FORMOSA TAFFETA CO., LTD.

NON-CONSOLIDATED FINANCIAL STATEMENTS

AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2012 AND 2011

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Formosa Taffeta Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Formosa Taffeta Co., Ltd. as of December 31, 2012 and 2011, and the related non-consolidated statements of income, of changes in stockholders’ equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method. These long-term investments amounted to $6,457,927 thousand and $5,410,392 thousand as of December 31, 2012 and 2011, respectively, and the related investment income for the years then ended were $304,922 thousand and $435,779 thousand, respectively. The financial statements of these investees were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to the amounts included in the non-consolidated financial statements relative to these long-term investments, is based solely on the reports of other auditors.

We conducted our audits in accordance with the “Rules Governing the Examination of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China. Those rules 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 audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Formosa Taffeta Co., Ltd. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and generally accepted accounting principles in the Republic of China.

We have also audited the consolidated financial statements of Formosa Taffeta Co., Ltd. and subsidiaries (not presented herein) as of and for the years ended December 31, 2012 and 2011. In our report dated March 25, 2013, we expressed a modified unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers, Taiwan
March 25, 2013

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

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

ASSETS	Notes	2012 AMOUNT	2012 %	2011 AMOUNT	2011 %
Current Assets					
Cash and cash equivalents	4(1)	$ 1,566,983	2	$ 882,040	1
Financial assets at fair value through profit or loss - current	4(2)	15,289	-	1,070	-
Available-for-sale financial assets - current	4(3)	854,243	1	912,641	1
Notes receivable, net	4(4)	178,244	-	194,378	-
Notes receivable, net - related parties	5	14,624	-	18,215	-
Accounts receivable, net	4(4)	2,596,272	4	2,473,494	4
Accounts receivable - related parties, net	5	270,571	-	244,240	1
Other receivables	5 and 11	385,912	1	234,645	-
Inventories	4(5)	4,291,635	7	4,835,909	7
Prepayments		141,227	-	539,650	1
Deferred income tax assets - current	4(19)	25,217	-	46,696	-
Other current assets		285,546	1	296,379	1
Total current assets		10,625,763	16	10,679,357	16
Funds and Investments					
Available-for-sale financial assets - non-current	4(3)	31,761,481	48	34,578,509	50
Financial assets carried at cost - non-current	4(6)	353,621	-	353,621	-
Long-term equity investments accounted for under the equity method	4(7)	14,542,709	22	13,822,964	20
Total funds and investments		46,657,811	70	48,755,094	70
Fixed Assets	4(8), 5 and 6				
Cost					
Land		1,236,478	2	1,233,067	2
Land improvements		-	-	58,835	-
Buildings		6,219,394	9	6,026,159	9
Machinery and equipment		13,914,187	21	14,369,267	21
Transportation equipment		156,914	-	155,033	-
Other equipment		4,413,523	7	4,493,283	6
Cost and revaluation increments		25,940,496	39	26,335,644	38
Less: Accumulated depreciation		(18,874,962)	(28)	(18,493,151)	(27)
Construction in progress and prepayments for equipment		185,654	-	342,777	1
Total property, plant and equipment, net		7,251,188	11	8,185,270	12
Intangible Assets					
Deferred pension costs	4(13)	37,735	-	44,164	-
Other intangible assets		18,273	-	12,638	-
Total intangible assets		56,008	-	56,802	-
Other Assets					
Assets leased to others	4(8)	464,458	1	483,879	1
Guarantee deposits paid		58,258	-	57,087	-
Deferred income tax assets - non-current	4(19)	264,018	1	244,844	-
Other assets - other	4(8)	852,278	1	852,278	1
Total other assets		1,639,012	3	1,638,088	2
TOTAL ASSETS		$ 66,229,782	100	$ 69,314,611	100

(Continued)

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	2012 AMOUNT	%	2011 AMOUNT	%
Current Liabilities					
Short-term loans	4(9)	$ 11,774	-	$ 89,996	-
Short-term bills payable	4(10)	249,946	1	-	-
Financial liabilities at fair value through profit or loss - current	4(11)	4,828	-	1,014	-
Notes payable		137,067	-	163,744	-
Notes payable - related parties	5	519,500	1	535,484	1
Accounts payable		606,359	1	933,795	2
Accounts payable - related parties	5	1,374,386	2	894,875	2
Income tax payable	4(19)	129,595	-	189,252	-
Accrued expenses	5	861,555	1	749,521	1
Other payables - other	5	22,241	-	28,249	-
Long-term liabilities - current portion	4(12) and 6	97,966	-	100,663	-
Other current liabilities		141,010	-	99,689	-
Total current liabilities		4,156,227	6	3,786,282	6
Long-term Liabilities					
Long-term loans	4(12) and 6	8,400,000	13	9,200,663	13
Other Liabilities					
Accrued pension liabilities	4(13)	2,081,020	3	1,935,752	3
Guarantee deposits received		27,787	-	14,983	-
Other liabilities - other		44,815	-	81,807	-
Total other liabilities		2,153,622	3	2,032,542	3
Total liabilities		14,709,849	22	15,019,487	22
Stockholders' Equity					
Capital					
Common stock	4(14)	16,846,646	25	16,846,646	24
Capital Surplus	4(15)				
Capital reserve from donated assets		2,032	-	2,032	-
Capital reserve from long-term investments		696,475	1	696,475	1
Retained Earnings					
Legal reserve	4(16)	5,702,892	9	5,495,057	8
Special reserve	4(17)	279,088	-	255,779	-
Undistributed earnings	4(17)	4,329,027	7	4,172,012	6
Stockholders' Equity Adjustments					
Cumulative translation adjustments	4(7)	(839,386)	(1)	(593,496)	(1)
Unrecognized pension cost	4(13)	(959,101)	(1)	(940,440)	(1)
Unrealized gain or loss on financial instruments	4(3)	25,488,748	38	28,387,547	41
Treasury stock	4(7)(18)	(26,488)	-	(26,488)	-
Total stockholders' equity		51,519,933	78	54,295,124	78
Commitments and contingent liabilities	7				
Major Catastrophe	8				
Subsequent Event	9				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 66,229,782	100	$ 69,314,611	100

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 25, 2013.

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

Items	Notes	2012 AMOUNT	2012 %	2011 AMOUNT	2011 %
Operating Revenue	5(2)				
Sales		$ 34,491,840	99	$ 36,042,198	99
Sales returns		(58,828)	-	(53,831)	-
Sales discounts		(75,031)	-	(105,614)	-
Net Sales		34,357,981	99	35,882,753	99
Service income		341,332	1	352,965	1
Net Operating Revenues		34,699,313	100	36,235,718	100
Operating Costs	4(5)(21) and 5				
Cost of goods sold	4(6)	(31,144,847)	(89)	(32,032,839)	(88)
Service costs		(315,308)	(1)	(292,964)	(1)
Net Operating Costs		(31,460,155)	(90)	(32,325,803)	(89)
Gross profit		3,239,158	10	3,909,915	11
Operating Expenses	4(21) and 5				
Sales and marketing expenses		(1,507,265)	(4)	(1,572,876)	(5)
General and administrative expenses		(478,280)	(2)	(470,149)	(1)
Total Operating Expenses		(1,985,545)	(6)	(2,043,025)	(6)
Operating income		1,253,613	4	1,866,890	5
Non-operating Income and Gains					
Interest income		3,787	-	1,792	-
Investment income accounted for under the equity method	4(7)	547,100	2	1,416,067	4
Dividend income	4(3)(6)	808,757	2	1,521,376	4
Gain on disposal of property, plant and equipment	5	12,207	-	-	-
Foreign exchange gains		-	-	126,231	-
Gain on valuation of financial assets	4(2)	15,220	-	1,070	-
Other non-operating income	5	191,173	-	195,682	1
Non-operating Income and Gains		1,578,244	4	3,262,218	9
Total Non-operating Expenses					
Interest expense	4(8)	(111,138)	-	(98,622)	-
Loss on disposal of property, plant and equipment		-	-	(3,321)	-
Foreign exchange loss		(82,028)	-	-	-
Impairment loss	4(3)	-	-	(2,403,805)	(7)
Loss on valuation of financial liabilities	4(11)	(4,815)	-	(1,014)	-
Other non-operating losses	5	(123,083)	(1)	(127,886)	-
Total Non-operating Expenses and Losses		(321,064)	(1)	(2,634,648)	(7)
Income from continuing operations before income tax		2,510,793	7	2,494,460	7
Income tax expense	4(19)	(101,037)	-	(416,115)	(1)
Net income		$ 2,409,756	7	$ 2,078,345	6

	Notes	2012 Before Tax	2012 After Tax	2011 Before Tax	2011 After Tax
Basic earnings per share	4(20)				
Net income		$ 1.49	$ 1.43	$ 1.48	$ 1.24
Assuming shares held by subsidiary are not deemed as treasury stock:					
Net income		$ 2,510,793	$ 2,409,756	$ 2,494,460	$ 2,078,345
Basic earnings per share					
Net income	4(20)	$ 1.49	$ 1.43	$ 1.48	$ 1.23

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 25, 2013.

