FORMOSA TAFFETA CO., LTD.

NON-CONSOLIDATED FINANCIAL STATEMENTS

AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2013 AND 2012

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.

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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, 2013, December 31, 2012 and January 1, 2012, and the related non-consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2013 and 2012. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. As stated in Note 6(8), we did not audit the financial statements of certain long-term equity investment accounted for under the equity method and information disclosed in Note 13 for the years ended December 31, 2013 and 2012, thus, our opinion on the subsidiaries are based on audit reports by other accountants. The financial statements of these investees were audited by other accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in these financial statements. The share of profit (loss) accounted for using equity method based on financial statements audited by other accountants was NTD$526,640 thousand and $304,922 thousand for the years ended December 31, 2013 and 2012, respectively; the related balance of investment accounted for using equity method was NTD$10,691,986 thousand, $6,457,927 and $5,410,392 thousand, as of December 31, 2013, December 31, 2012 and January 1, 2012

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation 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 independent accountants provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other independent accountants, the

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non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Formosa Taffeta Co., Ltd. as of December 31, 2013, December 31, 2012 and January 1, 2012, and their financial performance and cash flows for the years ended December 31, 2013 and 2012 in conformity with the "Rules Governing the Preparations of Financial Statements by Securities Issuers".

PricewaterhouseCoopers, Taiwan

PricewaterhouseCoopers, Taiwan
March 21, 2014

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, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012
(Expressed in thousands of New Taiwan dollars)

			December 31, 2013		December 31, 2012		January 1, 2012	
	ASSETS	Notes	Amount	%	Amount	%	Amount	%
	Current Assets							
1100	Cash and cash equivalents	6(1)	$ 1,226,867	2	$ 1,566,983	2	$ 882,040	1
1110	Financial assets at fair value through profit or loss - current	6(2)	904	-	15,289	-	1,070	-
1125	Available-for-sale financial assets - current	6(3)	1,401,093	2	1,178,309	2	1,256,116	2
1150	Notes receivable, net	6(4)	76,796	-	178,244	-	194,378	-
1160	Notes receivable - related parties, net	7	6,963	-	14,624	-	18,215	-
1170	Accounts receivable, net	6(5)	2,344,288	4	2,596,272	4	2,473,494	4
1180	Accounts receivable - related parties, net	7	228,931	-	270,571	-	244,240	-
1200	Other receivables		237,920	1	385,912	1	234,645	-
130X	Inventories	6(6)	4,250,515	6	4,291,635	7	4,835,909	7
1410	Prepayments		75,623	-	141,227	-	539,650	1
1470	Other current assets		179,731	-	285,546	-	296,379	1
11XX	**Total current assets**		10,029,631	15	10,924,612	16	10,976,136	16
	Non-current Assets							
1523	Available-for-sale financial assets – non-current	6(3)	30,437,832	44	31,761,481	48	34,578,509	49
1543	Financial assets measured at cost – non-current	6(7)	253,621	-	253,621	-	253,621	-
1550	Investments accounted for under equity method	6(8)	18,770,110	27	14,545,524	22	13,817,004	20
1600	Property, plant and equipment	6(9) and 8	7,891,096	12	8,103,418	12	9,037,500	13
1760	Investment property	7	445,037	1	464,458	1	483,879	1
1840	Deferred income tax assets	6(25)	477,551	1	500,620	1	514,534	1
1900	Other non-current assets		110,299	-	76,578	-	69,773	-
15XX	**Total non-current assets**		58,385,546	85	55,705,700	84	58,754,820	84
1XXX	**TOTAL ASSETS**		$ 68,415,177	100	$ 66,630,312	100	$ 69,730,956	100

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FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012
(Expressed in thousands of New Taiwan dollars)

			December 31, 2013		December 31, 2012		January 1, 2012	
	LIABILITIES AND EQUITY	Notes	Amount	%	Amount	%	Amount	%
	Current Liabilities							
2100	Short-term loans	6(10)	$ 290,000	1	$ 11,774	-	$ 89,996	-
2110	Short-term bills payable	6(11)	1,249,863	2	249,946	1	-	-
2120	Financial liabilities at fair value through profit or loss - current	6(12)	-	-	4,828	-	1,014	-
2150	Notes payable		149,525	-	137,067	-	163,744	-
2160	Notes payable - related parties	7	218,650	-	519,500	1	535,484	1
2170	Accounts payable		436,944	1	606,359	1	933,795	2
2180	Accounts payable - related parties	7	1,388,975	2	1,374,386	2	894,875	1
2200	Other payables		790,869	1	883,796	1	777,770	1
2230	Current income tax liabilities	6(25)	215,466	-	129,595	-	189,252	-
2300	Other current liabilities		89,871	-	238,976	-	200,352	-
21XX	**Total current liabilities**		4,830,163	7	4,156,227	6	3,786,282	5
	Non-current Liabilities							
2540	Long-term borrowings	6(13)	9,800,000	14	8,400,000	12	9,200,663	13
2570	Deferred income tax liabilities	6(25)	54,451	-	2,599	-	3,087	-
2600	Other non-current liabilities	6(14)	2,483,171	4	2,420,594	4	2,369,337	4
25XX	**Total non-current liabilities**		12,337,622	18	10,823,193	16	11,573,087	17
2XXX	**Total liabilities**		17,167,785	25	14,979,420	22	15,359,369	22
	Equity							
	Share capital							
3110	Common stock		16,846,646	25	16,846,646	25	16,846,646	24
	Capital surplus	6(16)						
3200	Capital surplus		98,898	-	2,032	-	2,032	-
	Retained earnings	6(17)						
3310	Legal reserve		5,943,868	9	5,702,892	9	5,495,057	8
3320	Special reserve		326,534	-	279,088	-	255,779	-
3350	Undistributed earnings		3,535,764	5	3,379,798	5	3,167,539	5
	Other equity	6(18)						
3400	Other equity		24,519,105	36	25,466,924	39	28,631,022	41
3500	**Treasury stock**		(23,423)	-	(26,488)	-	(26,488)	-
3XXX	**Total equity**		51,247,392	75	51,650,892	78	54,371,587	78
	Commitments and contingent liabilities	9						
	Subsequent Event	11						
	TOTAL LIABILITIES AND EQUITY		$ 68,415,177	100	$ 66,630,312	100	$ 69,730,956	100

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 21, 2014.

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

	Items	Notes	2013 Amount	2013 %	2012 Amount	2012 %
4000	**Operating Revenue**	6(19)	$ 33,133,715	100	$ 34,699,313	100
5000	**Operating Costs**	6(6)(22)(23)	(29,630,568)	(89)	(31,406,826)	(90)
5900	**Gross profit**		3,503,147	11	3,292,487	10
	Operating Expenses	6(22)(23)				
6100	Sales and marketing expenses		(1,498,871)	(5)	(1,507,265)	(5)
6200	General and administrative expenses		(458,059)	(1)	(466,195)	(1)
6000	**Total Operating Expenses**		(1,956,930)	(6)	(1,973,460)	(6)
6900	**Operating income**		1,546,217	5	1,319,027	4
	Non-operating income and expenses					
7010	Other income	6(20)	314,339	1	1,003,717	3
7020	Other gains and losses	6(21)	9,432	-	(182,499)	(1)
7050	Finance costs	6(24)	(116,070)	-	(111,138)	-
7070	Share of profit /(loss) of subsidiaries, associates and joint ventures accounted for under equity method	6(8)	676,394	2	548,050	1
7000	**Total non-operating income and expenses**		884,095	3	1,258,130	3
7900	**Profit before income tax**		2,430,312	8	2,577,157	7
7950	Income tax expense	6(25)	(301,259)	(1)	(112,157)	-
8200	**Net income**		$ 2,129,053	7	$ 2,465,000	7
	Other comprehensive income (loss), net	6(18)				
8310	Currency translation differences		$ 150,596	-	($ 245,890)	(1)
8325	Unrealised loss on valuation of available-for-sale financial assets		(1,098,415)	(3)	(2,918,208)	(8)
8500	Total comprehensive income (loss) for the year		$ 1,181,234	4	($ 699,098)	(2)

		2013 Before Tax	2013 After Tax	2012 Before Tax	2012 After Tax
9750	**Basic and diluted earnings per share**	$ 1.45	$ 1.27	$ 1.53	$ 1.47
	Assuming shares held by subsidiary are not deemed as treasury stock:				
	Basic earnings per share	$ 1.44	$ 1.26	$ 1.53	$ 1.46

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 21, 2014.

