | 15,380      |
| Surplus/(deficit) in the plan               | (\$196,629) | (\$172,445) |
| Experience adjustments on plan liabilities  | \$581       | \$8,082     |
| Experience adjustments on plan assets       | (\$76)      | (\$148)     |

(j)Expected contributions to the defined benefit pension plans of the Company within one year from December 31, 2013 are \$6,841 thousand.

#### B. Defined contribution plans

(a)Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b)The net pension costs recognized under the defined contribution plan for the year periods ended December 31, 2013 and 2012 were \$17,805 thousand and \$17,725 thousand respectively.

(14)CAPITAL STOCK

As of December 31, 2013, the Company's authorized capital was \$4,600,000 thousand, consisting of 460,000 thousand shares of ordinary stock. As of December 31, 2013, 2012, and January 1, 2012, the Company's issued common stock was 370,118,857 shares, respectively. All proceeds from shares issued have been collected.

(15)CAPITAL SURPLUS

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(16)RETAINED EARNINGS

A.The Company's Articles of Incorporation provide that, when allocating the net income for each fiscal year, the Company shall first offset its losses in previous years and then set aside the following items accordingly:

- (a)Legal capital reserve at 10% of the profits left over;
- (b)Special capital reserve or reverse in accordance with relevant laws or regulations or as requested by the authorities in charge;
- (c)To pay remuneration to directors and supervisors at 2% after deducting the amounts under the above items (a) to (b);
- (d)To pay bonus to employees at 5% after deducting the amounts under the above items (a) to (b);
- (e)Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

B.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.

C.(a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.

D. The appropriation of 2012 and 2011 earnings had been resolved at the stockholders' meeting on June 18, 2013 and June 18, 2012, respectively. Details are summarized below:

|                          | For Fiscal Year 2012 |                                 | For Fiscal Year 2011 |                                 |
|--------------------------|----------------------|---------------------------------|----------------------|---------------------------------|
|                          | Amount               | Dividends per share(in dollars) | Amount               | Dividends per share(in dollars) |
| Legal capital reserve    | \$32,116             |                                 | \$46,786             |                                 |
| Special capital reversal | (1,381)              |                                 | 0                    |                                 |
| Special capital reserve  | 0                    |                                 | 8,604                |                                 |
| Cash dividends           | 259,083              | \$0.70                          | 444,143              | \$1.20                          |
| Total                    | <u>\$289,818</u>     |                                 | <u>\$499,533</u>     |                                 |

E. For the years ended December 31, 2013 and 2012, employees' bonus was accrued at \$29,752 thousand and \$14,521 thousand, respectively; directors' and supervisors' remuneration was accrued at \$11,900 thousand and \$5,809 thousand, respectively. Employees' bonus and directors' and supervisors' remuneration of 2012 as resolved by the stockholders were in agreement with those amounts recognised in the 2012 financial statements. Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as proposed by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(17)OTHER GAINS AND LOSSES

|   | <u>2013</u>      | <u>2012</u>       |
|---|------------------|-------------------|
| Net gains (losses) on financial assets and liabilities at fair value through profit or loss | \$39,105         | \$8,600           |
| Gains (losses) on disposal of investments   | (10,666)         | 218               |
| Gains (losses) on disposal of property, plant and equipment                                 | (2,826)          | (2,038)           |
| Net currency exchange gains (losses)  | 64,810           | (28,733)          |
| Other gains and losses  | 21,589           | 11,077            |
| Total   | <u>\$112,012</u> | <u>(\$10,876)</u> |

(18)FINANCE COSTS

|                                    | <u>2013</u>     | <u>2012</u>     |
|------------------------------------|-----------------|-----------------|
| Interest expense                   |                 |                 |
| Bank borrowings                    | \$36,241        | \$41,750        |
| Short-term bills payable           | 1,235           | 1,162           |
| Less: capitalisation of qualifying | <u>(408)</u>    | <u>(449)</u>    |
| Finance costs                      | <u>\$37,068</u> | <u>\$42,463</u> |

(19)EMPLOYEE BENEFIT EXPENSE

|                            | <u>2013</u>            |                           |                  | <u>2012</u>            |                           |                  |
|----------------------------|------------------------|---------------------------|------------------|------------------------|---------------------------|------------------|
|                            | <u>Operating Costs</u> | <u>Operating Expenses</u> | <u>Total</u>     | <u>Operating Costs</u> | <u>Operating Expenses</u> | <u>Total</u>     |
| Employee benefit expense   |                        |                           |                  |                        |                           |                  |
| Salary                     | \$397,387              | \$141,024                 | \$538,411        | \$338,551              | \$105,310                 | \$443,861        |
| Labor and health insurance | 33,714                 | 7,363                     | 41,077           | 28,408                 | 6,432                     | 34,840           |
| Pension                    | 17,065                 | 4,663                     | 21,728           | 17,350                 | 4,609                     | 21,959           |
| Other                      | 39,449                 | 7,793                     | 47,242           | 33,492                 | 7,633                     | 41,125           |
|                            | <u>\$487,615</u>       | <u>\$160,843</u>          | <u>\$648,458</u> | <u>\$417,801</u>       | <u>\$123,984</u>          | <u>\$541,785</u> |
| Deprecitaion               | <u>\$151,789</u>       | <u>\$15,825</u>           | <u>\$167,614</u> | <u>\$157,531</u>       | <u>\$16,899</u>           | <u>\$174,430</u> |

(20)INCOME TAX

A. Income tax expense

(a) Components of income tax expense:

|   | <u>2013</u>     | <u>2012</u>     |
|---|-----------------|-----------------|
| Current tax                                       |                 |                 |
| Current tax on profit for the period              | \$82,447        | \$33,009        |
| Additional 10% tax on undistributed earnings      | 3,135           | 0               |
| Adjustments in respect of prior years             | 126             | 452             |
| Total current tax                                 | <u>85,708</u>   | <u>33,461</u>   |
| Deferred tax                                      |                 |                 |
| Origination and reversal of temporary differences | 4,989           | 2,211           |
| Income tax expense                                | <u>\$90,697</u> | <u>\$35,672</u> |