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

		Capital Reserves		Retained Earnings							
	Common stock	Capital reserve from donated assets	Capital reserve from long-term investments	Legal reserve	Special reserve	Undistributed earnings	Cumulative translation adjustments	Unrecognized pension cost	Unrealized gain or loss on financial instruments	Treasury stock	Total
2011											
Balance at January 1, 2011	$ 16,846,646	$ 2,032	$ 696,475	$ 5,086,043	$ 516,123	$ 5,611,666	($ 644,154)	($ 378,477)	$ 30,081,331	($ 26,488)	$ 57,791,197
Appropriations of 2010 net income											
Legal reserve	-	-	-	409,014	-	(409,014)	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(260,344)	260,344	-	-	-	-	-
Cash dividends	-	-	-	-	-	(3,369,329)	-	-	-	-	(3,369,329)
Unrealized loss on available-for-sale financial instruments	-	-	-	-	-	-	-	-	(1,637,339)	-	(1,637,339)
Unrealized loss on financial instruments and unrealized pension cost held by investees	-	-	-	-	-	-	-	(5,537)	(56,445)	-	(61,982)
Cumulative translation adjustment derived from long-term foreign investments	-	-	-	-	-	-	50,658	-	-	-	50,658
Effect of changes in unrealized pension cost	-	-	-	-	-	-	-	(556,426)	-	-	(556,426)
Net income for 2011	-	-	-	-	-	2,078,345	-	-	-	-	2,078,345
Balance at December 31, 2011	$ 16,846,646	$ 2,032	$ 696,475	$ 5,495,057	$ 255,779	$ 4,172,012	($ 593,496)	($ 940,440)	$ 28,387,547	($ 26,488)	$ 54,295,124
2012											
Balance at January 1, 2012	$ 16,846,646	$ 2,032	$ 696,475	$ 5,495,057	$ 255,779	$ 4,172,012	($ 593,496)	($ 940,440)	$ 28,387,547	($ 26,488)	$ 54,295,124
Appropriations of 2011 net income											
Legal reserve	-	-	-	207,835	-	(207,835)	-	-	-	-	-
Special reserve	-	-	-	-	708,034	(708,034)	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(684,725)	684,725	-	-	-	-	-
Cash dividends	-	-	-	-	-	(2,021,597)	-	-	-	-	(2,021,597)
Unrealized loss on available-for-sale financial instruments	-	-	-	-	-	-	-	-	(2,875,427)	-	(2,875,427)
Unrealized loss on financial instruments and unrealized pension cost held by investees	-	-	-	-	-	-	-	(7,824)	(23,372)	-	(31,196)
Cumulative translation adjustment derived from long-term foreign investments	-	-	-	-	-	-	(245,890)	-	-	-	(245,890)
Effect of changes in unrealized pension cost	-	-	-	-	-	-	-	(10,837)	-	-	(10,837)
Net income for 2012	-	-	-	-	-	2,409,756	-	-	-	-	2,409,756
Balance at December 31, 2012	$ 16,846,646	$ 2,032	$ 696,475	$ 5,702,892	$ 279,088	$ 4,329,027	($ 839,386)	($ 959,101)	$ 25,488,748	($ 26,488)	$ 51,519,933

Note: Directors' and supervisors' remuneration and employees' bonus had been deducted from the non-consolidated statement of income in 2011 and 2010.

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 25, 2013.

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,409,756	$ 2,078,345
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on valuation of inventory recovery	(148,327)	(345,820)
Depreciation (including depreciation on assets leased to others)	1,202,837	1,036,800
Amortization	7,360	5,054
Gain on vaulation of financial assets	(15,220)	(1,070)
Loss on valuation of financial liabilities	4,815	1,014
Impairment loss	-	2,403,805
Cash dividends from investments accounted for under the equity method	494,383	759,427
Investment income accounted for under the equity method	(547,100)	(1,416,067)
(Gain) loss on disposal of property, plant and equipment	(12,207)	6,463
Gain on government levy on land	-	(3,142)
Changes in assets and liabilities		
Financial assets at fair value through profit or loss	1,001	747
Notes receivable, net	16,134	(57,533)
Notes receivable, net - related parties	3,591	(9,319)
Accounts receivable, net	(122,778)	165,594
Accounts receivable - related parties, net	(26,331)	(3,674)
Other receivables	(140,700)	(47,113)
Inventory	692,601	47,133
Prepayments	398,423	(254,259)
Deferred income tax assets	2,305	192,634
Other current assets	10,833	7,215
Financial liabilities at fair value through profit or loss	(1,001)	(1,095)
Notes payable	(26,677)	128,910
Notes payable - related parties	(15,984)	140,343
Accounts payable	(327,436)	217,959
Accounts payable - related parties	479,511	(296,448)
Income tax payable	(59,657)	27,625
Accrued expenses	112,034	(202,983)
Other payables - other	(6,008)	(15,216)
Other current liabilities	41,321	(3,553)
Accrued pension liabilities	140,860	117,869
Net cash provided by operating activities	4,568,339	4,679,645

(Continued)

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term equity investments	($ 944,115)	($ 1,343,637)
Acquisition of property, plant and equipment	(455,145)	(934,335)
Disposal of property, plant and equipment	207,450	11,565
Increase in deferred expenses	(12,995)	(4,571)
Increase in guarantee deposits paid	(1,171)	(1,739)
Levy on land	-	4,147
Net cash used in investing activities	(1,205,976)	(2,268,570)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(78,222)	(201,508)
Increase in short-term bills payable	249,946	-
Increase in long-term loans	12,100,000	10,500,000
Decrease in long-term loans	(12,900,663)	(9,604,780)
Increase (decrease) in guarantee deposits received	12,804	(40,812)
(Decrease) increase in other liabilities - other	(36,992)	25,674
Payment of cash dividends	(2,021,597)	(3,369,329)
Net cash used in financing activities	(2,674,724)	(2,690,755)
Effect of exchange rate changes on cash	(2,696)	9,545
Increase (decrease) in cash and cash equivalents	684,943	(270,135)
Cash and cash equivalents at beginning of year	882,040	1,152,175
Cash and cash equivalents at end of year	$ 1,566,983	$ 882,040
Supplemental disclosures of cash flow information		
Interest paid (not including interest capitalized)	$ 114,612	$ 98,622
Income tax paid	$ 158,388	$ 195,856
Financing and Investing activities not affecting cash flows		
Long-term liabilities - current portion	$ 97,966	$ 100,663

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 25, 2013.

FORMOSA TAFFETA CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Formosa Taffeta Co., Ltd. (the "Company") was incorporated on April 19, 1973 under the provisions of the Company Law of the Republic of China (R.O.C.). Formosa Chemicals & Fiber Corp. has significant control over the Company since Formosa Chemicals & Fiber Corp. holds over half of the Board seats after the stockholders' meeting on June 27, 2008. Since June 27, 2008, Formosa Chemicals & Fiber Corp. became the Company's parent company and accordingly, the Company and its subsidiaries are included in its consolidated financial statements. As of December 31, 2012, the Company had 4,797 employees.

The major operations of each department are as follows:

Business departments	Major activities
Primary department: Fabrics & dyeing	Amine fabrics, polyester fabrics, cotton fabrics, blending fabrics and umbrella ribs
Secondary department: Cord fabrics, petroleum & others	Cord, plastics bags, refineries for gasoline, diesel, crude oil and the related petroleum products, cotton fibers, blending fibers and protection fibers

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and accounting principles generally accepted in the Republic of China. The Company's significant accounting policies are as follows:

1) Foreign currency transactions

a) Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rates on the transaction date and the date of actual receipt and payment are recognized in current year's profit or loss.

b) Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

c) At the end of the year, foreign currency non-monetary assets and liabilities, which are recognized in profit or loss based on fair value measurement and changes, are evaluated for adjustments at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses on adjustments are recognized in the current year's profit or loss; foreign currency non-monetary assets and liabilities, which are recognized in "stockholders' equity adjustments" based on fair value measurement and changes, are evaluated for adjustments at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses on adjustments are recognized as "stockholders' equity adjustments"; foreign currency non-monetary assets and liabilities, which are not measured based on fair value, are evaluated using the historical exchange rate at the date of the transaction.

2) <u>Criteria for classifying assets and liabilities as current or non-current items</u>

a) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

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

(2) Assets held mainly for trading purposes;

(3) Assets that are expected to be realized within twelve months from the balance sheet date; and

(4) 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:

(1) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;

(2) Liabilities arising mainly from trading activities;

(3) Liabilities that are to be paid off within twelve months from the balance sheet date; and

(4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

3) Settlement date accounting

If an entity recognizes financial assets using settlement date accounting, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost. For financial asset or financial liability classified as at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for-sale financial asset, the change in fair value is recognized directly in equity.

4) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments which are:

A. Readily convertible to known amounts of cash; and

B. Subject to insignificant risk of change in value resulting from fluctuations in interest rate.

The statement of cash flows is prepared on the basis of cash and cash equivalents.

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

a) Financial assets and financial liabilities at fair value through profit or loss for equity financial instruments, beneficiary certificates and derivative financial instruments are recognized and derecognized as of the trade date at fair value.

b) These financial instruments are subsequently evaluated and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.

c) Financial instruments that meet any of the following criteria are designated as financial assets or financial liabilities at fair value through profit or loss.

(1) The instrument is a mixed financial instrument;

(2) The instrument is designated as a financial asset or liability at fair value through profit or loss in order to eliminate or substantially reduce the inconsistency in accounting measurement or recognition;

(3) The instrument is managed in accordance with the Company's documented risk management and investment strategies, and its performance is evaluated on a fair value basis.

d) If derivative instruments do not meet the hedging accounting requirements, the variation of fair value will be recognized as profit or loss.