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in thousands of New Taiwan dollars)

			Capital surplus			Retained earnings			Other equity			
	Notes	Common stock	Capital surplus - Treasury stock transactions	Capital surplus from donated assets	Capital surplus - net change of equity in associates and joint ventures accounted for using equity method	Legal reserve	Special reserve	Undistributed earnings	Currency translation differences	Unrealised gain (loss) on available -for-sale financial assets	Treasury stock	Total equity
2012												
Balance at January 1, 2012		$16,846,646	$ -	$ 2,032	$ -	$ 5,495,057	$ 255,779	$ 3,167,539	$ -	$28,631,022	($ 26,488)	$54,371,587
Appropriations of 2011 net income (Note):	6(17)											
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)
Net income for 2012		-	-	-	-	-	-	2,465,000	-	-	-	2,465,000
Other comprehensive loss for 2012	6(18)	-	-	-	-	-	-	-	(245,890)	(2,918,208)	-	(3,164,098)
Balance at December 31, 2012		$16,846,646	$ -	$ 2,032	$ -	$ 5,702,892	$ 279,088	$ 3,379,798	($ 245,890)	$25,712,814	($ 26,488)	$51,650,892
2013												
Balance at January 1, 2013		$16,846,646	$ -	$ 2,032	$ -	$ 5,702,892	$ 279,088	$ 3,379,798	($ 245,890)	$25,712,814	($ 26,488)	$51,650,892
Appropriations of 2012 net income (Note):	6(17)											
Legal reserve		-	-	-	-	240,976	-	(240,976)	-	-	-	-
Special reserve		-	-	-	-	-	492,390	(492,390)	-	-	-	-
Reversal of special reserve		-	-	-	-	-	(444,944)	444,944	-	-	-	-
Cash dividends		-	-	-	-	-	-	(1,684,665)	-	-	-	(1,684,665)
Change of equity from not acquiring new shares proportionately to ownership	6(8)	-	-	-	89,847	-	-	-	-	-	-	89,847
Disposal of treasury stock	6(15)	-	7,019	-	-	-	-	-	-	-	3,065	10,084
Net income for 2013		-	-	-	-	-	-	2,129,053	-	-	-	2,129,053
Other comprehensive income for 2013	6(18)	-	-	-	-	-	-	-	150,596	(1,098,415)	-	(947,819)
Balance at December 31, 2013		$16,846,646	$ 7,019	$ 2,032	$ 89,847	$ 5,943,868	$ 326,534	$ 3,535,764	($ 95,294)	$24,614,399	($ 23,423)	$51,247,392

Note: Directors' and supervisors' remuneration and employees' bonus had been deducted from the non-consolidated statement of income in 2012 and 2011.

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 21, 2014.

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in thousands of New Taiwan dollars)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income before tax		$ 2,430,312	$ 2,577,157
Adjustments to reconcile net income to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Depreciation (including depreciation on investment property	6(9) and 7	926,942	1,202,837
Interest expense		116,070	111,138
Interest income		(2,382)	(3,787)
Loss (gain) on valuation of financial assets	6(2)	12,212	(15,220)
(Gain) loss on valuation of financial liabilities	6(12)	(2,655)	4,815
Cash dividends from investments accounted for under equity method	6(8)	323,362	494,383
Investment income accounted for under equity method	6(8)	(676,394)	(548,050)
Gain on disposal of property, plant and equipment		(9,671)	(12,207)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss	6(2)	2,173	1,001
Notes receivable, net	6(4)	101,448	16,134
Notes receivable - related parties, net	7	7,661	3,591
Accounts receivable, net	6(5)	251,984	(122,778)
Accounts receivable - related parties, net	7	41,640	(26,331)
Other receivables		147,992	(140,700)
Inventory	6(6)	41,120	544,274
Prepayments		65,604	398,423
Other current assets		105,815	10,833
Net changes in liabilities relating to operating activities			
Financial liabilities at fair value through profit or loss	6(12)	(2,173)	(1,001)
Notes payable		12,458	(26,677)
Notes payable - related parties	7	(300,850)	(15,984)
Accounts payable		(169,415)	(327,436)
Accounts payable - related parties	7	14,589	479,511
Other payables		(93,704)	109,500
Other current liabilities		(51,139)	41,320
Cash generated from operations		3,292,999	4,754,746
Interest received		2,382	3,787
Interest paid		(115,022)	(114,612)
Income tax paid		(140,467)	(158,388)
Other non-current liabilities		62,577	51,257
Net cash provided by operating activities		3,102,469	4,536,790

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FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in thousands of New Taiwan dollars)

	Notes	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in long-term equity investments		($ 3,618,579)	($ 944,115)
Acquisition of property, plant and equipment	6(27)	(726,762)	(455,145)
Disposal of property, plant and equipment		40,965	207,450
Increase in non-current assets		(33,721)	(6,805)
Net cash used in investing activities		(4,338,097)	(1,198,615)
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in short-term borrowings (including current portion of long-term borrowings)	6(10)	180,260	(80,918)
Increase in short-term notes and bills payable	6(11)	999,917	249,946
Increase in long-term borrowings		11,510,000	12,100,000
Repayment of long-term borrowings		(10,110,000)	(12,900,663)
Payment of cash dividends	6(17)	(1,684,665)	(2,021,597)
Net cash provided by (used in) financing activities		895,512	(2,653,232)
(Decrease) increase in cash and cash equivalents		(340,116)	684,943
Cash and cash equivalents at beginning of year		1,566,983	882,040
Cash and cash equivalents at end of year		$ 1,226,867	$ 1,566,983

The accompanying notes are an integral part of these non-consolidated financial statements.
See report of independent accountants dated March 21, 2014.

FORMOSA TAFFETA CO., LTD.
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORYAND ORGANIZATION

(1) 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.). Factories were established in Douliou City of Yulin County, R.O.C. On December 24, 1985, the Company’s common stock was officially listed on the Taiwan Stock Exchange Corporation.

The major operations of each department are as follows:

Business department	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) 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 non-consolidated financial statements.

(3) As of December 31, 2013, the Company had 4,765 employees.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE NON-CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These non-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

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. 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 Comapny 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 loss on equity instruments amounting to ($1,098,415) in other comprehensive income for the year ended December 31, 2013.

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

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):

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1)	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
Improvements to IFRSs 2010	Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 34 and IFRIC 13.	January 1, 2011
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 (Not mandatory)

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Disclosures - transfers of financial assets (amendment to IFRS 7)	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
Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1)	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. First time 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 recognise related gains on the date of transition to IFRSs.	July 1, 2011
Deferred tax: recovery of underlying assets (amendment to IAS 12)	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

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
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’ (as amended in 2011)	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
IAS 28, ‘Investments in associates and joint ventures’ (as amended in 2011)	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 revised, ‘Employee benefits’ (as amended in 2011)	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
Presentation of items of other comprehensive income (amendment to IAS 1)	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

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
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
Disclosures—Offsetting financial assets and financial liabilities (amendment to IFRS 7)	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
Offsetting financial assets and financial liabilities (amendment to IAS 32)	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
Government loans (amendment to IFRS 1)	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
Improvements to IFRSs 2009-2011	Amendments to IFRS 1 and IAS 1, IAS 16, IAS 32 and IAS 34.	January 1, 2013
Consolidated financial statements, joint arrangements and disclosure of interests in other Entities: Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)	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

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)	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
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	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
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	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
IFRS 9, "Financial assets: hedge accounting" and amendments to IFRS 9, IFRS 7 and IAS 39	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. 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’.	November 19, 2013 (Not mandatory)

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Services related contributions from employees or third parties (amendments to IAS 19R)	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
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
Improvements to IFRSs 2011-2013	Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.	July 1, 2014

The Company is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the non-consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these non-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 non-consolidated financial statements are the first non-consolidated financial statements prepared by the Company in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

B. In the preparation of the balance sheet as of January 1, 2012 (the Company's date of transition to IFRSs) ("the opening IFRSs balance sheet"), the Company has adjusted the amounts that were reported in the non-consolidated financial statements in accordance with previous R.O.C. GAAP.

(2) Basis of preparation

A. Except for the following items, these non-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) Defined benefit liabilities recognised based on the net amount of pension fund assets and unrecognised actuarial losses, and less unrecognised actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in conformity 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 non-consolidated financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

A.Foreign currency transactions and balances

(a) 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.
(b) 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.
(c) 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.

B.Translation of foreign operations

Translation differences of foreign operations’ net investment is recognised as other comprehensive income.

(4) 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.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(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 categorised as financial assets held for trading unless they are designated as hedges.

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.

C.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 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'.

(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 trade 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. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as 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 (a 'loss event') 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 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.