(b)The income tax (charge)/credit relating to components of other comprehensive income is as follows:

|                                   | 2013    | 2012  |
|-----------------------------------|---------|-------|
| Actuarial gains/losses on defined | \$4,466 | \$416 |

B.A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

|   | 2013      | 2012      |
|---|-----------|-----------|
| Accounting profit (income before tax)             | \$743,604 | \$372,455 |
| Income tax expense at the statutory rate 17%      | \$126,413 | \$63,317  |
| Effect from investment tax credit                 | (35,429)  | (15,132)  |
| Effects from adjustment by tax regulation         |           |           |
| Tax-exempt income                                 | (4,180)   | (2,493)   |
| Nondeductible items in determining taxable income | 632       | 694       |
| Temporary differences                             | 0         | (11,166)  |
| Additional 10% tax on undistributed earnings      | 3,135     | 0         |
| Adjustments in respect of prior years             | 126       | 452       |
| Income tax expense                                | \$90,697  | \$35,672  |

C.Amounts of deferred tax assets or liabilities as a result of temporary difference as follows:

|  | 2013      |                              |  | December 31 |
|--|-----------|------------------------------|--|-------------|
|  | January 1 | Recognised in profit or loss | Recognised in other comprehensive income |             |
| Temporary differences                    |           |                              |  |             |
| —Deferred tax assets                     |           |                              |  |             |
| Loss on inventory                        | \$20,162  | (\$5,508)                    | \$0                                      | \$14,654    |
| Unrealised exchange gain(loss)           | (1,883)   | 874                          | 0  | (1,009)     |
| Allowance for bad debts(ratified amount) | (1,414)   | 0                            | 0  | (1,414)     |
| Accrued pension cost                     | 29,316    | (355)                        | 4,466                                    | 33,427      |
| Unrealised investment loss               | 336       | 0                            | 0  | 336         |
| Subtotal                                 | \$46,517  | (\$4,989)                    | \$4,466                                  | \$45,994    |
| —Deferred tax liabilities                |           |                              |  |             |
| Urealized revaluation increments         | \$890     | \$0                          | \$0                                      | \$890       |

|  | 2012            |                              |  | December 31     |
|--|-----------------|------------------------------|--|-----------------|
|  | January 1       | Recognised in profit or loss | Recognised in other comprehensive income |                 |
| Temporary differences                    |                 |                              |  |                 |
| —Deferred tax assets                     |                 |                              |  |                 |
| Loss on inventory                        | \$31,841        | (\$11,679)                   | \$0                                      | \$20,162        |
| Unrealised exchange gain(loss)           | (494)           | (1,389)                      | 0  | (1,883)         |
| Allowance for bad debts(ratified amount) | (1,414)         | 0                            | 0  | (1,414)         |
| Accrued pension cost                     | 16,143          | 12,757                       | 416                                      | 29,316          |
|  | 336             | 0                            | 0  | 336             |
| Unrealised investment loss               | 1,900           | (1,900)                      | 0  | 0               |
| Subtotal                                 | <u>\$48,312</u> | <u>(\$2,211)</u>             | <u>\$416</u>                             | <u>\$46,517</u> |
| —Deferred tax liabilities                |                 |                              |  |                 |
| Urealized revaluation increments         | <u>\$890</u>    | <u>\$0</u>                   | <u>\$0</u>                               | <u>\$890</u>    |

D.The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

|                                  | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|----------------------------------|----------------------|----------------------|--------------------|
| Deductible temporary differences | <u>\$1,418</u>       | <u>\$1,516</u>       | <u>\$2,475</u>     |

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

F.The Company's income tax returns prior to 2011 have been assessed and approved by the Tax Authority.

G.The unappropriated retained earnings information:

|                          | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|--------------------------|----------------------|----------------------|--------------------|
| For 1997 and prior years | \$0                  | \$0                  | \$0                |
| For 1998 and thereafter  | 646,315              | 305,033              | 469,812            |
| Total                    | <u>\$646,315</u>     | <u>\$305,033</u>     | <u>\$469,812</u>   |

H.Integrated income tax information:

|                           | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---------------------------|----------------------|----------------------|--------------------|
| Imputation Credit Account | <u>\$19,432</u>      | <u>\$56,368</u>      | <u>\$42,637</u>    |

The creditable tax rate was 18.59% for 2012 and is estimated to be 13.68% for 2013.



(21) EARNINGS PER SHARE

|   | 2013                |  |                                       |
|---|---------------------|--|---------------------------------------|
|   | Amount<br>after tax | Weighted average<br>number of ordinary<br>shares outstanding<br>(share in thousands) | Earnings per<br>share<br>(in dollars) |
| <u>Basic earnings per share</u>   |                     |  |                                       |
| Profit attributable to the parent   | \$652,907           | 370,119  | \$1.76                                |
| <u>Diluted earnings per share</u>   |                     |  |                                       |
| Profit attributable to the parent   | \$652,907           | 370,119  |                                       |
| Assumed conversion of all dilutive<br>potential ordinary shares   |                     |  |                                       |
| Employees' bonus  | 0                   | 1,302  |                                       |
| Profit attributable to the parent plus<br>assumed conversion of all dilutive potential<br>ordinary shares | \$652,907           | 371,421  | \$1.76                                |

|   | 2012                |  |                                       |
|---|---------------------|--|---------------------------------------|
|   | Amount<br>after tax | Weighted average<br>number of ordinary<br>shares outstanding<br>(share in thousands) | Earnings per<br>share<br>(in dollars) |
| <u>Basic earnings per share</u>   |                     |  |                                       |
| Profit attributable to the parent   | \$336,783           | 370,119  | \$0.91                                |
| <u>Diluted earnings per share</u>   |                     |  |                                       |
| Profit attributable to the parent   | \$336,783           | 370,119  |                                       |
| Assumed conversion of all dilutive<br>potential ordinary shares   |                     |  |                                       |
| Employees' bonus  | 0                   | 839  |                                       |
| Profit attributable to the parent plus<br>assumed conversion of all dilutive potential<br>ordinary shares | \$336,783           | 370,958  | \$0.91                                |