6) Available-for-sale financial assets

a) Available-for-sale financial assets are recognized and derecognized using trade date accounting and are initially stated at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

b) The financial assets are evaluated and stated at fair value, and the gain or loss is recognized in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. The fair values of listed stocks, OTC stocks and closed-end mutual funds are based on latest quoted fair prices of the accounting period. The fair values of open-end and balanced mutual funds are based on the net asset value at the balance sheet date.

c) If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be transferred from equity to profit or loss. When the fair value of an equity instrument subsequently increases, impairment losses recognized previously in profit or loss shall not be reversed. When the fair value of a debt instrument subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss recognized in profit or loss.

7) Financial assets carried at cost

a) Investment in financial instruments without active markets is recognized and derecognized using trade date accounting and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

b) If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss shall not be reversed when the fair value of the asset subsequently increases.

8) Notes and accounts receivable, other receivables and allowance for doubtful accounts

a) Notes and accounts receivable are claims resulting from the sale of goods or services. Receivables arising from transactions other than the sale of goods or services are classified as other receivables.

b) Notes and accounts receivable and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial asset is recognized. The amount of impairment loss is determined based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

9) Inventories

The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. The cost is determined using the weighted-average method. Fixed manufacturing overhead is allocated on the basis of the normal capacity of the production equipment. If production fluctuates over interim periods, the cost variances resulting from such fluctuation are deferred in the interim financial statements. At the end of period, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value should be based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses.

10) Long-term equity investments accounted for under the equity method

a) Long-term equity investments in which the Company holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized, retrospective adjustment of the amount of goodwill amortized in previous years is not required. The excess of acquired net asset value of investee over the initial investment cost is allocated proportionately and applied as a reduction to the book values of identifiable non-current assets, and any remaining amount of such excess after this allocation is credited to extraordinary gains. Majority owned subsidiaries, in which the Company owns more than 50% of the investee companies' voting rights or has significant control ability on the investee's operations are accounted for under the equity method and included in quarterly consolidated financial statements.

b) Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under stockholders' equity.

c) The unrealized gains or losses between the Company and investees or subsidiaries are eliminated.

11) Property, plant and equipment

a) Property, plant and equipment are stated at cost. Interest incurred during the construction or installation of the assets is capitalized.

b) Depreciation is provided under the straight-line method based on the estimated economic service lives of the assets. The estimated useful lives are 25-60 years for main buildings and 3–15 years for subsidiary buildings, and 2-10 years for other property, plant and equipment.

c) Major renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred. Gain (loss) on disposal of property, plant and equipment is recorded in the current year's non-operating income (loss).

d) Assets leased to others are reclassified to "other assets" at book value. Depreciation provided on these assets is recognized as non-operating expenses and losses.

e) Property, plant and equipment that are idle or have no value in use are reclassified to "other assets" at the lower of the fair value less costs to sell or book value. The resulting difference is included in current operations. Depreciation provided on these assets is charged to non-operating expense.

12) Intangible assets

Intangible assets, mainly gas station licensing fee and the alienation of the land-use rights, are amortized over the estimated life of 10 to 20 years.

13) Deferred assets

Deferred assets, mainly technical support costs and circuit support costs, are amortized on a straight-line basis over 5 years.

14) Impairment of non-financial assets

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

15) Retirement plan and pension reserve

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. The net periodic pension costs include service cost, interest cost, and expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

16) Income tax

a) Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits and loss carryforward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years' income tax liabilities is included in current year's income tax.

b) Investment tax credits arising from expenditures incurred on acquisitions of equipment or technology, research and development, employees' training, and equity investments are recognized in the year the related expenditures are incurred.

c) An additional 10% tax is levied on the undistributed retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

d) If the regular income tax is equal or more than the basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas the regular income tax is less than the basic tax, the income tax payable shall be equal to the basic tax.

17) Treasury stock

The Company has adopted the principle that stocks held by the subsidiaries are accounted as treasury stocks when recognizing investment income and preparing the financial statements since year 2002. Costs of treasury stocks are considered as deductions to stockholders' equity.

Book value of treasury stock is calculated using the weighted average method.

18) Employees' bonuses and directors' and supervisors' remuneration

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

19) Earnings per share

Basic earnings per share is calculated based on the weighted-average number of outstanding shares during the period. The number of shares outstanding is retroactively adjusted if the number of shares outstanding increases as a result of stock dividends.

20) Recognition of revenues, costs and expenses

Revenues are recognized when the earning process is substantially completed and are realized or realizable. Costs are recognized when the related revenues are incurred. Expenses are recognized as incurred under the accrual basis.

21) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during the period. Actual results could differ from those assumptions and estimates.

22) Operating segments

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

In accordance with R.O.C SFAS No. 41, "Operating Segments", segment information is disclosed in the consolidated financial statements rather than in the separate financial statements of the Company.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Accounts, notes, and other receivables

Effective January 1, 2011, the Company adopted the amendments to R.O.C Statement of Financial Accounting Standards No. 34, “Financial Instruments: Recognition and Measurement”. A provision for impairment (bad debts) of accounts, notes and other receivables is recognized when there is objective indication that the receivables are impaired. This change in accounting principle had no significant effect on the 2011 financial statements.

2) Operating segments

Effective January 1, 2011, the Company adopted the newly issued R.O.C. SFAS No. 41, “Operating Segments” to replace the original R.O.C. SFAS No. 20, “Segment Reporting”. In accordance with such standard, the Company re-prepared the segment information for the year ended December 31, 2010 upon the first adoption of R.O.C. SFAS No. 41. This change in accounting principle had no significant effect on net income and earnings per share for the year ended December 31, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2012	2011
Cash on hand	$ 190,490,732	$ 129,500,540
Checking and demand deposits	1,042,920,507	744,539,199
Time deposits	-	8,000,000
Cash equivalents - commercial paper	333,571,768	-
	$1,566,983,007	$ 882,039,739

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

	December 31,	
	2012	2011
Derivatives	$ 15,289,032	$ 1,070,173

a) The Company recognized net gain of $15,220,237 and $1,070,173 for the years ended December 31, 2012 and 2011, respectively.

b) The trading items and contract information of derivatives are as follows:

		December 31, 2012			
		Contract Amount		Fair Value	Contract Period
Forward exchange contracts	Sell	JPY	268,870,000	$ 9,522,724	2013.01
		JPY	149,700,000	4,252,331	2013.02
		JPY	120,000,000	1,513,977	2013.03
				$15,289,032	

		December 31, 2011			
		Contract Amount		Fair Value	Contract Period
Forward exchange contracts	Sell	JPY	78,220,000	$ 437,433	2012.01
		JPY	105,920,000	632,740	2012.03
				$ 1,070,173	

c) The forward exchange contracts are sold to hedge the change of exchange rate due to import and export, but not adopting hedge accounting.

d) The expected cash inflow of unsettled forward exchange contracts is NTD 27,398,612 and USD 5,834,083; and cash outflow is JPY 538,570,000 for the year ended December 31, 2012.

3) Available-for-sale financial assets

	December 31,	
	2012	2011
Current items:		
Listed (TSE and OTC) stocks	$ 902,852,821	$ 902,852,821
Adjustment of available-for-sale financial assets	(48,610,159)	9,788,416
	$ 854,242,662	$ 912,641,237
Non-current items:		
Listed (TSE and OTC) stocks	$ 8,603,310,385	$ 8,603,310,385
Adjustment of available-for-sale financial assets	25,561,975,240	28,379,003,174
	34,165,285,625	36,982,313,559
Accumulated impairment loss	(2,403,804,974)	(2,403,804,974)
	$31,761,480,651	$34,578,508,585

a) For the years ended December 31, 2012 and 2011, the Company received cash dividends from investees accounted as available-for-sale financial assets amounting to $775,111,502 and $1,508,487,804, respectively.

b) As Nan Ya Technology Corporation, an investee, incurred a permanent loss, the Company recognized an investment loss amounting to $2,403,804,974 for the year ended December 31, 2011.

4) Notes and accounts receivable, net

	December 31,	
	2012	2011
Notes receivable	$ 180,209,584	$ 196,343,487
Less: Allowance for doubtful accounts	(1,965,882)	(1,965,882)
	$ 178,243,702	$ 194,377,605
Accounts receivable	$ 2,654,778,059	$ 2,531,999,964
Less: Allowance for doubtful accounts	(58,505,756)	(58,505,756)
	$ 2,596,272,303	$ 2,473,494,208

5) Inventories

	December 31,	
	2012	2011
Finished goods	$ 1,950,113,029	$ 2,357,225,531
Work in process	1,376,338,290	1,743,108,357
Raw materials	341,064,231	574,137,715
Merchandise inventory	365,653,640	207,366,076
Materials in transit	267,755,009	166,914,323
Outsourced processed materials	63,601,163	123,696,254
Supplies	150,513,471	35,191,973
	4,515,038,833	5,207,640,229
Less: Allowance for obsolescence and market price decline	(223,404,167)	(371,731,273)
	$ 4,291,634,666	$ 4,835,908,956

Expenses and losses incurred on inventories in current period:

	2012	2011
Cost of inventories sold	$31,334,570,340	$32,424,433,866
Gain from recovery in inventory valuation and obsolescence (Note 1)	(148,327,106)	(345,820,293)
Others (Note 2)	(41,396,031)	(45,774,954)
	$31,144,847,203	$32,032,838,619

Note 1: Gain from recovery was recognized by the sales of inventory previous year.

Note 2: Others consist of inventory over/short and disposal of scrap and defective materials.