(b) 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) <u>Derecognition of financial assets</u>

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 contractual rights to receive cash flows of the financial asset have been transferred; 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 process 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) Investments accounted for using equity method / subsidiaries and associates

A. Subsidiaries refer to the entities (including special purpose entities) that the Company has control over their financial and operating policies and own more than 50% of voting shares directly or indirectly. The Company evaluates investments in subsidiaries accounted under equity method in these non-consolidated financial statements.
B. Unrealised profit (loss) from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted to ensure consistency with the polices by the Company's.
C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income.
D. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
E. The Company's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
F. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the non-consolidated financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners' equity in the non-consolidated financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
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. If each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. 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 property, plant and equipment are as follows:

Land improvements	3 ~ 15 years
Buildings	10 ~ 60 years
Machinery and equipment	5 ~ 10 years
Transportation equipment	3 ~ 15 years
Other equipment	2 ~ 10 years

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 30 years.

(15) 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 recognising impairment loss for an asset in prior years no longer exist or diminish, 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.

(16) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B.Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(18) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(19) Employee benefits

A.Pensions

(a) Defined contribution plans

For defined contribution plans, 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. 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 Company 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 recognised in profit or loss using the ‘corridor’ method 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.

B.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 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.

(20) 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. 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 consolidated 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 and associates, 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.

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 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 utilised.

(21) Share capital

Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(22) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(23) Revenue recognition

The Company manufactures and sell various fabrics and renders services as an oil distributor. Revenue is measured at the fair value of the consideration received or receivable taking into account 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.

5. CRITICALACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these non-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) Critical judgements in applying the Company’s accounting policies

Financial assets—impairment of equity investments

The Company follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(2) Critical accounting estimates and assumptions

A.Revenue recognition

In principle, sales revenues are recognised when the earning process is completed. The Company estimates discounts and returns based on historical results and other known factors. Provisions for such liabilities are recorded as a deduction item to sales revenues when the sales are recognised. The Company reassesses the reasonableness of estimates of discounts and returns periodically.

B.Impairment assessment of tangible and intangible assets (excluding goodwill)

The Company assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Company strategy might cause material impairment on assets in the future.

C.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, December 31, 2012 and January 1, 2012, the carrying amount of inventories were $4,250,515, $4,291,635 and $4,835,909, respectively.

6. DETAILS OF SIGNIFICANTACCOUNTS

(1) Cash and cash equivalents

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand and petty cash (revolving funds)	$ 57,301	$ 190,491	$ 129,501
Checking accounts and demand deposits	1,028,645	1,042,920	744,539
Time deposits	-	-	8,000
Cash equivalents - commercial paper	140,921	333,572	-
	$ 1,226,867	$ 1,566,983	$ 882,040

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.The Company has no cash and cash equivalents pledged to others.

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

Items	December 31, 2013	December 31, 2012	January 1, 2012
Forward foreign exchange contracts	$ 904	$ 15,289	$ 1,070

A.The Company recognised net (loss) gain of ($12,212) and $15,220 for the years ended December 31, 2013 and 2012, respectively.

B.The non-hedging derivative instruments transaction and contract information are as follows:

	December 31, 2013		
Derivative Instruments	Contract Amount (Notional Principal) (In dollars)		Contract Period
Forward foreign exchange contracts			
Taipei Fubon Bank	JPY	39,260,000	2013.10~2014.01

	December 31, 2012		
Derivative Instruments	Contract Amount (Notional Principal) (In dollars)		Contract Period
Forward foreign exchange contracts			
Taipei Fubon Bank	JPY	538,570,000	2012.08~2013.03

	January 1, 2012		
Derivative Instruments	Contract Amount (Notional Principal) (In dollars)		Contract Period
Forward foreign exchange contracts			
Taipei Fubon Bank	JPY	184,140,000	2011.09~2012.03

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

(3) Available-for-sale financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Current items:			
Listed (TSE and OTC) stocks	$ 1,002,853	$ 1,002,853	$ 1,002,853
Valuation adjustment of available-for-sale financial assets	398,240	175,456	253,263
	$ 1,401,093	$ 1,178,309	$ 1,256,116
Non-current items:			
Listed (TSE and OTC) stocks	$ 8,603,311	$ 8,603,311	$ 8,603,311
Valuation adjustment of available-for-sale financial assets	24,238,326	25,561,975	28,379,003
Subtotal	32,841,637	34,165,286	36,982,314
Accumulated impairment - available-for-sale financial assets	(2,403,805)	(2,403,805)	(2,403,805)
	$ 30,437,832	$ 31,761,481	$ 34,578,509

For the years ended December 31, 2013 and 2012, the Company received cash dividends from investees accounted as available-for-sale financial assets amounting to $122,194 and $775,112, respectively.

(4) Notes receivable

	December 31, 2013	December 31, 2012	January 1, 2012
Notes receivable	$ 78,762	$ 180,210	$ 196,344
Less: allowance for bad debts	(1,966)	(1,966)	(1,966)
	$ 76,796	$ 178,244	$ 194,378

(5) Accounts receivable

	December 31, 2013	December 31, 2012	January 1, 2012
Accounts receivable	$ 2,402,794	$ 2,654,778	$ 2,532,000
Less: allowance for bad debts	(58,506)	(58,506)	(58,506)
	$ 2,344,288	$ 2,596,272	$ 2,473,494

A.The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Company’s Credit Quality Control Policy:

	December 31, 2013	December 31, 2012	January 1, 2012
Group 1	$ 1,686,020	$ 1,326,357	$ 1,504,465
Group 2	644,305	974,107	1,013,163
Group 3	7,694	2,400	5,614
	$ 2,338,019	$ 2,302,864	$ 2,523,242

Note:

Group 1: Transnational customers, brand customers or credit customers applied for collateralised mortgage.

Group 2: Non transnational customers, non brand customers or credit customers have not applied for collateralised mortgage with 2 or more years of transaction history with the Company.

Group 3: Non transnational customers, non brand customers or credit customers have not applied for collateralised mortgage with less than 2 years of transaction history with the Company.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Up to 30 days	$ 58,229	$ 307,265	$ 5,664
31 to 90 days	4,352	39,228	-
91 to 180 days	38	1,637	-
Over 180 days	2,156	3,784	3,094
	$ 64,775	$ 351,914	$ 8,758

C.Movement analysis of financial assets that were impaired - allowance for bad debts is as follows:

	For the year ended December 31, 2013		
	Individual provision	Group provision	Total
At January 1	$ -	$ 58,506	$ 58,506
Provision for impairment	-	-	-
Write-offs during the year	-	-	-
Effect of exchange rate	-	-	-
At December 31	$ -	$ 58,506	$ 58,506

	For the year ended December 31, 2012		
	Individual provision	Group provision	Total
At January 1	$ -	$ 58,506	$ 58,506
Revenue reversed during the year	-	-	-
Write-offs during the year	-	-	-
Effect of exchange rate	-	-	-
At December 31	$ -	$ 58,506	$ 58,506

D. The maximum exposure to credit risk at December 31, 2013, December 31, 2012 and January 1, 2012 was the carrying amount of each class of accounts receivable.

(6) Inventories

	December 31, 2013		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 362,427	($ 10,689)	$ 351,738
Supplies	112,578	(1,941)	110,637
Work in process	1,444,939	-	1,444,939
Finished goods	1,728,958	(183,340)	1,545,618
Merchandise inventory	400,808	-	400,808
Materials in transit	315,375	-	315,375
Outsourced processed materials	81,400	-	81,400
	$ 4,446,485	($ 195,970)	$ 4,250,515

	December 31, 2012		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 341,064	($ 2,861)	$ 338,203
Supplies	150,514	(19,441)	131,073
Work in process	1,376,338	(7,869)	1,368,469
Finished goods	1,950,113	(193,233)	1,756,880
Merchandise inventory	365,654	-	365,654
Materials in transit	267,755	-	267,755
Outsourced processed materials	63,601	-	63,601
	$ 4,515,039	($ 223,404)	$ 4,291,635

	January 1, 2012		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 574,138	($ 15,829)	$ 558,309
Supplies	35,192	(1,619)	33,573
Work in process	1,743,108	-	1,743,108
Finished goods	2,357,226	(354,283)	2,002,943
Merchandise inventory	207,366	-	207,366
Materials in transit	166,914	-	166,914
Outsourced processed materials	123,696	-	123,696
	$ 5,207,640	($ 371,731)	$ 4,835,909

The cost of inventories recognised as expense for the years ended December 31, 2013 and 2012 were as follows:

	For the years ended December 31,	
	2013	2012
Cost of inventories sold	$ 29,696,843	$ 31,596,549
Gain from recovery in inventory valuation and obsolescence (Note 1)	(27,434)	(148,327)
Others (Note 2)	(38,841)	(41,396)
	$ 29,630,568	$ 31,406,826

Note 1: Gain from recovery was recognised as a result of sales of inventory previously provided with allowance.