(22) OPERATING LEASES

The Company leases in land and buildings under non-cancellable operating lease agreements. The lease terms are between 5 and 12 years, the Company recognised rental expenses of \$740 thousand and \$660 thousand for these leases in profit or loss for the years ended December 31, 2013 and 2012, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|   | December 31,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---|----------------------|----------------------|--------------------|
| Not later than one year                           | \$740                | \$740                | \$660              |
| Later than one year but not later than five years | 2,100                | 2,420                | 2,740              |
| Later than five years                             | 770                  | 1,190                | 1,610              |
| Total   | <u>\$3,610</u>       | <u>\$4,350</u>       | <u>\$5,010</u>     |

### (23)NON-CASH TRANSACTION

Investing activities with partial cash payments:

|  | 2013             | 2012             |
|--|------------------|------------------|
| Purchase of fixed assets                     | \$220,748        | \$239,141        |
| Add: opening balance of payable on equipment | 8,173            | 37,143           |
| Less: ending balance of payable on equipment | <u>(13,318)</u>  | <u>(8,173)</u>   |
| Cash paid during the period                  | <u>\$215,603</u> | <u>\$268,111</u> |

### 7.RELATED-PARTY TRANSACTIONS

#### (1)Key management compensation

|  | 2013            | 2012            |
|--|-----------------|-----------------|
| Salaries and other short-term employee | <u>\$65,534</u> | <u>\$45,975</u> |

### 8.PLEDGED ASSETS

| Pledged asset                 | Book value         |                    | Purpose          |
|-------------------------------|--------------------|--------------------|------------------|
|                               | December 31, 2013  | December 31, 2012  |                  |
| Property, plant and equipment | \$1,424,109        | \$1,411,325        | Long-term loans  |
| Deposit (Note)                | 800                | 800                | Security deposit |
| Total                         | <u>\$1,424,909</u> | <u>\$1,412,125</u> |                  |

| Pledged asset                 | Book value         |  | Purpose          |
|-------------------------------|--------------------|--|------------------|
|                               | January 1, 2012    |  |                  |
| Property, plant and equipment | \$1,395,883        |  | Long-term loans  |
| Deposit (Note)                | 800                |  | Security deposit |
| Total                         | <u>\$1,396,683</u> |  |                  |

Note:Reported under other non-current assets.

### 9.SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not yet paid is as follows:

|                               | December 31,<br>2013 | December<br>31, 2012 | January 1,<br>2012 |
|-------------------------------|----------------------|----------------------|--------------------|
| Property, plant and equipment | <u>\$221,712</u>     | <u>\$45,722</u>      | <u>\$9,470</u>     |

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

## 12. OTHERS

### (1) Capital management

The Company plans its working capital needs, capital asset purchases, research and development expenditures, dividend payments and other requirements over the future periods based on industry features, future development and influence of the exterior environment, to secure its ability to continue as a going concern, deserved return of shareholders and the interests of other stakeholders at the same time. The Company also maintains an optimal capital structure in order to enhance the value of the shareholders in the long term.

The Company may adjust the dividend payment to stockholders, issue new shares or return capital to stockholders to maintain or adjust the capital structure.

### (2) Financial instruments

#### A. Fair value information of financial instruments

Except those listed in the table below, the carrying amounts of the Company's financial instruments not measured at fair value other receivables, short-term loans, notes payable, accounts payable and other approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3):

| Financial assets                 | December 31, 2013 |            |
|----------------------------------|-------------------|------------|
|                                  | Book value        | Fair value |
| Financial assets carried at cost | \$355,570         | —          |
| Refundable deposits              | 141               | 141        |

| Financial liabilities   | December 31, 2013 |             |
|---|-------------------|-------------|
|   | Book value        | Fair value  |
| Long-term loans(including current portion of long-term loans) | \$1,190,216       | \$1,190,216 |
| Guarantee deposits  | 3,251             | 3,251       |

| Financial assets                 | December 31, 2012 |            |
|----------------------------------|-------------------|------------|
|                                  | Book value        | Fair value |
| Financial assets carried at cost | \$276,958         | —          |
| Refundable deposits              | 153               | 153        |

|   | December 31, 2012 |             |
|---|-------------------|-------------|
|   | Book value        | Fair value  |
| <u>Financial liabilities</u>                                  |                   |             |
| Long-term loans(including current portion of long-term loans) | \$1,625,723       | \$1,625,723 |
| Guarantee deposits  | 173,780           | 173,780     |
| <br>January 1, 2012   |                   |             |
| <u>Financial assets</u>                                       |                   |             |
| Financial assets carried at cost                              | \$187,444         | —           |
| Refundable deposits   | 160               | 160         |
| <br>January 1, 2012   |                   |             |
| <u>Financial liabilities</u>                                  |                   |             |
| Long-term loans(including current portion of long-term loans) | \$1,361,231       | \$1,361,231 |
| Guarantee deposits  | 184,932           | 184,932     |

#### B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance. The Company uses derivative financial instruments to hedge certain risk exposures (see Notes 6(2)).

(b) Risk management is carried out by a treasury department (Company treasury) under policies approved by the management. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Company provides written principles for overall risk management, as well as written policies covering specific areas and matters.

#### C. Significant financial risks and degrees of financial risks

##### (a) Market risk

###### Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and JPY. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The Company has foreign currency risk arising from purchases or sales and applies natural hedges, and the Company utilizes currency forward contracts to hedge its part of currency exposures.