6) Financial assets carried at cost - non-current

	December 31,	
	2012	2011
Unlisted stocks	$ 353,621,031	$ 353,621,031

a) The above investment was measured at cost since its fair value cannot be measured reliably.

b) For the years ended December 31, 2012 and 2011, the Company received cash dividends from non-current financial assets carried at cost of $33,645,857 and $12,888,187, respectively.

c) On April 30, 2011, Terax Electronics Corporation, an investee of the Company, was acquired by Syntronix Corporation. After the acquisition, the Company's ownership interest in Syntronix Corporation was reduced to 0.43%.

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

a) List of long-term investments

	December 31,			
	2012		2011	
Investee Company	Cost	%	Cost	%
Formosa Advanced Technologies Co., Ltd.	$ 5,942,271,706	65.68	$ 6,248,920,203	65.68
Formosa Industry Co., Ltd.	1,698,136,666	10.00	1,731,703,233	10.00
Formosa Taffeta (Dong Nai) Co., Ltd.	1,671,064,776	100.00	1,575,122,494	100.00
Formosa Ha Tinh Steel Corporation	1,575,044,154	4.96	817,589,310	4.96
Taffeta (Zhong Shan) Co, Ltd.	1,515,100,343	100.00	1,515,356,657	100.00
Formosa Taffeta Vietnam Co., Ltd.	1,075,761,432	100.00	969,084,850	100.00
Formosa Taffeta (Hong Kong) Co., Ltd.	478,572,000	99.90	479,732,878	99.90
Kuang Yueh Co., Ltd.	424,245,579	24.13	300,432,320	24.13
Formosa Development Co.,Ltd.	148,837,934	100.00	168,562,047	100.00
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	10,758,064	100.00	11,173,272	100.00
Schoeller F.T.C. (Hong Kong) Co., Ltd.	2,916,815	43.00	5,286,576	43.00
	$14,542,709,469		$13,822,963,840	

b) The investment income (loss) on long-term equity investments accounted for under the equity method are as follows:

Investee Company	2012	2011
Formosa Advanced Technologies Co., Ltd.	$ 190,915,946	$ 781,576,896
Kuang Yueh Co., Ltd.	148,084,015	131,182,224
Formosa Taffeta Vietnam Co., Ltd.	137,452,438	173,961,911
Formosa Taffeta (Zhong Shan) Co., Ltd.	54,582,805	167,048,683
Formosa Taffeta (Hong Kong) Co., Ltd.	16,345,785	23,833,920
Formosa Industry Co., Ltd.	15,347,136	68,032,925
Schoeller F.T.C. (Hong Kong) Co., Ltd.	5,468,850	9,558,686
Taffeta (Dong Nai) Co., Ltd.	3,055,652	49,006,054
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	(16,057)	65,524
Formosa Ha Tinh Steel Corporation	(4,469,787)	3,971,529
Formosa Development Co., Ltd.	(19,666,760)	7,828,994
	$ 547,100,023	$1,416,067,346

(1) The investment income or loss for the year ended December 31, 2012 was based on the investees' financial statements audited by other auditors, except for the investee companies, Formosa Taffeta (Hong Kong) Co., Ltd., Formosa Advanced Technologies Co., Ltd., Formosa Taffeta (Zhong Shan) Co., Ltd., and Formosa Development Co., Ltd.

(2) The investment income or loss for the year ended December 31, 2011 was based on the investees' financial statemets audited by other auditors except for the investee companies, Formosa Taffeta (Hong Kong) Co., Ltd., Formosa Advanced Technologies Co., Ltd., and Formosa Taffeta (Zhong Shan) Co., Ltd.

c) The effect of foreign currency exchange translation of long-term investments under the equity method as of December 31, 2012 and 2011 are summarized as follows:

	December 31,	
Investee Company	2012	2011
Formosa Taffeta (Zhong Shan) Co., Ltd.	$ 407,671,918	$ 462,511,037
Formosa Taffeta (Hong Kong) Co., Ltd.	81,997,648	99,504,311
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	5,816,931	6,216,082
Kuang Yueh Co., Ltd.	(326,851)	3,694,080
Schoeller F.T.C. (Hong Kong) Co., Ltd.	(9,734,564)	(9,604,219)
Formosa Ha Tinh Steel Corporation	(41,776,696)	(3,058,156)
Taffeta (Dong Nai) Co., Ltd.	(341,978,801)	(291,393,091)
Formosa Taffeta Vietnam Co., Ltd.	(378,009,809)	(347,233,953)
Formosa Industry Co., Ltd.	(563,046,198)	(514,132,495)
	($ 839,386,422)	($ 593,496,404)

d) For the years ended December 31, 2012 and 2011, the Company received cash dividends from long-term equity investments accounted for under the equity method of $494,383,051 and $759,426,582, respectively.

e) In August, 2011, the Company planned to subscribe for shares of USD 2,500,000 issued by Taffeta (Dong Nai) Co., which was authorized by the Board of Directors of the Company. For the year ended December 31, 2012, the Company has subscribed all the shares.

f) The Company and its parent company, Formosa Chemicals & Fiber Corp., together hold more than 20% voting shares and have control power; accordingly, Formosa Industry Co., Ltd. was accounted for as long-term equity investments under the equity method.

g) The Company planned to subscribe for shares of USD 134,000,000 issued by Formosa Ha Tinh Steel Corporation, which was authorized by the Board of Directors of the Company. For the year ended December 31, 2012, the Company has subscribed for shares of USD 54,593,000. Additionally, the Company and its parent company totally hold more than 20% voting shares and have control power; accordingly, Formosa Ha Tinh Steel Corporation was accounted for as long-term equity investments under the equity method.

h) In 2012 and 2011, all majority-owned subsidiaries and controlled entities are included in the consolidated financial statements.

i) As of December 31, 2012 and 2011, the Company's common stocks owned by its subsidiary, Formosa Development Co., Ltd., were treated as treasury stock. Please refer to Note 4(18).

8) Property, plant and equipment

Asset	December 31, 2012 Cost	Accumulated Depreciation	Net Book Value
Land	$ 1,236,478,641	$ -	$ 1,236,478,641
Buildings	6,219,393,682	(3,043,233,907)	3,176,159,775
Machinery and equipment	13,914,186,928	(11,531,143,438)	2,383,043,490
Transportation equipment	156,914,078	(142,523,012)	14,391,066
Other equipment	4,413,522,658	(4,158,061,310)	255,461,348
Prepayments for equipment and construction in progress	185,654,118	-	185,654,118
	$ 26,126,150,105	($ 18,874,961,667)	$ 7,251,188,438

Asset	December 31, 2011 Cost	Accumulated Depreciation	Net Book Value
Land	$ 1,233,067,379	$ -	$ 1,233,067,379
Land improvements	58,835,353	(55,424,091)	3,411,262
Buildings	6,026,158,781	(2,768,921,013)	3,257,237,768
Machinery and equipment	14,369,266,555	(11,433,959,421)	2,935,307,134
Transportation equipment	155,032,507	(139,678,970)	15,353,537
Other equipment	4,493,283,131	(4,095,167,220)	398,115,911
Prepayments for equipment and construction in progress	342,776,779	-	342,776,779
	$ 26,678,420,485	($ 18,493,150,715)	$ 8,185,269,770

a) Interest capitalized to property, plant and equipment is as follows:

	December 31, 2012	December 31, 2011
Interest before capitalisation	$ 112,711,952	$ 98,622,447
Interest capitalized	(1,574,248)	-
	$ 111,137,704	$ 98,622,447
Rate of capitalisation	1.24%	-

b) The Company has pledged certain property, plant and equipment to secure bank loans. Please see Note 6.

c) Certain land were registered for agriculture use, and were reclassified as other assets-others as follows:

	December 31,	
	2012	2011
Land, at cost	$ 328,332,995	$ 328,332,995
Accumulated impairment	(77,857,047)	(77,857,047)
	$ 250,475,948	$ 250,475,948

The titles of the land had been transferred to the Company, but were mortgaged to the Company in the amount of $526,350,000 as of December 31, 2012 and 2011, respectively.

d) Certain land were not used for business operations, and were reclassified as other assets-land:

	December 31,	
	2012	2011
Land, at cost	$ 679,634,965	$ 679,634,965
Accumulated impairment	(77,880,705)	(77,880,705)
	$ 601,754,260	$ 601,754,260

e) Certain land and buildings amounting to $464,458,021 and $483,878,977 as of December 31, 2012 and 2011, respectively, were leased to a subsidiary, Formosa Advanced Technologies Co., Ltd., and were reclassified as other assets - assets leased to others.

9) Short-term loans

	December 31,	
	2012	2011
Purchase loans	$ 11,774,000	$ 39,995,680
Credit loans	-	50,000,000
	$ 11,774,000	$ 89,995,680
Interest rate	0.93%	0.90%~1.74%

10) Short-term bills payable

	December 31,	
	2012	2011
Commercial paper payable	$ 250,000,000	$ -
Less: Commercial paper payable discount	(53,598)	-
	$ 249,946,402	$ -
Interest rate	0.87%	-

11) Financial liabilities at fair value through profit or loss - current

	December 31, 2012	December 31, 2011
Derivatives	$ 4,827,570	$ 1,013,466

a) The Company recognized net loss of $4,815,482 and $1,013,466 for the years ended December 31, 2012 and 2011, respectively.

b) The trading items and contract information of derivatives are as follows:

		December 31, 2012			
		Contract Amount		Fair Value	Contract Period
Forward exchange contracts	Buy	JPY	120,000,000	$ 3,326,185	2013.01
		JPY	74,850,000	1,501,385	2013.02
				$ 4,827,570	

		December 31, 2011			
		Contract Amount		Fair Value	Contract Period
Forward exchange contracts	Sell	JPY	64,380,000	$ 719,204	2012.03
		JPY	43,380,000	8,153	2012.04
		JPY	14,850,000	192,778	2012.01
		JPY	5,520,000	73,315	2012.01
		USD	1,111,833	20,016	2012.03
				$ 1,013,466	

c) The forward exchange contracts are buy (sell) to hedge the change of exchange rate due to import and export, but not adopting hedge accounting.

d) The expected cash inflow of unsettled forward exchange contracts is JPY 194,850,000 and cash outflow is USD 2,426,635.