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

(7) Financial assets measured at cost – non-current

Items	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted stocks	$ 253,621	$ 253,621	$ 253,621

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

B. As of December 31, 2013, December 31, 2012 and January 1, 2012, no financial assets measured at cost held by the Company were pledged to others.

C. For the years ended December 31, 2013 and 2012, the Company received cash dividends from investees accounted as financial assets measured at cost of $2,386 and $33,646, respectively.

(8) Investments accounted for using equity method

A. List of long-term investments

	December 31, 2013	December 31, 2012	January 1, 2012
Formosa Advanced Technologies Co., Ltd.	$ 5,730,893	$ 5,945,004	$ 6,242,879
Formosa Ha Tinh Steel Corporation	5,123,419	1,575,044	817,589
Formosa Industry Co., Ltd.	1,867,387	1,698,137	1,731,703
Formosa Taffeta (Dong Nai) Co., Ltd.	1,862,952	1,671,065	1,575,123
Taffeta (Zhong Shan) Co, Ltd.	1,643,349	1,515,100	1,515,357
Formosa Taffeta Vietnam Co., Ltd.	1,257,368	1,075,761	969,085
Kuang Yueh Co., Ltd.	560,949	424,245	300,432
Formosa Taffeta (Hong Kong) Co., Ltd.	547,550	478,572	479,733
Formosa Development Co., Ltd.	156,332	148,921	168,643
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	10,942	10,758	11,173
Schoeller F.T.C. (Hong Kong) Co., Ltd.	8,969	2,917	5,287
	$ 18,770,110	$ 14,545,524	$ 13,817,004

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

	For the years ended December 31,	
	2013	2012
Formosa Taffeta Vietnam Co., Ltd.	$ 164,981	$ 137,452
Kuang Yueh Co., Ltd.	156,368	148,084
Formosa Industry Co., Ltd.	143,416	15,347
Formosa Taffeta (Dong Nai) Co., Ltd.	77,017	3,056
Formosa Advanced Technologies Co., Ltd.	76,793	191,856
Formosa Taffeta (Hong Kong) Co., Ltd.	41,076	16,346
Taffeta (Zhong Shan) Co, Ltd.	36,976	54,583
Schoeller F.T.C. (Hong Kong) Co., Ltd.	5,931	5,469
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	(450)	(16)
Formosa Development Co., Ltd.	(5,091)	(19,657)
Formosa Ha Tinh Steel Corporation	(20,623)	(4,470)
	$ 676,394	$ 548,050

The investment income or loss for the years ended December 31, 2013 and 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.

C. The investment income of $526,640 and $304,922 for the years ended December 31, 2013 and 2012, respectively, were accounted for under the equity method based on the audited financial statements of the investee companies.

D. For the years ended December 31, 2013 and 2012, the Company received cash dividends from long-term equity investments accounted for under the equity method of $323,362 and $494,383, respectively.

E. Subsidiaries

(a) Information on the Company's subsidiaries is provided in Note 4(3) of the Company's 2013 consolidated financial statements.

(b) In December, 2012, the Company planned to subscribe for shares of USD 3,000,000 issued by Taffeta (Dong Nai) Co., which was authorised by the Board of Directors of the Company. For the year ended December 31, 2013, the Company has subscribed all the shares.

(c) As at December 31, 2013, December 31, 2012 and January 1, 2012, the Company’s common stocks owned by its subsidiary, Formosa Development Co., Ltd., were treated as treasury stock. Please refer to Note 6(15).

F. Associates

(a) The financial information of the Company’s principal associates is summarised below:

	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest held
December 31, 2013					
Formosa Industry Co., Ltd.	$ 24,176,515	$ 6,403,996	$24,768,913	$1,434,161	10.00%
Formosa Ha Tinh Steel Corporation (Note)	104,450,894	6,301,098	-	(413,748)	5.22%
Kuang Yueh Co., Ltd. (Note)	4,749,334	1,998,218	5,017,518	644,612	20.39%
	$133,376,743	$14,703,312	$29,786,431	$1,665,025	

	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest held
December 31, 2012					
Formosa Industry Co., Ltd.	$ 22,621,271	$ 6,528,701	$23,829,275	$ 153,471	10.00%
Formosa Ha Tinh Steel Corporation	32,435,181	699,545	-	(90,062)	4.96%
Kuang Yueh Co., Ltd.	4,202,433	2,444,252	4,647,166	613,693	24.13%
	$ 59,258,885	$ 9,672,498	$28,476,441	$ 677,102	

	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest held
January 1, 2012					
Formosa Industry Co., Ltd.	$ 26,255,340	$ 9,839,657	$22,211,730	$ 680,329	10.00%
Formosa Ha Tinh Steel Corporation	16,458,914	65,745	-	80,023	4.96%
Kuang Yueh Co., Ltd.	3,298,020	2,052,963	4,964,401	543,643	24.13%
	$ 46,012,274	$11,958,365	$27,176,131	$ 1,303,995	

Note: The Company's associates Formosa Ha Tinh Steel Corporation and Kuang Yueh Co., Ltd. increased capital by cash in December 2013. Because the Company did not acquire new shares proportionately to its ownership, the ownership in shares of the abovementioned 2 associates has changed.

(b) The Company planned to subscribe for shares of USD 134,000 thousand and USD 39,705 thousand issued by Formosa Ha Tinh Steel Corporation, which was authorised by the Board of Directors of the Company in December 2009 and March 2012, respectively. For the year ended December 31, 2012, the Company has remitted the full amount, and the Company and its parent company totally held more than 5.22% voting shares. The Company is the director of Formosa Ha Tinh Steel Corporation and has control power; accordingly, Formosa Ha Tinh Steel Corporation was accounted for as long-term equity investment under the equity method.

(c) The Company is the director of Formosa Industry Co., Ltd. and has significant influence to its operations, thus, Formosa Industry Co., Ltd. is accounted for using equity method.

(9) Property, plant and equipment

	Land	Buildings	Machinery	Transportation equipment and other equipment	Prepayments for equipment	Total
At January 1, 2013						
Cost	$ 2,244,447	$ 6,219,394	$ 13,914,186	$ 4,570,436	$ 185,654	$ 27,134,117
Accumulated depreciation and impairment	(155,738)	(3,043,234)	(11,531,143)	(4,300,584)	-	(19,030,699)
	$ 2,088,709	$ 3,176,160	$ 2,383,043	$ 269,852	$ 185,654	$ 8,103,418
2013						
Opening net book amount	$ 2,088,709	$ 3,176,160	$ 2,383,043	$ 269,852	$ 185,654	$ 8,103,418
Additions	21,298	-	-	-	705,195	726,493
Disposals	-	(2,683)	(28,170)	(441)	-	(31,294)
Transfers	-	61,807	641,262	43,544	(746,613)	-
Depreciation charge	-	(213,624)	(609,797)	(84,100)	-	(907,521)
Closing net book amount	$ 2,110,007	$ 3,021,660	$ 2,386,338	$ 228,855	$ 144,236	$ 7,891,096
At December 31, 2013						
Cost	$ 2,265,745	$ 6,272,822	$ 14,306,536	$ 4,535,716	$ 144,236	$ 27,525,055
Accumulated depreciation and impairment	(155,738)	(3,251,162)	(11,920,199)	(4,306,860)	-	(19,633,959)
	$ 2,110,007	$ 3,021,660	$ 2,386,337	$ 228,856	$ 144,236	$ 7,891,096

	Land and improvement	Buildings	Machinery	Transportation equipment and other equipment	Prepayments for equipment	Total
At January 1, 2012						
Cost	$ 2,299,871	$ 6,026,159	$ 14,369,266	$ 4,648,315	$ 342,777	$ 27,686,388
Accumulated depreciation and impairment	(211,162)	(2,768,921)	(11,433,959)	(4,234,846)	-	(18,648,888)
	$ 2,088,709	$ 3,257,238	$ 2,935,307	$ 413,469	$ 342,777	$ 9,037,500
2012						
Opening net book amount	$ 2,088,709	$ 3,257,238	$ 2,935,307	$ 413,469	$ 342,777	$ 9,037,500
Additions	-	-	22,511	1,615	431,019	455,145
Disposals	-	(1,564)	(187,095)	(7,536)	(9,616)	(205,811)
Transfers	Note	205,208	347,811	25,507	(578,526)	-
Depreciation charge	-	(284,722)	(735,491)	(163,203)	-	(1,183,416)
Closing net book amount	$ 2,088,709	$ 3,176,160	$ 2,383,043	$ 269,852	$ 185,654	$ 8,103,418
At December 31, 2012						
Cost	$ 2,244,447	$ 6,219,394	$ 13,914,186	$ 4,570,436	$ 185,654	$ 27,134,117
Accumulated depreciation and impairment	(155,738)	(3,043,234)	(11,531,143)	(4,300,584)	-	(19,030,699)
	$ 2,088,709	$ 3,176,160	$ 2,383,043	$ 269,852	$ 185,654	$ 8,103,418

Note: For the year ended December 31, 2013, the original cost of disposal of land improvements with no remaining value was $55,424.