The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| December 31, 2013       |                          |                  |             |
|-------------------------|--------------------------|------------------|-------------|
|                         | Amount<br>(In Thousands) | Exchange<br>Rate | NTD         |
| <u>Financial assets</u> |                          |                  |             |
| <u>Monetary items</u>   |                          |                  |             |
| USD                     | \$34,220                 | 29.805           | \$1,019,913 |
| EUR                     | 1,892                    | 41.09            | 77,750      |
| JPY                     | 718,547                  | 0.2839           | 203,995     |

| December 31, 2012       |                          |                  |           |
|-------------------------|--------------------------|------------------|-----------|
|                         | Amount<br>(In Thousands) | Exchange<br>Rate | NTD       |
| <u>Financial assets</u> |                          |                  |           |
| <u>Monetary items</u>   |                          |                  |           |
| USD                     | \$33,753                 | 29.040           | \$980,185 |
| EUR                     | 630                      | 38.49            | 24,259    |
| JPY                     | 63,399                   | 0.3364           | 21,328    |

|                              |       |        |         |
|------------------------------|-------|--------|---------|
| <u>Financial liabilities</u> |       |        |         |
| <u>Monetary items</u>        |       |        |         |
| USD                          | 5,859 | 29.040 | 170,157 |

| January 1, 2012              |                          |                  |             |
|------------------------------|--------------------------|------------------|-------------|
|                              | Amount<br>(In Thousands) | Exchange<br>Rate | NTD         |
| <u>Financial assets</u>      |                          |                  |             |
| <u>Monetary items</u>        |                          |                  |             |
| USD                          | \$51,801                 | 30.275           | \$1,568,284 |
| EUR                          | 3,311                    | 39.18            | 129,736     |
| <u>Financial liabilities</u> |                          |                  |             |
| <u>Monetary items</u>        |                          |                  |             |
| USD                          | 11,512                   | 30.275           | 348,517     |

Analysis of foreign currency market risk arising from significant foreign exchange variation:

| 2013                    |                                |  |     |
|-------------------------|--------------------------------|--|-----|
| Sensitivity analysis    |                                |  |     |
| Degree of<br>variation  | Effect on<br>profit<br>or loss | Effect on other<br>comprehensive<br>income |     |
| <u>Financial assets</u> |                                |  |     |
| <u>Monetary items</u>   |                                |  |     |
| USD                     | 1%                             | \$10,199                                   | \$0 |
| EUR                     | 1%                             | 778  | 0   |
| JPY                     | 1%                             | 2,040                                      | 0   |

| 2012                         |                          |                                      |     |
|------------------------------|--------------------------|--------------------------------------|-----|
| Sensitivity analysis         |                          |                                      |     |
| Degree of variation          | Effect on profit or loss | Effect on other comprehensive income |     |
| <u>Financial assets</u>      |                          |                                      |     |
| <u>Monetary items</u>        |                          |                                      |     |
| USD                          | 1%                       | \$9,802                              | \$0 |
| EUR                          | 1%                       | 243                                  | 0   |
| JPY                          | 1%                       | 213                                  | 0   |
| <u>Financial liabilities</u> |                          |                                      |     |
| <u>Monetary items</u>        |                          |                                      |     |
| USD                          | 1%                       | 1,702                                | 0   |

### Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2013 and 2012 would have increased/decreased by \$976 thousand and \$675 thousand, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$393 thousand and \$403 thousand, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

### Interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. During the years ended December 31, 2013 and 2012, the Company's borrowings at variable rate were denominated in the NTD.

At December 31, 2013 and 2012, if interest rates on TWD-denominated borrowings at that date had been 0.1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2013 and 2012 would

have been \$1,471 thousand and \$1,463 thousand lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b)Credit risk

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with good rating are accepted.

No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

The credit quality information of financial assets that are neither past due nor impaired and past due but not impaired in Note 6(6).

(c)Liquidity risk

i. The Company manages liquidity risk to ensure that the Company possesses sufficient financial flexibility by maintaining adequate reserves of cash and reserve financing facilities, and also monitor forecasts of its liquidity requirements to ensure the Company has sufficient liquidity to fund its business requirements associated with existing operations.

ii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities.

| Non-derivative financial liabilities             | Less than 1 year   | Between 2 And 3 year        | Between 3 and 4 years | Between 4 and 5years  | Over 5 years |
|--|--------------------|-----------------------------|-----------------------|-----------------------|--------------|
| December 31, 2013                                |                    |                             |                       |                       |              |
| Short-term borrowings                            | \$2,193,086        | \$0                         | \$0                   | \$0                   | \$0          |
| Short-term notes and bills payable               | 299,458            | 0                           | 0                     | 0                     | 0            |
| Notes payable                                    | 276                | 0                           | 0                     | 0                     | 0            |
| Accounts payable                                 | 319,457            | 0                           | 0                     | 0                     | 0            |
| Long-term borrowings (including current portion) | 35,508             | 0                           | 250,000               | 600,000               | 304,708      |
| Guarantee deposits                               | 3,251              | 0                           | 0                     | 0                     | 0            |
| Derivative financial assets                      | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| December 31, 2013                                |                    |                             |                       |                       |              |
| Forward exchange contracts                       | \$9,401            | \$0                         | \$0                   | \$0                   | \$0          |
| Non-derivative financial liabilities             | Less than 1 year   | Between 2 And 3 year        | Between 3 and 4 years | Between 4 and 5years  | Over 5 years |
| December 31, 2012                                |                    |                             |                       |                       |              |
| Short-term borrowings                            | \$1,673,556        | \$0                         | \$0                   | \$0                   | \$0          |
| Short-term notes and bills payable               | 99,968             | 0                           | 0                     | 0                     | 0            |
| Notes payable                                    | 268                | 0                           | 0                     | 0                     | 0            |
| Accounts payable                                 | 234,208            | 0                           | 0                     | 0                     | 0            |
| Long-term borrowings (including current portion) | 77,174             | 0                           | 0                     | 750,000               | 798,549      |
| Guarantee deposits                               | 173,780            | 0                           | 0                     | 0                     | 0            |