12) Long-term loans

Type of loans	Way of Repayment	December 31, 2012	December 31, 2011
Secured bank loans	Installment	$ 97,965,959	$ 201,325,860
Credit loans	Upon maturity	8,400,000,000	9,100,000,000
		8,497,965,959	9,301,325,860
Less: Current portion		(97,965,959)	(100,662,930)
		$ 8,400,000,000	$9,200,662,930
Interest rate		0.23%~1.32%	0.27%~1.33%

a) Please see Note 6 for the carrying amount of pledged assets.

b) The above long-term loans include a loan for $2,000,000,000, which requires the Company to maintain a current ratio of not lower than 100% within the contract period (2011/6/13~2014/6/13). The ratio calculation shall be based on the Company's financial statements.

If the Company fails to meet the required ratio, it should improve no later than September of the following year. The Company should provide the audit report to banks no later than April of the following year.

c) Long-term loans as of December 31, 2012 and 2011 will be repaid in three years as follows:

	December 31,	
	2012	2011
January 1, 2012~December 31, 2012	$ -	$ 100,662,930
January 1, 2013~December 31, 2013	97,965,959	8,200,662,930
January 1, 2014~December 31, 2014	7,600,000,000	1,000,000,000
January 1, 2015~December 31, 2015	800,000,000	-
	$ 8,497,965,959	$ 9,301,325,860

13) Pension plans

a) The Company has a non-contributory and funded defined benefit pension plan in accordance with the R.O.C. Labor Standards Law, covering all regular employees, before the implementation of the Labor Pension Act on July 1 , 2005. The defined benefit plan will continue to cover the employees who choose to remain with the defined benefit plan. 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 2% of the employees' monthly salaries and wages to an independent retirement trust fund with the Bank of Taiwan, the trustee.

b) As of December 31, 2012 and 2011, the pension information based on the actuarial reports are as follows:

(1) The related assumptions used for the actuarial valuation are as follows:

	2012	2011
Discount rate	2.0%	2.0%
Salary adjustment rate	1.0%	1.0%
Expected return on plan assets	2.0%	2.0%

(2) The reconciliation between the funded status and accrued pension liability as of

December 31, 2012 and 2011 are summarized as follows:

	December 31, 2012	December 31, 2011
Benefit obligation:		
Vested benefit obligation	$ 1,318,714,000	$ 1,151,392,000
Non-vested benefit obligation	1,169,705,000	1,273,871,000
Accumulated benefit obligation	2,488,419,000	2,425,263,000
Additional benefits based on future salaries	260,602,000	290,807,000
Projected benefit obligation	2,749,021,000	2,716,070,000
Plan assets at fair value	(407,399,000)	(489,511,000)
Funded status	2,341,622,000	2,226,559,000
Unrecognized net transition obligation	(37,735,000)	(44,164,000)
Unrecognized gain on plan assets	(1,184,050,000)	(1,203,418,000)
Additional minimum pension liability	961,183,000	956,775,000
Accrued pension liabilities	$ 2,081,020,000	$ 1,935,752,000
Vested benefit	$ 1,492,535,000	$ 1,302,111,000

(3) The components of net pension cost for the years ended December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Interest cost	$ 53,350,000	$ 61,046,000
Service cost	50,329,000	53,705,000
Expected return on plan assets	(8,993,000)	(10,360,000)
Amortization of net transition obligation	6,429,000	6,429,000
Amortization of unrecognized pension gain	58,238,000	40,686,000
Net periodic pension cost	$ 159,353,000	$ 151,506,000

c) Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act. Employees have the option to be covered under the New Plan. Under the New plan, the Company contributes 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 pension cost recognized under the New Plan for the years ended December 31, 2012 and 2011 was $65,308,359 and $60,654,026, respectively.

14) Common stock

As of December 31, 2012, the Company’s authorized and issued capital was $16,846,646,370, consisting of 1,684,665,000 shares of common stocks, with a par value of $10 per share.

15) Capital reserve

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

16) Legal reserve

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

17) Retained earnings

a) According to the R.O.C. Securities Exchange Law No. 41, a company should reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year from the net income and prior unappropriated earnings as special reserve. If the valuation or contra-account in stockholders' equity belongs to prior periods, the same amount from prior period earnings should be considered special reserve and cannot be distributed. The special reserve includes: i) reserve for special purposes, ii) investment income recognized under the equity method, iii) net proceeds from the recognition of financial asset transactions; only when the accumulated value decreases should the special reserve be adjusted by the same amount, subject to the provisions in this section; and iv) other special reserves set out by legal provisions.

   According to the R.O.C. Company Law and the Company's articles of incorporation, the annual net income should be used initially to cover any accumulated deficit; 10% of the annual net income should be set aside as legal reserve and special reserve. The remaining balance shall be distributed to shareholders according to their shareholding percentage. After deducting the above items, the remaining earnings, if any, shall be appropriated up to 1% as directors' and supervisors' compensation, and 0.1% to 1% as employees' bonus, which shall be recognized as current expense.

b) The Company's dividend policy is summarized below:

   As the Company operates in a volatile business environment and is in the stable growth stage, the dividend policy includes cash dividends, stock dividends and capital increase by earnings recapitalization. At least 50% of the Company's distributable earnings shall be appropriated as dividends after deducting the legal reserve and special reserves. The Company would prefer distributing cash dividends. However, if significant investment measures are taken or the Company's financial structure needs to be improved, part of the dividends would be in the form of stock dividends but not to exceed 50% of the total dividends.

c) The appropriations of 2011 and 2010 earnings had been resolved at the stockholders' meeting on June 26, 2012 and June 28, 2011, respectively. Details are summarized below:

	2011 earnings		2010 earnings	
	Amount (thousands of dollars)	Dividends per share (in dollars)	Amount (thousands of dollars)	Dividends per share (in dollars)
Legal reserve	$ 207,835		$ 409,014	
Special reserve	708,034		-	
Cash dividends	2,021,597	$ 1.2	3,369,329	$ 2.00
Total	$2,937,466		$3,778,343	

The estimated appropriations of 2011 and 2010 earnings proposed by the Board of Directors were the same as the actual appropriations approved by the shareholders. Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange Corporation.

d) For 2012 and 2011, the estimated employees' bonus amounted to $5,791,312 and $2,780,233, respectively, while directors' and supervisors' remuneration amounted to $2,895,656 and $1,390,116, respectively. Employees' bonus and directors' and supervisors' remuneration are recognized as operating costs and operating expenses based on the net income within the range stipulated in the Company's Articles of Incorporation in consideration of the legal reserve and other factors. While, if the estimated amounts are different from the amounts approved by the stockholders subsequently, the difference is recognized as gain or loss in 2013.

e) The appropriation for employees' bonuses and directors' and supervisors' remuneration amounted to $2,780,233 and $1,390,116, respectively, for 2011, which are the same with that recognized in the 2011 financial statements.

f) As of December 31, 2012 and 2011, unpaid stock dividends amounted to $17,430,691 and $19,529,662, respectively.

g) The appropriations of 2012 earnings had been resolved by the Board of Directors on March 25, 2013. Details are summarized below:

	2012	
	Amount (in thousands)	Dividend per share (in dollars)
Statutory surplus reserve	$ 240,976	
Special surplus reserve	492,390	
Cash dividends	1,684,665	$ 1.00
	$ 2,418,031	

18) Treasury stock

Changes in the treasury stock for the years ended December 31, 2012 and 2011 are set forth below:

	2012					
	Beginning		Disposal		Ending	
Investee company	Shares (in thousands)	Market price	Shares (in thousands)	Sale price	Shares (in thousands)	Market price
Formosa Development Co., Ltd.	3,043	$ 8.76	-	$ -	3,043	$ 28.0

	2011					
	Beginning		Disposal		Ending	
Investee company	Shares (in thousands)	Market price	Shares (in thousands)	Sale price	Shares (in thousands)	Market price
Formosa Development Co., Ltd.	3,043	$ 8.76	-	$ -	3,043	$ 28.1

19) Income tax

a) The reconciliation between income tax expense and income tax payable are as follows:

	For the years ended December 31, 2012	2011
Current year income tax expense based on statutory income	$ 426,834,831	$ 424,058,332
Tax effect of permanent differences	(174,003,257)	(395,274,817)
Tax effect of investment tax credits	(90,106,863)	(111,371,708)
Tax effect of temporary differences	(34,486,334)	275,519,876
(Over) under provision of prior year's income tax	(31,241,970)	33,821,754
Income tax payable of 2010	1,735,160	-
Valuation allowance	2,305,211	192,633,696
Tax effect of tax benefit of loss carryforwards	-	(34,452,445)
10% additional income tax on prior year's undistributed earnings	-	31,179,980
Income tax expense	101,036,778	416,114,668
Less: Net change in deferred income tax assets and liabilities	(2,305,211)	(192,633,696)
Prepaid and withholding taxes	(378,426)	(407,524)
Over (under) provision of prior year's income tax	31,241,970	(33,821,754)
Income tax payable	$ 129,595,111	$ 189,251,694

b) As of December 31, 2012 and 2011, details of deferred income tax assets (liabilities) were as follows:

	December 31,			
	2012		2011	
	Amount	Tax effect	Amount	Tax effect
Current				
Provision for inventory obsolescence	$ 103,345,983	$ 17,568,817	$ 251,673,089	$ 42,784,425
Allowance for bad debts in excess of tax-deductible limit	37,741,549	6,416,063	40,153,134	6,826,033
Unrealized foreign exchange loss (gain)	17,707,805	3,010,327	(17,086,786)	(2,904,754)
Gain on valuation of financial assets	(15,289,032)	(2,599,135)	(1,070,173)	(181,929)
Loss on valuation of financial liabilities	4,827,570	820,687	1,013,466	172,289
		$ 25,216,759		$ 46,696,064
Non-current				
Impairment loss on available-for-sale financial assets	$2,403,804,974	$408,646,846	$2,403,804,974	$408,646,846
Investment loss	146,777,434	24,952,164	366,835,990	62,362,118
Provision for pension	1,056,668,937	179,633,719	915,808,937	155,687,519
Investment tax credits	-	256,394,880	-	343,258,064
		869,627,609		969,954,547
Valuation allowance		(605,609,717)		(725,110,749)
		$264,017,892		$244,843,798

c) The Company's income tax return for the year ended December 31, 2010 was assessed by the Tax Authority on November 28, 2012. An additional tax of $1,735,160 was levied. The Company has estimated it.

d) The Company's income tax returns through 2010 have been assessed and approved by the Tax Authority.

e) As of December 31, 2012, under the "Statute for Upgrading Industries," the Company had investment tax credits as follows:

	Investment tax credits	Unused amount	Expiration year
Research and development expenditures	$ 380,598,788	$ 196,962,871	2013
Machinery and equipment	53,841,009	53,841,009	2014
〃	5,591,000	5,591,000	2015
	59,432,009	59,432,009	
	$ 440,030,797	$ 256,394,880	

f) As of December 31, 2012 and 2011, the undistributed earnings are as follows:

	December 31, 2012	December 31, 2011
Earnings that have been imposed 10% tax	$ 1,919,270,734	$ 2,093,666,064
Earnings that have not been imposed 10% tax	2,409,756,345	2,078,346,106
	$ 4,329,027,079	$ 4,172,012,170

g) Shareholder's creditable tax as follows:

	December 31, 2012	December 31, 2011
Creditable account balance	$ 262,010,840	$ 286,084,549

	2012 (expected)	2011 (actual)
Creditable tax ratio	9.13%	13.14%

20) Earnings per share

For the year ended December 31, 2012	Amount (in thousands) Before tax	Amount (in thousands) After tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars) Before tax	Earnings per share (in dollars) After tax
Basic earnings per share:					
Net income	$ 2,510,793	$ 2,409,756	1,681,622	$ 1.49	$ 1.43

The following is the earnings per share assuming the shares of the Company held by its subsidiary, Formosa Development Co., Ltd., are not deemed as treasury shares:

For the year ended December 31, 2012	Amount (in thousands) Before tax	Amount (in thousands) After tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars) Before tax	Earnings per share (in dollars) After tax
Net income attributable to common stockholders	$ 2,510,793	$ 2,409,756	1,684,665	$ 1.49	$ 1.43

	For the year ended December 31, 2011				
	Amount (in thousands)		Weighted-average outstanding common shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Basic earnings per share:					
Net income	$2,494,460	$2,078,345	1,681,622	$ 1.48	$ 1.24

The following is the earnings per share assuming the shares of the Company held by its subsidiary, Formosa Development Co., Ltd., are not deemed as treasury shares:

	For the year ended December 31, 2011				
	Amount (in thousands)		Weighted-average outstanding common shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Net income attributable to common stockholders	$2,494,460	$2,078,345	1,684,665	$ 1.48	$ 1.23

Starting 2008, as employees' bonuses could be distributed in the form of stock, it does not have significant effect on the financial statements for the year ended December 31, 2012 and 2011. It also had no significant effect on earnings per share.

21) Personnel, depreciation and amortization expenses

Personnel, depreciation and amortization expenses are summarized as follows:

	For the year ended December 31, 2012		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 1,649,459,851	$ 720,311,173	$ 2,369,771,024
Labor and health insurances	147,691,543	61,482,952	209,174,495
Pension and retirement	174,860,703	49,800,656	224,661,359
Others	66,173,092	23,786,815	89,959,907
Depreciation (Note)	1,013,131,147	170,284,860	1,183,416,007
Amortization	4,135,117	3,225,306	7,360,423

	For the year ended December 31, 2011		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 1,763,948,164	$ 719,597,164	$ 2,483,545,328
Labor and health insurances	128,787,679	57,979,206	186,766,885
Pension and retirement	163,548,195	48,611,831	212,160,026
Others	66,434,829	24,492,406	90,927,235
Depreciation (Note)	854,187,308	163,191,665	1,017,378,973
Amortization	1,828,571	3,225,312	5,053,883

Note: Excluding depreciation on assets leased to others which is classified as other non-operating expense and losses both amounting to $19,420,956 for the years ended December 31, 2012 and 2011.

5. RELATED PARTY TRANSACTIONS

1) Names and relationship of related parties

Name of related parties	Relationship with the Company
Formosa Chemicals & Fiber Corp.	Parent company
Formosa Plastics Corp.	The managing director is the chairman of the Company
Formosa Petrochemical Corp.	Related party in substance
Nan Ya Plastics Corp.	The managing director is the chairman of the Company
Great King Garment Co., Ltd.	The director is the managing director of the Company
Kong You Industrial Co., Ltd.	〃
Bellmart Industrial Co., Ltd.	〃
Yumaowu Enterprise Co., Ltd.	The chairman is the managing director of the Company
Yu Maowu Complex Co., Ltd.	〃
Yugen Co., Ltd.	The chairman is a member of the immediate family of the Company's general manager
Toa Resin Co., Ltd.	The Company is the director of Toa Resin Co., Ltd.
Formosa Taffeta (Hong Kong) Co., Ltd.	An investee accounted for under the equity method
Formosa Advanced Technologies Co., Ltd.	〃
Formosa Taffeta (Zhong Shan) Co., Ltd.	〃
Formosa Taffeta Vietnam Co., Ltd.	An investee accounted for under the equity method
Formosa Industry	〃
Kuang Yueh Co., Ltd.	〃
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	〃
Formosa Development Co., Ltd.	〃
Schoeller F.T.C. (Hong Kong) Co., Ltd.	〃
Formosa Taffeta (Dong Nai) Co., Ltd.	〃
Formosa Taffeta (Changshu) Co., Ltd.	An indirect investee company accounted for under the equity method
Yu Yuang	The chairman of the Company is the director

2) Significant transactions and balances with related parties

a) Sales

	For the years ended December 31,			
	2012		2011	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Formosa Petrochemical Corp.	$ 407,517,680	1.19	$ -	-
Kuang Yueh Co., Ltd.	339,874,243	0.99	419,303,701	1.17
Yugen Co., Ltd.	332,801,169	0.97	340,677,860	0.95
Formosa Taffeta (Dong Nai) Co., Ltd.	215,217,172	0.63	51,649,091	0.14
Formosa Chemicals & Fiber Corp.	198,271,855	0.58	160,179,110	0.45
Formosa Taffeta Vietnam Co., Ltd.	153,508,057	0.44	83,741,212	0.23
Formosa Taffeta (Changshu) Co., Ltd.	121,568,114	0.35	72,822,853	0.20
Schoeller F.T.C (Hong Kong) Co., Ltd.	98,936,565	0.29	116,522,424	0.32
Kong You Industrial Co., Ltd.	94,799,677	0.27	101,563,794	0.28
Formosa Taffeta (Zhong Shan) Co., Ltd.	58,715,838	0.17	135,342,432	0.38
Others	106,118,544	0.31	89,633,396	0.26
	$2,127,328,914	6.19	$1,571,435,873	4.38

The sales prices to related parties are similar to third parties, and the collection terms are 60 to120 days after the goods are delivered.

b) Purchases and processing charges

(1) Purchases:

	For the years ended December 31,			
	2012		2011	
	Amount	Percentage of purchases	Amount	Percentage of purchases
Formosa Petrochemical Corp.	$14,640,927,786	54.95	$14,058,639,001	49.90
Formosa Chemicals & Fiber Corp.	3,579,612,320	13.44	4,510,313,428	16.01
Nan Ya Plastics Corp.	1,119,056,842	4.20	1,566,504,072	5.56
Formosa Plastics Corp.	310,525,836	1.17	344,009,577	1.22
Toa Resin Co., Ltd.	38,995,267	0.15	52,451,211	0.19
Others	79,336,642	0.29	19,845,629	0.06
	$19,768,454,693	74.20	$20,551,762,918	72.94

(2) Processing charges:

	For the years ended December 31,			
	2012		2011	
	Amount	Percentage of processing charges	Amount	Percentage of processing charges
Formosa Taffeta Vietnam Co., Ltd.	$ 58,653,723	29.07	$ 142,143,069	18.93
Formosa Taffeta (Dong Nai) Co.	24,941,990	12.36	131,247,860	17.48
	$ 83,595,713	41.43	$ 273,390,929	36.41

(3) Purchases from Formosa Petrochemical Corp. consist of gasoline, and payments are made semi-monthly.

(4) Purchases from Formosa Chemicals & Fiber Corp. consist of raw materials, and the payment term was about two months.