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation are as follows:

	For the years ended December 31,	
	2013	2012
Amount capitalised	$ 2,871	$ 1,574
Interest rate	1.26%	1.24%

B. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

C. Certain regulations restrict ownership of land to individuals, thus, the title of land which the Company has acquired for future plant expansion is under the name of third parties but the titles were transferred and mortgaged to the Company. As of December 31, 2013 and 2012, the amount of titles mortgaged to the Company was both $526,350.

(10) Short-term borrowings

Type of borrowings	December 31, 2013	Interest rate range	Collateral
Bank borrowings			
Credit borrowing	$ 290,000	0.97%	-

Type of borrowings	December 31, 2012	Interest rate range	Collateral
Bank borrowings			
Loan for purchase	$ 11,774	0.93%	-

Type of borrowings	January 1, 2012	Interest rate range	Collateral
Bank borrowings			
Credit borrowing	$ 50,000	1.74%	-
Loan for purchase	39,996	0.90%	-
	$ 89,996		

(11) Short-term notes and bills payable

	December 31, 2013	December 31, 2012	January 1, 2012
Commercial paper payable	$ 1,250,000	$ 250,000	$ -
Less: Commercial paper payable discount	(137)	(54)	-
	$ 1,249,863	$ 249,946	$ -
Interest rate	1.05%~1.10%	0.87%	-

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

Items	December 31, 2013	December 31, 2012	January 1, 2012
Forward foreign exchange contracts	$ -	$ 4,828	$ 1,014

A. The Company recognized net gain (loss) of $2,655 and ($4,815) for the years ended December 31, 2013 and 2012, respectively.

B. The non-hedging derivative instruments transaction and contract information are as follows:

	December 31, 2013		
Derivative Financial Liabilities	Contract Amount (Notional Principal)		Contract Period
Forward foreign exchange contracts			
Taipei Fubon Bank		-	-

	December 31, 2012		
Derivative Financial Liabilities	Contract Amount (Notional Principal)		Contract Period
Forward foreign exchange contracts			
Taipei Fubon Bank	JPY	194,850,000	2012.10-2013.02

	January 1, 2012		
Derivative Financial Liabilities	Contract Amount (Notional Principal)		Contract Period
Current items:			
Forward foreign exchange contracts			
Taipei Fubon Bank	JPY	128,130,000	2011.08-2012.04
Taipei Fubon Bank	USD	1,111,833	2011.11-2012.03

C.The Group entered into forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies. However, these forward foreign exchange contracts do not meet all conditions of hedge accounting and are not accounted for under hedge accounting.

(13) Long-term borrowings

Type of borrowings	Borrowing period repayment term	Interest rate range	Collateral	December 31, 2013
Long-term bank borrowings				
Credit borrowings				
Hua Nan Bank	2013.1.15~2015.1.15 principal payable at maturity	1.28%	None	$ 1,500,000
Mega International Commercial Bank	2013.6.21~2016.6.21 principal payable at maturity	1.32%	"	2,000,000
First Bank	2013.9.16~2016.9.16 principal payable at maturity	1.27%	"	1,500,000
Taiwan Cooperative Bank	2013.9.26~2015.9.26 principal payable at maturity	1.28%	"	1,300,000
Far Eastern International Bank	2013.4.22~2016.4.22 principal payable at maturity	1.35%	"	1,200,000
Bangkok Bank	2013.12.11~2015.12.11 principal payable at maturity	1.30%	"	200,000
HSBC Bank	2013.12.11~2015.12.11 principal payable at maturity	1.25%	"	1,500,000
Industrial Bank of Taiwan	2013.8.20~2016.8.20 principal payable at maturity	1.31% ~1.32%	"	500,000
Chinatrust Bank	2013.9.25~2015.9.25 principal payable at maturity	1.33%	"	100,000
				$ 9,800,000

Type of borrowings	Borrowing period repayment term	Interest rate range	Collateral	December 31, 2012
Long-term bank borrowings				
Credit borrowings				
Hua Nan Bank	2012.6.15~2014.6.15 principal payable at maturity	1.28%	None	$ 1,000,000
Mega International Commercial Bank	2011.6.13~2014.6.13 principal payable at maturity (Note)	1.32%	"	1,200,000
First Bank	2011.9.16~2014.9.16 principal payable at maturity	1.21%	"	1,500,000
Taiwan Cooperative Bank	2012.9.21~2014.9.21 principal payable at maturity	1.32%	"	1,300,000
Taipei Fubon Bank	2012.4.23~2014.4.14 principal payable at maturity	1.20%	"	1,500,000
Far Eastern International Bank	2012.9.25~2015.9.21 principal payable at maturity	1.23%	"	800,000
Bangkok Bank	2012.12.28~2014.12.28 principal payable at maturity	1.28%	"	200,000
HSBC Bank	2012.12.21~2014.12.11 principal payable at maturity	1.25%	"	900,000
Installment-repayment borrowings				
Secured bank borrowing				
Hua Nan Bank	2008.10.2~2013.10.2 payable in semiannual installments	0.23% ~0.45%	Property, plant and equipment	97,966
				8,497,966
Less: current portion (Shown as other current liabilities)				(97,966)
				$ 8,400,000

Type of borrowings	Borrowing period repayment term	Interest rate range	Collateral	January 1, 2012
Long-term bank borrowings				
Credit borrowings				
Hua Nan Bank	2011.6.15.~2013.6.15 principal payable at maturity	1.28%	None	$ 800,000
Mega International Commercial Bank	2011.6.13~2014.6.13 principal payable at maturity (Note)	1.12%	"	2,000,000
First Bank	2011.9.16~2014.9.16 principal payable at maturity	1.21%	"	1,000,000
Taiwan Cooperative Bank	2011.9.21~2013.9.21 principal payable at maturity	1.20%	"	1,300,000
Taiwan Business Bank	2010.4.16~2013.4.16 principal payable at maturity	1.31%	"	500,000
Taipei Fubon Bank	2011.4.22~2013.4.14 principal payable at maturity	1.20%	"	1,500,000
Far Eastern International Bank	2010.8.18~2013.8.16 principal payable at maturity	1.15%	"	800,000
Bangkok Bank	2011.12.28~2013.12.28 principal payable at maturity	1.26%	"	200,000
China Development Industrial Bank	2011.6.24~2013.6.24 principal payable at maturity	1.27%	"	500,000
Land Bank	2010.8.11~2013.8.11 principal payable at maturity	1.24%	"	500,000
Installment-repayment borrowings				
Secured bank borrowing				
Hua Nan Bank	2008.10.2~2013.10.2 payable in semiannual installments	0.27% ~1.33%	Property, plant and equipment	201,326
				9,301,326
Less: current portion (Shown as other current liabilities)				(100,663)
				$ 9,200,663

Note：The above long-term loans include a loan for $2,000,000, 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.

(14) Pensions

A. (a)The Company has 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 2% 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, 2013	December 31, 2012	January 1, 2012
Present value of funded obligations	$ 2,789,004	$ 2,842,219	$ 2,762,058
Fair value of plan assets	(332,015)	(407,399)	(489,511)
	2,456,989	2,434,820	2,272,547
Unrecognised actuarial losses/(gains)	(47,954)	(86,828)	-
Net liability in the balance sheet	$ 2,409,035	$ 2,347,992	$ 2,272,547

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

	2013	2012
Present value of funded obligations		
At January 1	$ 2,842,219	$ 2,762,058
Current service cost	50,690	51,158
Interest expense	46,056	50,200
Actuarial profit and loss	(40,010)	83,674
Benefits paid	(109,951)	(104,871)
At December 31	$ 2,789,004	$ 2,842,219

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

	2013	2012
Fair value of plan assets		
At January 1	$ 407,399	$ 489,511
Expected return on plan assets	6,009	7,420
Actuarial profit and loss	(1,136)	(3,154)
Employer contributions	16,354	15,468
Benefits paid	(96,611)	(101,846)
At December 31	332,015	407,399

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

	2013	2012
Current service cost	$ 50,690	$ 51,158
Interest cost	46,056	50,200
Expected return on plan assets	(4,873)	(4,266)
Actuarial profit and loss	(1,136)	(3,154)
Current pension costs	$ 90,737	$ 93,938

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

	2013	2012
Cost of sales	$ 67,083	$ 71,680
Selling expenses	15,530	14,260
General and administrative expenses	8,124	7,998
	$ 90,737	$ 93,938

(f)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.