| Non-derivative financial liabilities             | Less than 1 year | Between 2 And 3 year | Between 3 and 4 years | Between 4 and 5years | Over 5 years |
|--|------------------|----------------------|-----------------------|----------------------|--------------|
| January 1, 2012                                  |                  |                      |                       |                      |              |
| Short-term borrowings                            | \$2,864,509      | \$0                  | \$0                   | \$0                  | \$0          |
| Short-term notes and bills payable               | 99,875           | 0                    | 0                     | 0                    | 0            |
| Notes payable                                    | 722              | 0                    | 0                     | 0                    | 0            |
| Accounts payable                                 | 245,086          | 0                    | 0                     | 0                    | 0            |
| Long-term borrowings (including current portion) | 35,508           | 0                    | 0                     | 500,000              | 825,723      |
| Guarantee deposits                               | 184,932          | 0                    | 0                     | 0                    | 0            |

iii.Details of the financing facility as follows :

|                  | December 31, 2013   | December 31, 2012   | January 1, 2012     |
|------------------|---------------------|---------------------|---------------------|
| Amounts utilized | \$3,683,301         | \$3,399,279         | \$4,325,740         |
| Amounts unused   | 8,560,374           | 7,765,121           | 7,775,885           |
|                  | <u>\$12,243,675</u> | <u>\$11,164,400</u> | <u>\$12,101,625</u> |

### (3)Fair value estimation

A.The table below analyses financial instruments measured at fair value, by valuation method. The different levels have been defined as follows:

Level 1:Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data.

The following table presents the Company's financial assets and liabilities that are measured at fair value at December 31, 2013, December 31, 2012 and January 1, 2012:

| December 31, 2013                                     | Level 1  | Level 2 | Level 2 | Total    |
|---|----------|---------|---------|----------|
| Financial assets:                                     |          |         |         |          |
| Financial assets at fair value through profit or loss |          |         |         |          |
| Equity securities                                     | \$88,195 | \$0     | \$0     | \$88,195 |
| Forward exchange                                      | 0        | 9,401   | 0       | 9,401    |
| Available-for-sale financial assets                   |          |         |         |          |
| Equity securities                                     | 39,277   | 0       | 0       | 39,277   |

| December 31, 2012                                     | Level 1  | Level 2 | Level 2 | Total    |
|---|----------|---------|---------|----------|
| Financial assets:                                     |          |         |         |          |
| Financial assets at fair value through profit or loss |          |         |         |          |
| Equity securities                                     | \$67,482 | \$0     | \$0     | \$67,482 |
| Available-for-sale financial assets                   |          |         |         |          |
| Equity securities                                     | 40,345   | 0       | 0       | 40,345   |
| January 1, 2012                                       | Level 1  | Level 2 | Level 2 | Total    |
| Financial assets:                                     |          |         |         |          |
| Financial assets at fair value through profit or loss |          |         |         |          |
| Equity securities                                     | \$58,882 | \$0     | \$0     | \$58,882 |
| Available-for-sale financial assets                   |          |         |         |          |
| Equity securities                                     | 31,980   | 0       | 0       | 31,980   |

- B. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the closing price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments classified as financial assets/financial liabilities at fair value through profit or loss or available-for-sale financial assets.
- C. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- D. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.
- E. Specific valuation techniques used to value financial instruments include:
- (a) Quoted market prices or dealer quotes for similar instruments.
  - (b) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
  - (c) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
  - (d) Other techniques, such as discounted cash flow analysis, are used to determine

fair value for the remaining financial instruments.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

| No. | Items  | Remark  |
|-----|--|---------|
| 1   | Loans to others  | None    |
| 2   | Provision of endorsements and guarantees to others   | None    |
| 3   | Holding of marketable securities at the end of the period  | Table 1 |
| 4   | Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital | None    |
| 5   | Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more  | None    |
| 6   | Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more   | None    |
| 7   | Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more                  | None    |
| 8   | Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  | None    |
| 9   | Derivative financial instruments undertaken during the year ended December 31, 2013  | None    |

Tables 1 : Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures):

| Securities held by                 | Marketable securities type                            | Relationship With the Securities issuer | General ledger account  | December 31, 2013                      |            |              |            |
|------------------------------------|---|---|---|--|------------|--------------|------------|
|                                    |   |   |   | ( In thousands of New Taiwan dollars ) |            |              |            |
|                                    |   |   |   | Shares/Units (thousands)               | Book value | ownership(%) | Fair value |
| YCINOX CO., LTD                    | <u>Common stock</u><br>YEOU YIH STEEL CO., LTD        | —                                       | Financial assets at fair value through profit or loss-current | 615                                    | \$7,445    | —            | @12.10     |
| “                                  | ABGENOMICS INTERNATIONAL INC.                         | —                                       | Financial assets carried at cost-non-current                  | 733                                    | 31,900     | 3.64%        | —          |
| “                                  | <u>Pefered stock</u><br>ABGENOMICS INTERNATIONAL INC. | —                                       | Financial assets carried at cost - non-current                | 2,100                                  | 323,670    | —            | —          |
| Ji-Mao Investment Corporation, Ltd | <u>Common stock</u><br>YEOU YIH STEEL CO., LTD        | —                                       | Available-for-sale financial assets                           | 3,560                                  | 43,070     | —            | @12.10     |
| “                                  | HON HAI PRECISION IND. CO., LTD.                      | —                                       | Financial assets at fair value through profit or loss-current | 500                                    | 40,050     | —            | @80.10     |
| “                                  | CTBC FINANCIAL HOLDING CO., LTD                       | —                                       | Financial assets at fair value through profit or loss-current | 2,000                                  | 40,700     | —            | @20.35     |

(2) Information on investees

| Investor        | Investee                           | Location          | Main business activities | Initial investment amount |                   | Shares held as at December 31, 2013 |                         |            | 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, 2013         | December 31, 2012 | 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%                    | \$129,596  | \$129,596   | \$14,546                            | \$14,546                | —  | —             |      |

(3) Information on investments in Mainland China: None.