(5) Purchases from Nan Ya Plastics Corp. and Formosa Plastics Corp. consist of raw materials, and the payment dates were on the 15th of the following month.

(6) Purchases from Toa Resin Co., Ltd. consist of raw materials, and payments are made after the goods are received.

(7) The Company engaged Formosa Taffeta Vietnam Co, Ltd. and Formosa Taffeta (Dong Nai) Co., Ltd. to process its raw materials, supplies and work in process. When the goods are finished, they will be delivered back to the Company.

Payments were made after the goods were received and accepted.

(8) The prices and payment terms for related parties were not significantly different from those of non-related general suppliers.

3) Receivables

a) Notes receivable

	December 31,			
	2012		2011	
	Amount	Percentage of notes receivable	Amount	Percentage of notes receivable
Kong You Industrial Co., Ltd.	$ 7,684,909	3.98	$ 13,495,205	6.35
Others	6,939,274	3.60	4,720,026	2.22
	$ 14,624,183	7.58	$ 18,215,231	8.57

b) Accounts receivable

	December 31,			
	2012		2011	
	Amount	Percentage of accounts receivable	Amount	Percentage of accounts receivable
Yugen Co., Ltd.	$ 88,580,540	3.09	$111,108,494	4.09
Formosa Taffeta (Dong Nai) Co.	57,030,107	1.99	7,890,006	0.29
Kuang Yueh Co., Ltd.	45,115,519	1.57	40,432,738	1.49
Formosa Chemicals & Fiber Corp.	19,124,969	0.67	16,191,653	0.60
Formosa Taffeta (Changshu) Co., Ltd.	18,522,277	0.65	1,850,718	0.07
Formosa Taffeta Vietnam Co., Ltd.	17,588,681	0.61	27,237,359	1.00
Schoeller F.T.C. (Hong Kong) Co., Ltd.	12,254,544	0.43	15,281,219	0.56
Formosa Taffeta (Zhong Shan) Co., Ltd.	5,423,817	0.19	13,817,970	0.51
Others	16,784,817	0.58	15,333,772	0.57
	280,425,181	9.78	249,143,929	9.18
Less: Overdue accounts receivable reclassified as “other receivables”	(9,853,638)	(0.34)	(4,903,467)	(0.18)
	$270,571,543	9.44	$244,240,462	9.00

In accordance with EITF 93-167 of the R.O.C. Accounting Research and Development Foundation, dated July 9, 2004, the overdue accounts receivable from related parties were reclassified to "other receivables". The following sets forth the aging analysis of the overdue accounts receivable from related parties:

	December 31, 2012				
	61-90 days	91-120 days	121-360 days	360 days	Total
Formosa Petrochemical Corp.	$ 71,348	$1,673,008	$3,528,899	$ -	$5,273,255
Kuang Yueh Co., Ltd.	4,459,259	-	-	-	4,459,259
Others	24,610	-	96,514	-	121,124
	$4,555,217	$1,673,008	$3,625,413	$ -	$9,853,638

	December 31, 2011				
	61-90 days	91-120 days	121-360 days	360 days	Total
Kuang Yueh Co., Ltd.	$ -	$4,903,467	$ -	$ -	$4,903,467

4) Payables

a) Notes payable

	December 31,			
	2012		2011	
	Amount	Percentage of notes payable	Amount	Percentage of notes payable
Formosa Chemicals & Fiber Corp.	$519,499,663	79.12	$534,094,872	76.38
Others	-	-	1,388,835	0.20
	$519,499,663	79.12	$535,483,707	76.58

b) Accounts payable

	December 31,			
	2012		2011	
	Amount	Percentage of accounts payable	Amount	Percentage of accounts payable
Formosa Petrochemical Corp.	$ 853,512,683	43.09	$ 447,029,136	24.45
Formosa Chemicals & Fiber Corp.	357,577,218	18.05	301,341,521	16.48
Nan Ya Plastics Corp.	122,964,916	6.21	97,021,870	5.31
Formosa Plastics Corp.	21,942,082	1.11	20,074,869	1.10
Formosa Taffeta (Dong Nai) Co., Ltd.	8,990,312	0.46	14,427,856	0.79
Formosa Taffeta Vietnam Co., Ltd.	3,820,998	0.19	12,061,854	0.66
Others	5,577,921	0.28	2,873,310	0.15
	$1,374,386,130	69.39	$ 894,875,416	48.94

c) Other accounts payable

		December 31,	
	Nature	2012	2011
Formosa Taffeta (Changshu) Co., Ltd.	Expenses paid on behalf of the company	$ 2,064,943	$ 11,010,517
Formosa Taffeta (Zhong Shan) Co., Ltd.	Receipts under custody	2,476,391	-
		$ 4,541,334	$ 11,010,517

5) Acquisitions and disposals of property, plant and equipment

a) The Company purchased raw materials for the related parties and sold fixed assets to related parties. Gain or loss is recorded as gain or loss on disposal of property, plant and equipment. Details are as follows:

	For the year ended December 31, 2012			
	Item	Book value	Sales price	Gain
Formosa Taffeta (Dong Nai) Co., Ltd.	Sale of property, plant and equipment	$187,784,568	$206,970,733	$22,186,165
Formosa Taffeta (Dong Nai) Co., Ltd.	Purchase of raw materials and supplies	16,978,697	17,717,240	738,543
Others	〃	911,584	964,757	53,173
		$202,674,849	$225,652,730	$22,977,881

	For the year ended December 31, 2011			
	Item	Book value	Sales price	Gain
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies	$ 21,987,230	$ 22,547,254	$ 560,024
Formosa Taffeta (Dong Nai) Co., Ltd.	〃	769,662	828,599	58,937
Formosa Taffeta Vietnam Co., Ltd.	〃	4,790,980	4,909,163	118,183
		$ 27,547,872	$ 28,285,016	$ 737,144

b) Assets leased to others

The Company rent out buildings on No. 319 and 329, Henan St., Douliu City, Yunlin County, and land on No. 497-1 Neilin Section and employee's dormitory to Formosa Advanced Technologies Co., Ltd. The lessee pays the Company at the beginning of every month. For the years ended December 31, 2012 and 2011, rental income amounted to $29,733,900 and $29,719,032, respectively.

c) Other income

The company's collections and payment transfer of utilities and disposal fee, etc. for Formosa Advanced Technologies Co., Ltd. For the years ended December 31, 2012 and 2011, other income amounted to $21,134,212 and $25,373,898, respectively.

d) Other receivables

	December 31, 2012		
	Item	Amount	%
Formosa Taffeta (Dong Nai) Co., Ltd.	Purchase of raw materials and supplies and disposal of property, plant and equipment	$ 227,902,095	59.06
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies	55,689,482	14.43
Formosa Advanced Technologies Co., Ltd.	Rent receivable and payments made by the Company on behalf of related party	8,397,959	2.17
Others	Payments made by the Company on behalf of related party	5,949,154	1.54
		$ 297,938,690	77.20

	December 31, 2011		
	Item	Amount	%
Formosa Taffeta (Dong Nai) Co., Ltd.	Purchase of raw materials and supplies and disposal of property, plant and equipment	$ 1,148,567	0.49
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies	55,689,482	23.73
Formosa Advanced Technologies Co., Ltd.	Rent receivable and payments made by the Company on behalf of related party	4,926,743	2.10
Others	Payments made by the Company on behalf of related party	7,111,296	3.04
		$ 68,876,088	29.36

6) Commission expenses

The Company paid commissions for sales rendered to Formosa Taffeta (Hong Kong) Co., Ltd. equivalent to 2.5%. Details are as follows (shown as sales and marketing expenses):

	For the years ended December 31,	
	2012	2011
Formosa Taffeta (Hong Kong) Co., Ltd.	$ 10,994,736	$ 10,873,636

The balances of commission payable (shown as accrued expenses) consisted of the following:

	December 31,			
	2012		2011	
	Amount	Percentage of accrued expenses	Amount	Percentage of accrued expenses
Formosa Taffeta (Hong Kong) Co., Ltd	$ 880,143	0.10	$ 764,443	0.10

7) Endorsements and guarantees

	December 31,	
	2012	2011
Formosa Taffeta (Zhong Shan) Co., Ltd.	$ 1,887,600,000	$ 2,391,725,000
Formosa Taffeta Vietnam Co., Ltd.	2,032,800,000	2,210,075,000
Formosa Taffeta (Changshu) Co., Ltd.	2,447,140,000	2,543,790,000
Formosa Taffeta (Dong Nai) Co., Ltd.	2,279,640,000	2,361,450,000
	$ 8,647,180,000	$ 9,507,040,000

8) Remuneration information of key management (including directors, supervisors, general manager and vice general managers)

	For the years ended December 31,	
	2012	2011
Salaries and bonuses	$ 22,169,927	$ 49,600,860
Service fees	741,939	1,662,001
Distribution of earnings	2,895,656	1,390,116
	$ 25,807,522	$ 52,612,977

(1) Salaries include wages, allowances and retirement pension, etc.

(2) Bonus includes all kinds of incentives.

(3) Service fees include traveling allowance and subsidies, etc.

(4) Distribution of earnings include directors' and supervisors' remuneration and employees' bonus.

(5) For the related information, please refer to the annual report.