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

	2013	2012	2011
Discount rate	1.65%	1.85%	1.85%
Future salary increases	1.00%	1.00%	1.00%
Expected return on plan assets	1.65%	1.65%	1.65%

Assumptions regarding future mortality experience are set based on Taiwan's published annuity table.

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

	2013	2012
Present value of defined benefit obligation	$ 2,789,004	$ 2,842,219
Fair value of plan assets	(332,015)	(407,399)
Surplus/(deficit) in the plan	$ 2,456,989	$ 2,434,820
Experience adjustments on plan liabilities	$ 16,724	$ 83,674
Experience adjustments on plan assets	$ 1,136	$ 3,154

(i) Expected contributions to the defined benefit pension plan of the Company within one year from December 31, 2013 are $16,354.

B. (a) Effective July 1, 2005, the Company has 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 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 benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2013 and 2012 were $64,705 and $65,308, respectively.

(15) Share capital

A.As of December 31, 2013, 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.

B.For the years ended December 31, 2013 and 2012, changes in treasury stocks are as follows:

		2013			
Reason for reacquisition	Investee company	Beginning Shares (in thousands)	Additions	Disposal (Note)	Ending Shares (in thousands)
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	3,043	-	(350)	2,693

Note: The capital surplus incurred from the subsidiary, Formosa Development's, disposal of 350,000 shares of the parent company, Formosa Development Co., Ltd.

		2012			
Reason for reacquisition	Investee company	Beginning Shares (in thousands)	Additions	Disposal (Note)	Ending Shares (in thousands)
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	3,043	-	-	3,043

C.The abovementioned treasury stocks are acquired by the subsidiary, Formosa Development Co., Ltd., for idle funds to acquire the parent company's share for purpose of investing.

D.As of December 31, 2013 and 2012, the market price per share was $36.05 and $28, respectively.

(16) 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.

(17) Retained earnings

	2013	2012
At January 1	$ 3,379,798	$ 3,167,539
Profit for the period	2,129,053	2,465,000
Reversal of special reserve	444,944	684,725
Appropriation of earnings	(2,418,031)	(2,937,466)
At December 31	$ 3,535,764	$ 3,379,798

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. 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 distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. The appropriations of 2012 and 2011 earnings had been resolved at the stockholders' meeting on June 27, 2013 and June 26, 2012, respectively. Details are summarized below:

	2012 earnings			2011 earnings		
	Amount		Dividends per share (in dollars)	Amount		Dividends per share (in dollars)
Legal reserve	$ 240,976			$ 207,835		
Special reserve	492,390			708,034		
Cash dividends	1,684,665	$	1.00	2,021,597	$	1.20
	$ 2,418,031			$ 2,937,466		

The estimated appropriations of 2012 and 2011 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.

E. For 2013 and 2012, the estimated employees' bonus amounted to $2,315 and $5,791, respectively, while directors' and supervisors' remuneration amounted to $1,157 and $2,896, respectively. Employees' bonus and directors' and supervisors' remuneration are recognised as operating costs and operating expenses based on 1% and 0.5% of the net income, respectively, 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 recognised as gain or loss in the following year.

F. As of December 31, 2013 and 2012, unpaid stock dividends amounted to $20,200 and $17,431, respectively.

G. The appropriations of 2013 earnings had been resolved by the Board of Directors on March 21, 2014. Details are summarized below:

	2013		
	Amount		Dividend per share (in dollars)
Legal reserve	$ 212,905		
Special reserve	608,754		
Cash dividends	1,684,664	$	1.00
	$ 2,506,323		

(18) Other equity items

	Hedging reserve	Currency translation	Total
January 1, 2013	$ 25,712,814	($ 245,890)	$ 25,466,924
Change of unrealised gain or loss on available-for-sale financial assets			
— Parent company	(1,100,865)	-	(1,100,865)
— Subsidiaries and associates	2,450	-	2,450
Difference of long-term equity investment from financial statements translation differences of foreign operations			
— Parent company	-	161,560	161,560
— Associates	-	(10,964)	(10,964)
December 31, 2013	$ 24,614,399	($ 95,294)	$ 24,519,105

	Hedging reserve	Currency translation	Total
January 1, 2012	$ 28,631,022	$ -	$ 28,631,022
Change of unrealised gain or loss on available-for-sale financial assets			
— Parent company	(2,894,836)	-	(2,894,836)
— Subsidiaries and associates	(23,372)	-	(23,372)
Difference of long-term equity investment from financial statements translation differences of foreign operations			
— Parent company	-	(158,257)	(158,257)
— Associates	-	(87,633)	(87,633)
December 31, 2012	$ 25,712,814	($ 245,890)	$ 25,466,924

(19) Operating revenue

	For the years ended December 31,	
	2013	2012
Sales revenue	$ 32,770,883	$ 34,357,981
Service revenue	362,832	341,332
	$ 33,133,715	$ 34,699,313

(20) Other income

	For the years ended December 31,	
	2013	2012
Interest income from bank deposits	$ 2,382	$ 3,787
Dividend income	124,580	808,757
Other income	187,377	191,173
	$ 314,339	$ 1,003,717

(21) Other gains and losses

	For the years ended December 31,	
	2013	2012
Forward foreign exchange contracts		
Net gain (loss) on financial assets at fair value through profit or loss	($ 12,212)	$ 15,220
Net gain (loss) on financial liabilities at fair value through profit or loss	2,655	(4,815)
Net currency exchange gain (loss)	98,986	(82,028)
Gain on disposal of property, plant and equipment	9,671	12,207
Bank charges	(45,556)	(45,308)
Other losses	(44,112)	(77,775)
	$ 9,432	($ 182,499)

(22) Expenses by nature

	For the years ended December 31,	
	2013	2012
Employee benefit expense	$ 2,759,906	$ 2,828,151
Depreciation charges on property, plant and equipment	907,521	1,183,416

(23) Employee benefit expense

	For the years ended December 31,	
	2013	2012
Wages and salaries	$ 2,294,999	$ 2,369,771
Labour and health insurance fees	219,515	209,174
Pension costs	155,442	159,246
Other personnel expenses	89,950	89,960
	$ 2,759,906	$ 2,828,151

(24) Finance costs

	For the years ended December 31,	
	2013	2012
Interest expense:		
Bank borrowings	$ 118,941	$ 112,712
Less: capitalisation of qualifying assets	(2,871)	(1,574)
Finance costs	$ 116,070	$ 111,138

(25) Income tax

A. Income tax expense

	For the years ended December 31,	
	2013	2012
Current tax:		
Current tax on profits for the period	$ 215,466	$ 129,595
Adjustments in respect of prior years	8,896	(31,242)
Prepayment of taxes	1,976	378
Total current tax	226,338	98,731
Deferred tax:		
Origination and reversal of temporary differences	74,921	13,426
Total deferred tax	$ 301,259	$ 112,157

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2013	2012
Tax calculated based on profit before tax and statutory tax rate	$ 413,153	$ 426,835
Tax effect of permanent differences	(30,151)	(174,003)
Tax effect of temporary differences	(74,874)	(34,486)
Tax effect of investment tax credits	(139,098)	(90,107)
Under (over) provision of prior year income tax	8,896	(31,242)
Income tax payable of prior year	-	1,734
Net change in deferred income tax assets and liabilities	74,921	13,426
Additional 10% tax on undistributed earnings	48,412	-
Tax expense	$ 301,259	$ 112,157

C.Amounts of deferred tax assets or liabilities as a result of temporary differences and investment tax credits are as follows:

	For the year ended December 31, 2013				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Deferred tax assets:					
Temporary differences:					
Provision for inventory obsolescence	$ 17,568	($ 4,663)	$ -	$ -	$ 12,905
Allowance for bad debts in excess of tax-deductible limit	6,416	-	-	-	6,416
Unrealized foreign exchange loss	3,010	(3,010)	-	-	-
Loss on valuation of financial assets	821	(821)	-	-	-
Investment loss	24,952	(24,952)	-	-	-
Provision for pension	388,421	10,377	-	-	398,798
Investment tax credits	59,432	-	-	-	59,432
	500,620	(23,069)	-	-	477,551
Deferred tax liabilities:					
Temporary differences:					
Unrealized foreign exchange gain	-	(3,034)	-	-	(3,034)
Gain on valuation of financial assets	(2,599)	2,445	-	-	(154)
Investment income	-	(51,263)	-	-	(51,263)
	(2,599)	(51,852)	-	-	(54,451)
	$ 498,021	($ 74,921)	$ -	$ -	$ 423,100