- (4) Significant inter-company transactions during the year ended December 31, 2013
- A. The subsidiary is a professional investment company, and has no business dealings with the parent company.
- B. Significant inter-company transactions:
- (a) The Company received accounting fee from subsidiary in 2013 and 2012 amounted to \$36 thousand, respectively.
- (b) The Company received rent charger from subsidiary in 2013 and 2012 amounted to \$30 thousand, respectively.

#### 14. SEGMENT INFORMATION

##### (1) General 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 about segment 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, 2013

|                      | Stainless Steel<br>Sheet/Coil | Stainless Steel<br>Welded<br>Pipe/Tube | Others     | Total        |
|----------------------|-------------------------------|--|------------|--------------|
| Revenue              |                               |  |            |              |
| External revenue-net | \$14,794,962                  | \$8,709,090                            | \$342,602  | \$23,846,654 |
| Internal revenue-net | \$0                           | \$0                                    | \$0        | \$0          |
| Segment profit(loss) | \$132,959                     | \$564,501                              | (\$21,987) | \$675,473    |
| Segment assets       | \$1,328,431                   | \$2,158,543                            | \$342,268  | \$3,829,242  |

As of and for the year ended December 31, 2012

|                      | Stainless Steel<br>Sheet/Coil | Stainless Steel<br>Welded<br>Pipe/Tube | Others     | Total        |
|----------------------|-------------------------------|--|------------|--------------|
| 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                              | (\$15,464) | \$426,198    |
| Segment assets       | \$1,140,278                   | \$2,127,927                            | \$299,415  | \$3,567,620  |

(4) Reconciliation for segment income (loss)

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:

|   | 2013      | 2012      |
|---|-----------|-----------|
| Income of reportable segments                       | \$675,473 | \$426,198 |
| Directors' and supervisors' remuneration            | (12,841)  | (6,819)   |
| Non-operating income and expenditure                | 80,972    | (46,924)  |
| Income from continuing operations before income tax | \$743,604 | \$372,455 |

(5) Geographical Information

The geographical information for the year ended December 31, 2013 and 2012 are as follow:

|         | Revenue from external customers |              |
|---------|---------------------------------|--------------|
|         | 2013                            | 2012         |
| Asia    | \$6,093,944                     | \$9,764,505  |
| Europe  | 7,974,527                       | 6,198,266    |
| America | 6,392,140                       | 4,645,000    |
| Other   | 3,386,043                       | 3,641,869    |
| Total   | \$23,846,654                    | \$24,249,640 |

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

(6) Major customers information

The company had no customers with exceeding 10% of the total operating revenues for 2013 and 2012.

15. INITIAL APPLICATION OF IFRSs

These consolidated financial statements are the first consolidated financial statements prepared by the Company in accordance with the IFRSs. The Company has adjusted

the amounts as appropriate that are reported in the previous R.O.C. GAAP consolidated financial statements to those amounts that should be presented under IFRSs in the preparation of the opening IFRS balance sheet. Information about exemptions elected by the Company, exceptions to the retrospective application of IFRSs in relation to initial application of IFRSs, and how it affects the Company's financial position, operating results and cash flows in transition from R.O.C. GAAP to the IFRSs is set out below:

(1) Exemptions elected by the Company

A. Deemed cost

For property, plant and equipment that were revalued under R.O.C. GAAP before the transition date, the Company has elected to use the revalued amount under R.O.C. GAAP at the date of the revaluation as the 'deemed cost' of these assets under IFRSs.

B. Employee benefits

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

(2) Except hedge accounting and non-controlling interest to which exceptions to the retrospective application of IFRSs specified in IFRS 1 are not applied as they have no relation with the Company, other exceptions to the retrospective application are set out below:

A. Accounting estimates

Accounting estimates made under IFRSs on January 1, 2012 are consistent with those made under R.O.C. GAAP on that day.

B. Derecognition of financial assets and financial liabilities

The derecognition requirements in IAS 39, 'Financial Instruments: Recognition and Measurement' shall be applied prospectively to transactions occurring on or after January 1, 2004.

(3) Requirement to reconcile from R.O.C. GAAP to IFRSs at the time of initial application IFRS 1 requires that entity should make reconciliation for equity, comprehensive income and cash flows for the comparative periods. The Company's initial application of IFRSs has no significant effect on cash flows from operating activities, investing activities and financing activities. Reconciliation for equity and comprehensive income for the comparative periods as to transition from R.O.C. GAAP to IFRSs is shown below:

A.Reconciliation for equity on January 1, 2012:

|  | R.O.C. GAAP  | Effect of<br>transition from<br>R.O.C. GAAP | IFRSs        | Remark |
|--|--------------|---|--------------|--------|
| <u>Current assets</u>  |              |   |              |        |
| Cash and cash equivalents  | \$479,577    | -   | \$479,577    |        |
| Financial assets at fair value through profit or loss<br>- current | 58,882       | -   | 58,882       |        |
| Available-for-sale financial assets-current                        | 31,980       |   | 31,980       |        |
| Notes receivable   | 84,909       | -   | 84,909       |        |
| Accounts receivable  | 2,635,610    | -   | 2,635,610    |        |
| Other receivables  | 662,456      |   | 662,456      |        |
| Current income tax assets  | 25           |   | 25           |        |
| Inventory  | 5,352,743    | -   | 5,352,743    |        |
| Prepayments  | 19,050       | 266   | 19,316       | 3      |
| Other current assets   | 800          | -   | 800          |        |
| Deferred income tax assets - current                               | 32,169       | (32,169)                                    | -            | 2      |
| Total current assets   | 9,358,201    | (31,903)                                    | 9,326,298    |        |
| <u>Non-current assets</u>  |              |   |              |        |
| Financial assets measured at cost - noncurrent                     | 187,444      | -   | 187,444      |        |
| Property, plant and equipment                                      | 2,379,514    | 82,840                                      | 2,462,354    | 3,4    |
| Deferred income tax assets   | 16,143       | 32,169                                      | 48,312       | 2      |
| Prepayment for equipment   | -            | 12,059                                      | 12,059       | 4      |
| Refundable deposits  | 160          | -   | 160          |        |
| Deferred charges   | 35,758       | (35,758)                                    | -            | 3      |
| Other non-current assets   | 91,660       | (59,407)                                    | 32,253       | 3      |
| Total non-current assets   | 2,710,679    | 31,903                                      | 2,742,582    |        |
| Total assets   | \$12,068,880 | \$0   | \$12,068,880 |        |
| <u>Current liabilities</u>   |              |   |              |        |
| Short-term borrowings  | \$2,864,509  | -   | \$2,864,509  |        |
| Short-term notes and bills payable                                 | 99,875       | -   | 99,875       |        |
| Notes payable  | 722          | -   | 722          |        |
| Accounts payable   | 245,086      | -   | 245,086      |        |
| Current tax liabilities  | 92,749       | -   | 92,749       |        |
| Other payables   | 256,246      | -   | 256,246      |        |
| Advance receives   | 225,189      | -   | 225,189      |        |
| Current portion of long-term liabilities                           | 35,508       | -   | 35,508       |        |
| Other current liabilities  | 9,926        | -   | 9,926        |        |
| Total current liabilities  | 3,829,810    | -   | 3,829,810    |        |
| <u>Non-current liabilities</u>                                     |              |   |              |        |
| Long-term borrowings   | 1,325,723    | -   | 1,325,723    |        |
| Reserve for land tax revaluation increment                         | 890          | (890)                                       | -            | 2      |
| Deferred income tax liabilities                                    | -            | 890   | 890          | 2      |
| Accrued pension liabilities  | 125,199      | 46,086                                      | 171,285      | 1      |
| Guarantee deposits   | 184,932      | -   | 184,932      |        |
| Total non-current liabilities                                      | 1,636,744    | 46,086                                      | 1,682,830    |        |
| Total Liabilities  | 5,466,554    | 46,086                                      | 5,512,640    |        |
| <u>Equity</u>  |              |   |              |        |
| Share capital  |              |   |              |        |
| Common share   | 3,701,189    | -   | 3,701,189    |        |
| Capital surplus  | 1,848,637    | -   | 1,848,637    |        |
| Retained earnings  |              |   |              |        |
| Legal reserve  | 514,270      | -   | 514,270      |        |
| Special reserve  | 22,004       | -   | 22,004       |        |
| Unappropriated retained  | 546,394      | (76,582)                                    | 469,812      | 1,2    |
| Other equity   |              |   |              |        |
| Unrealized net loss on pension cost                                | (30,608)     | 30,608                                      | -            | 1      |
| Unrealized gains(losses) on financial instruments                  | 328          | -   | 328          |        |
| Unrealized revaluation increments                                  | 112          | (112)                                       | -            | 2      |
| Total equity   | 6,602,326    | (46,086)                                    | 6,556,240    |        |
| Total liabilities and equity                                       | \$12,068,880 | \$0   | \$12,068,880 |        |



B.Reconciliation for equity on December 31, 2012

|   | R.O.C. GAAP  | transition from<br>R.O.C. GAAP | IFRSs        | Remark |
|---|--------------|--------------------------------|--------------|--------|
| <u>Current assets</u>   |              |                                |              |        |
| Cash and cash equivalents   | \$449,818    | -                              | \$449,818    |        |
| Financial assets at fair value through profit or loss - Available-for-sale financial assets-current | 67,482       | -                              | 67,482       |        |
| Notes receivable  | 40,345       | -                              | 40,345       |        |
| Accounts receivable   | 89,832       | -                              | 89,832       |        |
| Other receivables   | 2,300,684    | -                              | 2,300,684    |        |
| Current income tax assets   | 300,319      | -                              | 300,319      |        |
| Inventory   | 26,034       | -                              | 26,034       |        |
| Prepayments   | 4,666,172    | -                              | 4,666,172    |        |
| Other current assets  | 32,990       | -                              | 32,990       |        |
| Deferred income tax assets - current  | 800          | -                              | 800          |        |
| Total current assets  | 17,201       | (17,201)                       | -            | 2      |
|   | 7,991,677    | (17,201)                       | 7,974,476    |        |
| <u>Non-current assets</u>   |              |                                |              |        |
| Financial assets measured at cost - noncurrent  | 276,958      | -                              | 276,958      |        |
| Property, plant and equipment   | 2,432,571    | 28,058                         | 2,460,629    | 3,4    |
| Deferred income tax assets  | 16,356       | 30,161                         | 46,517       | 2      |
| Prepayment for equipment  | -            | 64,072                         | 64,072       | 4      |
| Refundable deposits   | 153          | -                              | 153          |        |
| Deferred charges  | 32,723       | (32,723)                       | -            | 3      |
| Other non-current assets  | 92,352       | (59,407)                       | 32,945       | 3      |
| Total non-current assets  | 2,851,113    | 30,161                         | 2,881,274    |        |
| Total assets  | \$10,842,790 | \$12,960                       | \$10,855,750 |        |
| <u>Current liabilities</u>  |              |                                |              |        |
| Short-term borrowings   | \$1,673,556  | -                              | \$1,673,556  |        |
| Short-term notes and bills payable  | 99,968       | -                              | 99,968       |        |
| Notes payable   | 268          | -                              | 268          |        |
| Accounts payable  | 234,208      | -                              | 234,208      |        |
| Other payables  | 194,940      | -                              | 194,940      |        |
| Advance receives  | 208,265      | -                              | 208,265      |        |
| Current portion of long-term liabilities  | 77,174       | -                              | 77,174       |        |
| Other current liabilities   | 16,980       | -                              | 16,980       |        |
| Total current liabilities   | 2,505,359    | -                              | 2,505,359    |        |
| <u>Non-current liabilities</u>  |              |                                |              |        |
| Long-term borrowings  | 1,548,549    | -                              | 1,548,549    |        |
| Reserve for land tax revaluation increment  | 890          | (890)                          | -            | 2      |
| Deferred income tax liabilities   | -            | 890                            | 890          | 2      |
| Accrued pension liabilities   | 125,119      | 46,837                         | 171,956      | 1      |
| Guarantee deposits  | 173,780      | -                              | 173,780      |        |
| Total non-current liabilities   | 1,848,338    | 46,837                         | 1,895,175    |        |
| Total Liabilities   | 4,353,697    | 46,837                         | 4,400,534    |        |
| <u>Equity</u>   |              |                                |              |        |
| Share capital   |              |                                |              |        |
| Common share  | 3,701,189    | -                              | 3,701,189    |        |
| Capital surplus   | 1,848,637    | -                              | 1,848,637    |        |
| Retained earnings   |              |                                |              |        |
| Legal reserve   | 561,056      | -                              | 561,056      |        |
| Special reserve   | 30,608       | -                              | 30,608       |        |
| Unappropriated retained   | 368,025      | (62,992)                       | 305,033      | 1,2    |
| Other equity  |              |                                |              |        |
| Unrealized net loss on pension cost   | (29,227)     | 29,227                         | -            | 1      |
| Unrealized gains(losses) on financial instruments   | 8,693        | -                              | 8,693        |        |
| Unrealized revaluation increments   | 112          | (112)                          | -            | 2      |
| Total equity  | 6,489,093    | (33,877)                       | 6,455,216    |        |
| Total liabilities and equity  | \$10,842,790 | \$12,960                       | \$10,855,750 |        |