6. PLEDGED OR RESTRICTED ASSETS

	Book Value		
	December 31,		
Item	2012	2011	Purpose
Property, plant and equipment	$ 349,999,498	$ 560,345,349	Security for long-term loans

7. COMMITMENTS

As of December 31, 2012, in addition to those disclosed in Note 5, the significant commitments and contingent liabilities are the outstanding letters of credit for materials and equipment purchases with various companies listed as follows:

Currency	December 31, 2012
USD	$ 638,060
JPY	26,017,790
EUR	1,909,000

8. MAJOR CATASTROPHE

A fire accident happened in February, 2012. Part of the building and certain, equipment and inventories were damaged during the fire, although this was fully covered by insurance. The proceeds for the insurance claim was received in December, 2012. The accident did not have a significant effect on the Company's operations. As of December 31, 2012, the related amounts of asset loss and insurance claims are as follows:

	Property, plant and equipment	Inventories	Others (Note)	Total
Loss of blaze	$ 10,566,935	$ 75,759,497	$ 29,311,853	$ 115,638,285
Insurance claims	(10,566,935)	(75,759,497)	(29,311,853)	(115,638,285)
Extraordinary income	$ -	$ -	$ -	$ -

Note: Expenses arised from returning to work.

9. SUBSEQUENT EVENT

Please see Note 4(17)-g for 2012 earnings distribution.

10. OTHERS

1) Fair values of the financial instruments

	December 31, 2012		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with fair values equal to book values	$ 5,012,606,591	$ -	$5,012,606,591
Available-for-sale financial assets	32,615,723,313	32,615,723,313	-
Financial assets carried at cost	353,621,031	-	353,621,031
Refundable deposits	58,258,520	-	58,258,520
Liabilities			
Financial liabilities with fair values equal to book values	3,782,828,044	-	3,782,828,044
Long-term liabilities (including current portion)	8,497,965,959	-	8,497,965,959
Deposits received	27,786,757	-	27,786,757
Derivative financial instruments			
Assets			
Forward exchange contract	15,289,032	-	15,289,032
Liabilities			
Forward exchange contract	4,827,570	-	4,827,570

	December 31, 2011		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with fair values equal to book values	$ 4,047,011,917	$ -	$4,047,011,917
Available-for-sale financial assets	35,491,149,822	35,491,149,822	-
Financial assets carried at cost	353,621,031	-	353,621,031
Refundable deposits	57,087,392	-	57,087,392
Liabilities			
Financial liabilities with fair values equal to book values	3,395,663,779	-	3,395,663,779
Long-term liabilities (including current portion)	9,301,325,860	-	9,301,325,860
Deposits received	14,983,302	-	14,983,302
Derivative financial instruments			
Assets			
Forward exchange contract	1,070,173	-	1,070,173
Liabilities			
Forward exchange contract	1,013,466	-	1,013,466

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

(1) For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables, short–term loans, short-term bills payable, notes payable, accounts payable (including related parties), accrued expenses, and other payables.

(2) Financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets are regarded as quoted in an active market.

(3) Financial assets carried at cost are equity stocks, with no active market and no fair value.

(4) The fair values of refundable deposits and guarantee deposits received were determined based on their carrying values because the discounted values are

approximately the same as the carrying values.

(5) For long-term loans, including the current portion, the fair value is determined based on their carrying values because the discounted values are approximately the same as the carrying values.

(6) The fair value of derivative financial instruments which include unrealized gains or losses on unsettled contracts was determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date. The fair value was provided by the counterparty financial instituion.

2) Information on significant gain/loss on financial instruments and equity items

For available-for-sale financial assets, during the years ended December 31, 2012 and 2011, the amount of gain recognized directly in equity was $2,875,426,509 and $1,637,338,937, respectively. The amount deducted from equity and shown as impairment loss was $2,403,804,974 for the year ended December 31, 2011.

3) Information on interest rate risk items

As of December 31, 2012 and 2011, the financial assets with fair value risk due to the change of interest rate amounted to $333,571,768 and $0, respectively; the financial assets with cash flow risk due to the change of interest rate amounted to $982,079,037 and $810,272,132, respectively; and the financial liabilities with cash flow risk due to the change of interest rate amounted to $8,497,965,959 and $9,301,325,860, respectively.

4) Procedure of financial risk control and hedge

A) The Company's management considers economic environment, competition and market value risk to achieve the best position of investment risk, maximize the investment of excess liquidity and control the overall market risk. The Company adopts the following strategies to control financial risk:

a) Foreign exchange risk

The Company engages in a number of foreign currency transactions. Therefore, the Company hedges risk naturally, and observes the exchange rates on a continuous and timely basis to mitigate foreign exchange risks.

b) Interest rate risk

The expected domestic interest rate will not change drastically. However, the Company continues to observe the movement of interest rate to prevent incurring costs due to changes in interest rate.

c) Cash flow risk

The Company sets up short and long term funding schedule on a regular and timely basis to ensure that all the obligations are met.

d) Credit risk

The Company has a stringent credit policy in place. Transactions are conducted only with counterparties with good credit conditions. Appropriate measures are also undertaken where necessary to protect the Company's credit rights and thereby mitigate credit risk.

B) The Board of Directors is responsible for supervising normal business operations, and authorizing management to perform daily operations under acceptable risk. The internal auditor shall review reports prepared by management on a timely basis to evaluate the effectiveness of management. If the internal auditor discovers any irregular circumstances, he or she should inform the Board of Directors immediately and perform necessary preventive measures.

5) Information of material financial risk

a) Market risk

(1) Some of the Company's transactions are conducted in foreign currencies, which are subject to exchange rate fluctuation. The information on foreign currency denominated assets and liabilities are as follows:

	December 31, 2012		
	Currency	Amount	Exchange rate
Effect on net income			
Financial assets			
Cash and cash equivalences	USD	18,209,492	29.04
	JPY	179,908,639	0.34
	EUR	11,482	38.49
	HKD	25,076	3.75
	CHF	1,758	31.82
Receivables	USD	63,837,541	29.04
	JPY	270,448,810	0.34
	EUR	447,755	38.49

	December 31, 2012		
	Currency	Amount	Exchange rate
Effect on net income			
Financial liabilities			
Bank loans	USD	948,594	29.04
	JPY	40,831,636	0.34
	EUR	1,711,720	38.49
	CHF	80,846	31.82

	December 31, 2011		
	Currency	Amount	Exchange rate
Effect on net income			
Financial assets			
Cash and cash equivalences	USD	1,688,045	30.28
	JPY	118,381,728	0.39
	EUR	4,522	39.18
	HKD	24,148	3.90
	CHF	9,766	32.18
Receivables	USD	60,955,708	30.28
	JPY	285,792,384	0.39
	EUR	49,190	39.18
Effect on net income			
Financial liabilities			
Bank loans	USD	$ 3,218,267	30.28
	JPY	11,663,272	0.39
	EUR	3,423,440	39.18
	CHF	161,692	32.18

(2) The investments in equity financial instruments owned by the Company are exposed to price risk, but the possibility of market risk is low as a result of the setting of stop-loss point.

(3) The loans mostly belong to adjustable rate mortgage and the Company adjusts the loan position at market rates. Therefore, the Company expects no significant market risk.

(4) The Company's major import and export transactions are conducted in USD currency. The change of fair value will be caused by foreign exchange rate, however, the amounts and periods of the Company's foreign currency denominated assets and liabilities are equivalent, so the market risk could be

offset. If the gap is raised, the Company would adopt the forward contract to hedge the risk, so the Company estimates there would be no material risk.

b) Credit risk

(1) The equity financial instruments have active markets and are transacted through a stock exchange market or over-the counter market, or with financial institutions which are all in good credit standing. Therefore, the credit risk is low. Besides, the Company's policy requires that transactions for financial assets carried at cost be conducted with counterparties that meet the specified credit rating reqirement; thus, the possibility that credit risk will arise is remote.

(2) The Company's policy requires that wholesale sales of products are made to clients with an appropriate credit review procedures. Therefore, the maximum loss arising from credit risk is equal to the book value of accounts receivable.

(3) Loan guarantees provided by the Company are in compliance with the Company's "Procedures for Provision of Endorsements and Guarantees" and are only provided to affiliated companies of which the Company owns directly or indirectly more than 50% ownership. As the Company is fully aware of the credit conditions of these related parties, it has not asked for collateral for the loan guarantees provided. In the event that these related parties fail to comply with loan agreements with banks, the maximum loss to the Company is the total amount of loan guarantees as listed as follows:

	December 31,	
	2012	2011
Loan guarantees for related parties	$ 8,647,180,000	$ 9,507,040,000

c) Liquidity risk

(1) The Company's investments in equity financial instruments which have active markets are expected to be sold easily and quickly in the market at the price close to fair value. The Company's investments in equity financial instruments without active markets are exposed to liquidity risk.

(2) Due to well-managed operations, the Company has an excellent credit in financial institutions and the money market, and has adequate working capital to meet commitments associated with receivables and payables. Therefore, no liquidity risk is expected to arise.

d) Cash flow risk due to changes in interest rates

(1) The Company's receivables and payment are expected to be realized within a year, and the Company expects to have no significant cash flow risk from

changes in interest rate.

(2) The loans are mostly issued at floating interest rate. Accordingly, the future cash flow will fluctuate with the yield rate of these debt instruments.

(3) The investmets in equity financial instruments owned by the Company are not interest-related financial assets. Therefore, no cash flow risk due to changes in interest rate is expected to arise.

11. SEGMENT INFORMATION

Effective January 1, 2011, the Company adopted the amendments to R.O.C Statement of Financial Accounting Standards No. 41 “Operating Segments” which prescribes the disclosure of segment information in the consolidated financial statements rather than the non-consolidated financial statements.