	For the year ended December 31, 2012				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Deferred tax assets:					
Temporary differences:					
Provision for inventory obsolescence	$ 42,784	($ 25,216)	$ -	$ -	$ 17,568
Allowance for bad debts in excess of tax-deductible limit	6,826	(410)	-	-	6,416
Loss on valuation of financial assets	172	649	-	-	821
Investment loss	62,362	(37,410)	-	-	24,952
Provision for pension	375,596	12,825	-	-	388,421
Unrealized foreign exchange loss	-	3,010	-	-	3,010
Investment tax credits	26,794	32,638	-	-	59,432
	514,534	(13,914)	-	-	500,620
Deferred tax liabilities:					
Temporary differences:					
Unrealized foreign exchange gain	(2,905)	2,905	-	-	-
Gain on valuation of financial assets	(182)	(2,417)	-	-	(2,599)
	(3,087)	488	-	-	(2,599)
	$ 511,447	($ 13,426)	$ -	$ -	$ 498,021

D.According to Act for Industrial Innovation and Statute for Upgrading Industries (before its abolishment), details of the Company's investment tax credits and unrecognised deferred tax assets are as follows:

	December 31, 2013		
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due
Research and development expenditures	$ 96,483	$ 96,483	2016
Machinery and equipment	25,814	-	2014
〃	33,618	-	2015
	$ 155,915	$ 96,483	

Qualifying items	December 31, 2012 Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due
Research and development expenditures	$ 196,963	$ 196,963	2013
Machinery and equipment	53,841	-	2014
〃	5,591	-	2015
	$ 256,395	$ 196,963	

Qualifying items	January 1, 2012 Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due
Research and development expenditures	$ 316,464	$ 316,464	2013
Machinery and equipment	24,880	-	2014
〃	934	-	2015
Employees' training	980	-	2013
	$ 343,258	$ 316,464	

E. The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.

F. Unappropriated retained earnings:

	December 31, 2013	December 31, 2012	January 1, 2012
Earnings generated in and before 1997	$ -	$ -	$ -
Earnings generated in and after 1998	3,535,764	3,379,798	3,167,539
	$ 3,535,764	$ 3,379,798	$ 3,167,539

G. Shareholder's creditable tax:

	December 31, 2013	December 31, 2012	January 1, 2012
Creditable account balance	$ 209,508	$ 262,011	$ 286,085

	For the years ended December 31, 2013 (Expected)	2012 (Actual)
Creditable tax ratio	12.02%	14.11%

(26) Earnings per share

A.Basic earnings per share

The calculation of basic earnings per share is profit or loss attributable to the common stockholders of the Company's parent company divided by weighted average amount of outstanding common stocks for the period.

	For the year ended December 31, 2013				
	Amount		Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	$ 2,430,312	$ 2,129,053	1,681,634	$ 1.45	$ 1.27

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, 2013				
	Amount		Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	$ 2,430,312	$ 2,129,053	1,684,665	$ 1.44	$ 1.26

	For the year ended December 31, 2012				
	Amount		Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	$ 2,577,157	$ 2,465,000	1,681,622	$ 1.53	$ 1.47

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		Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	$ 2,577,157	$ 2,465,000	1,684,665	$ 1.53	$ 1.46

B. Employees' bonuses could be distributed in the form of stock. It does not have significant effect on the financial statements for the years ended December 31, 2013 and 2012. It also had no significant effect on earnings per share.

(27) Non-cash transaction

Investing activities with partial cash payments:

	For the years ended December 31,	
	2013	2012
Purchase of property, plant and equipment	$ 726,493	$ 455,145
Add: opening balance of payable on equipment	269	269
Less: ending balance of payable on equipment	-	(269)
Cash paid during the year	$ 726,762	$ 455,145

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Company is controlled by FORMOSA CHEMICAL & FIBRE CORPORATION (incorporated in R.O.C), which owns 37.4% of the Company's shares. The ultimate controlling party of the Company is FORMOSA CHEMICAL & FIBRE CORPORATION.

(2) Names and relationship of related parties

Name of related parties	Relationship with the 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
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.	〃
Formosa Industry Co., Ltd	〃
Kuang Yueh Co., Ltd.	〃
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	〃
Schoeller F.T.C. (Hong Kong) Co., Ltd.	〃
Formosa Taffeta (Dong Nai) Co., Ltd.	〃
Formosa Development Co., Ltd.	〃

Name of related parties	Relationship with the Company
Formosa Taffeta (Changshu) Co., Ltd.	An indirect investee company accounted for under the equity method
Yu Maowu Complex Co., Ltd.	The chairman is the managing director of the Company
Yu Yuang	The chairman of the Company is the director

(3) Significant related party transactions

A. Sales of goods

	For the years ended December 31,	
	2013	2012
Sales of goods:		
－Ultimate parent	$ 152,579	$ 198,272
－Subsidiaries	412,731	658,876
－Associates	1,025,449	1,270,181
	$ 1,590,759	$ 2,127,329

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases of goods

	For the years ended December 31,	
	2013	2012
Purchases of goods:		
－Ultimate parent	$ 3,103,033	$ 3,579,612
－Subsidiaries	161,875	108,658
－Associates	16,300,941	16,163,780
	$ 19,565,849	$ 19,852,050

Goods and services are bought from associates and an entity controlled by key management personnel on normal commercial terms and conditions.

C. Notes and accounts receivable

	December 31, 2013	December 31, 2012	January 1, 2012
Receivables from related parties:			
－Ultimate parent	$ 12,123	$ 19,125	$ 16,192
－Subsidiaries	52,058	111,562	66,775
－Associates	171,897	164,362	184,392
Less: Overdue accounts receivable reclassified as "other receivables"	(184)	(9,854)	(4,904)
	$ 235,894	$ 285,195	$ 262,455

The receivables from related parties arise mainly from sale transactions. The receivables are due 45~120 days after the date of sale. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

As of December 31, 2013, December 31, 2012 and January 1, 2012, the amount of accounts receivable that were past due and transferred to other receivables was $184, $9,854 and $4,904, respectively. The ageing of the aforementioned accounts receivable exceeds regular credit period and is over 60 days.

D. Notes and accounts payable

	December 31, 2013	December 31, 2012	January 1, 2012
Payables from related parties:			
－Ultimate parent	$ 543,587	$ 877,077	$ 835,436
－Subsidiaries	3,434	12,811	77,734
－Associates	1,060,604	1,003,998	517,189
	$ 1,607,625	$ 1,893,886	$ 1,430,359

The payables to related parties arise mainly from purchase transactions and are due 15~60 days after the date of purchase. The payables bear no interest.

E.Property transactions, investment property and other payables

(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 years ended December 31,			
	2013		2012	
	Disposal proceeds	Gain (loss) on disposal	Disposal proceeds	Gain (loss) on disposal
Sale of property, plant and equipment:				
－Subsidiaries	$ 33,890	$ 8,830	$ 206,971	$ 22,186
Purchase of raw materials and supplies				
－Subsidiaries	$ 31,962	$ 705	$ 18,682	$ 792

(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, 2013 and 2012, rental income amounted to $29,629 and $29,734, respectively.

Investment property leased to Formosa Advanced Technologies Co., Ltd. are as follows:

	Land	Building	Total
At January 1, 2013			
Cost	$ 6,833	$ 601,871	$ 608,704
Accumulated depreciation	-	(144,246)	(144,246)
	$ 6,833	$ 457,625	$ 464,458
Year ended December 31, 2013			
Opening net book amount	$ 6,833	$ 457,625	$ 464,458
Depreciation charge	-	(19,421)	(19,421)
Closing net book amount	$ 6,833	$ 438,204	$ 445,037
At December 31, 2013			
Cost	$ 6,833	$ 601,871	$ 608,704
Accumulated depreciation	-	(163,667)	(163,667)
	$ 6,833	$ 438,204	$ 445,037

	Land	Building	Total
At January 1, 2012			
Cost	$ 6,833	$ 601,871	$ 608,704
Accumulated depreciation	-	(124,825)	(124,825)
	$ 6,833	$ 477,046	$ 483,879
Year ended December 31, 2012			
Opening net book amount	$ 6,833	$ 477,046	$ 483,879
Depreciation charge	-	(19,421)	(19,421)
Closing net book amount	$ 6,833	$ 457,625	$ 464,458
At December 31, 2012			
Cost	$ 6,833	$ 601,871	$ 608,704
Accumulated depreciation	-	(144,246)	(144,246)
	$ 6,833	$ 457,625	$ 464,458

The fair value of the Company's investment property was based on the selling price of similar property in neighbouring areas. As of December 31, 2013, December 31, 2012 and January 1, 2012, the fair value was $937,596, $1,103,541 and $1,125,593, 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, 2013 and 2012, other income amounted to $19,438 and $21,134, respectively.