C.Reconciliation for comprehensive income for the year ended December 31, 2012:

|   | R.O.C. GAAP  | Effect of transition<br>from R.O.C. GAAP<br>to IFRSs | IFRSs        | Remark |
|---|--------------|--|--------------|--------|
| Operating revenue   | \$24,249,640 | -  | \$24,249,640 |        |
| Operating costs   | (22,901,135) | 1,911  | (22,899,224) | 1      |
| Gross profit  | 1,348,505    | 1,911  | 1,350,416    |        |
| Operating expenses  |              |  |              |        |
| Selling expenses  | (816,438)    | 304  | (816,134)    | 1      |
| General & administrative expenses   | (115,763)    | 860  | (114,903)    | 1      |
| Operating profit  | 416,304      | 3,075  | 419,379      |        |
| Non-operating revenue and expenses  |              |  | -            |        |
| Other gains and losses  | (10,876)     | -  | (10,876)     |        |
| Interest expense  | (42,463)     | -  | (42,463)     |        |
| Interest income   | 395          | -  | 395          |        |
| Dividend income   | 6,020        | -  | 6,020        |        |
| Income before tax   | 369,380      | 3,075  | 372,455      |        |
| Income tax benefit(expense)   | (48,216)     | 12,544   | (35,672)     |        |
| Net income  | 321,164      | 15,619   | 336,783      |        |
| Other comprehensive income  |              |  |              |        |
| Unrealised gain (loss) on valuation of<br>available-for-sale financial assets | -            | 8,365  | 8,365        |        |
| Actuarial losses from defined benefit plans                                   | -            | (2,445)  | (2,445)      |        |
| Income tax relating to the components of<br>other comprehensive income        | -            | 416  | 416          |        |
| Total other comprehensive income  | -            | 6,336  | 6,336        |        |
| Total comprehensive income  | \$0          | \$21,955   | \$343,119    |        |

Reasons for reconciliation are outlined below:

#### A.Pensions

- (a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18. However, IAS 19, 'Employee Benefits', requires an entity to determine the rate used to discount employee benefits with reference to market yields at the end of the reporting period on high quality corporate bonds of a currency and term consistent with the currency and term of the benefit obligation; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end of the reporting period) instead.
- (b) In accordance with R.O.C. GAAP, the excess of the accumulated benefit obligation over the fair value of the pension plan (fund) assets at the balance sheet date is the minimum amount of pension liability that is required to be recognised on the balance sheet ("minimum pension liability"). However, IAS 19, 'Employee Benefits', has no regulation regarding the minimum pension liability.
- (c) In accordance with R.O.C. GAAP, actuarial pension gain or loss of the Company is recognised in net pension cost of current period using the 'corridor' method. However, in accordance with IAS 19, 'Employee Benefits', the Company selects to recognize immediately actuarial pension gain or loss in other comprehensive income

#### B.Income tax

- (a) In accordance with R.O.C. GAAP, a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting, should be classified as current or noncurrent according to the expected time period to realise or settle a deferred tax asset or liability. However, under IAS 1, 'Presentation of Financial Statements', an entity should not classify a deferred tax asset or liability as current.
- (b) In accordance with R.O.C. GAAP, when evidence shows that part or whole of the deferred tax asset with 50% probability or above will not be realised, an entity should reduce the amount of deferred tax asset by adjusting the valuation allowance account. In accordance with IAS 12, 'Income Taxes', a deferred tax asset should be recognised if, and only if, it is considered probable that it will be realised.
- (c) R.O.C. GAAP regulate that reserve for land revaluation increment tax should be presented under 'reserve for land revaluation increment tax'. However, in accordance with IAS 12, 'Income Taxes', land revaluation increment tax is within the scope of income taxes. Therefore, it should be presented under

‘Deferred income tax liabilities’.

C.The Company reclassified deferred charges and other assests according with IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers”

D.Prepayment for equipment

Prepayment for acquisition of property, plant and equipment is presented in ‘Property, plant and equipment’ in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”. However, such prepayment should be presented in ‘Non-current assets- Prepayment for equipment’ based on its nature under IFRSs.