(d) Other receivables

	Items	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	Purchase of raw materials and supplies and disposal of equipment, payments made by the Company on behalf of related party	$ 114,128	$ 292,002	$ 61,765
Associates	Payments made by the Company on behalf of related party	6,224	5,937	7,111
		$ 120,352	$ 297,939	$ 68,876

(e) Other payables

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	$ 21,701	$ 4,541	$ 11,011
Associates	1,810	-	-
	$ 23,511	$ 4,541	$ 11,011

F. Commission expenses

(a) The Company paid commissions for sales rendered to Formosa Taffeta (Hong Kong) Co., Ltd. equivalent to 2.5% ~ 3%. Details are as follows (shown as sales and marketing expenses):

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	$ 18,135	$ 10,995	$ 10,874

(b) The balances of commission payable (shown as other payables) consisted of the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	$ 3,392	$ 880	$ 764

G.Endorsements and guarantees provided to related parties:

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	$ 10,370,475	$ 8,647,180	$ 9,507,040

(4)Key management compensation

	For the years ended December 31,	
	2013	2012
Subsidiaries	$ 24,859	$ 25,807

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

Item	Book Value December 31, 2013	December 31, 2012	January 1, 2012	Purpose
Property, plant and equipment	$ -	$ 349,999	$ 560,345	Security for long-term loans

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

As of December 31, 2013, the significant commitments and contingent liabilities are the outstanding letters of credit for materials and equipment purchases with various companies listed as follows:

Currency	Amount
USD	$ 1,787
JPY	1,352
EUR	2,805

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1)On March 21, 2013, the Board of Directors resolved to establish Formosa Taffeta (Cayman) Limited for USD20,000 which is wholly owned by the Company. The Board of Directors also resolved to transfer all the Company's shares in Formosa Ha Tinh Steel Corporation to Formosa Taffeta (Cayman) Limited.

(2)The resolution of the appropriations of the 2013 net income that was approved in the stockholders' meeting on March 21, 2014 is provided in Note 6(17) G.

(3)In order to improve the financial structure of the Company's indirectly owned subsidiary, Formosa Taffeta (Changshu) Co., Ltd., the Board of Directors resolved on March 21, 2014, to propose for capital increase of USD15,000,000 of Formosa Taffeta (Hong Kong) Co., Ltd. to be invested in the indirectly the owned subsidiary, Formosa Taffeta (Changshu) Co., Ltd.

(4)In order to assist the subsidiary, Formosa Taffeta (Dong Nai) Co., Ltd., to expand cord fabric plants, the Board of Directors resolved on March 21, 2014, to propose for the capital increase of USD15,300,000 of Formosa Taffeta (Dong Nai) Co., Ltd.

12. OTHERS

(1)Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings and short-term bills payable' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During 2013, the Company's strategy, which was unchanged from 2012, was to maintain the gearing ratio around 20%. The gearing ratios at December 31, 2013, December 31, 2012 and January 1, 2012 were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total borrowings	$ 11,339,863	$ 8,759,686	$ 9,391,322
Less: cash and cash equivalents	(1,226,867)	(1,566,983)	(882,040)
Net debt	10,112,996	7,192,703	8,509,282
Total equity	51,247,392	51,650,892	54,371,587
Total capital	$ 61,360,388	$ 58,843,595	$ 62,880,869
Gearing ratio	16.52%	12.22%	13.53%

(2)Financial instruments

A.Fair value information of financial instruments

The Company's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable (including related parties), accounts receivable (including related parties), other receivables, short-term loans, notes payable (including related parties), accounts payable (including related parties), other payables, other financial assets and long-term loans (including current portion)) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B.Financial risk management policies

(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:

i. 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.

ii. 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.

iii.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.

iv.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.

C.Significant financial risks and degrees of financial risks

(a)Market risk

a.Foreign exchange risk

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, 2013		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 65,530	29.81	$ 1,953,449
JPY:NTD	508,264	0.28	142,314
EUR:NTD	695	41.09	28,558
Non-monetary items			
VND:NTD	$ 7,110,709,641	0.0014	$ 10,090,097
HKD:NTD	144,927	3.84	556,519
RMB:NTD	438,689	4.92	2,157,911
Financial liabilities			
Monetary items			
USD:NTD	$ -	29.81	-
JPY:NTD	-	0.28	-
EUR:NTD	-	41.09	-

	December 31, 2012		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 82,047	29.04	$ 2,382,645
JPY:NTD	450,358	0.34	153,122
EUR:NTD	459	38.49	17,667
HKD:NTD	25	3.75	94
CHF:NTD	2	31.83	64
Non-monetary items			
VND:NTD	$ 4,306,156,652	0.0014	$ 6,020,007
HKD:NTD	128,500	3.75	481,874
RMB:NTD	421,711	4.64	1,954,813
Financial liabilities			
Monetary items			
USD:NTD	$ 949	29.04	$ 27,559
JPY:NTD	40,832	0.34	13,883
EUR:NTD	1,712	38.49	65,895
CHF:NTD	81	31.83	2,578

	January 1, 2012		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 62,644	30.28	$ 1,896,860
JPY:NTD	404,174	0.39	157,628
EUR:NTD	54	39.18	2,116
HKD:NTD	24	3.90	94
CHF:NTD	10	32.18	322
Non-monetary items			
VND:NTD	$ 3,535,359,852	0.0014	$ 5,093,499
HKD:NTD	124,460	3.90	485,392
RMB:NTD	407,072	4.81	1,956,895
Financial liabilities			
Monetary items			
USD:NTD	$ 3,218	30.28	$ 97,441
JPY:NTD	11,663	0.39	4,549
EUR:NTD	3,423	39.18	134,113
CHF:NTD	162	32.18	5,213

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

	For the year ended December 31, 2013		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 19,534	$ -
JPY:NTD	1%	1,423	-
EUR:NTD	1%	286	-
Non-monetary items			
VND:NTD	1%	$ -	$ 100,901
HKD:NTD	1%	-	5,565
RMB:NTD	1%	-	21,579
Financial liabilities			
Monetary items			
USD:NTD	1%	$ -	$ -
JPY:NTD	1%	-	-
EUR:NTD	1%	-	-

	For the year ended December 31, 2012		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 23,826	$ -
JPY:NTD	1%	1,531	-
EUR:NTD	1%	177	-
HKD:NTD	1%	1	-
CHF:NTD	1%	1	-
Non-monetary items			
VND:NTD	1%	$ -	$ 60,200
HKD:NTD	1%	-	4,819
RMB:NTD	1%	-	19,548
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 276	$ -
JPY:NTD	1%	139	-
EUR:NTD	1%	659	-
CHF:NTD	1%	26	-

b. Price risk

i. 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.

ii. 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 $318,389 and $329,398, 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 $318,389 and $329,398, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

c. Interest rate risk

i. The Company's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates and variable rates expose the Company to fair value interest rate risk and cash flow interest rate risk. During the years ended December 31, 2013 and 2012, the Company's borrowings at variable rate were denominated in the NTD and USD.

ii. At December 31, 2013 and 2012, if interest rates on NTD-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2013 and 2012 would have been $85,750 and $73,500 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

i. 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.

ii. 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.

iii. 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:

(c) Liquidity risk

i. 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.

ii. 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.

iii. 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.

December 31, 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	$ 290,000	$ -	$ -	$ -
Short-term bills payable	1,250,000	-	-	-
Notes payable (including related parties)	368,175	-	-	-
Accounts payable (including related parties)	1,825,919	-	-	-
Other payables	790,869	-	-	-
Long-term borrowings	129,544	4,726,731	5,268,211	-

December 31, 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	$ 11,774	$ -	$ -	$ -
Short-term bills payable	250,000	-	-	-
Notes payable (including related parties)	656,567	-	-	-
Accounts payable (including related parties)	1,980,745	-	-	-
Other payables	883,796	-	-	-
Long-term borrowings (including current portion)	203,583	7,705,617	809,840	-

January 1, 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	$ 89,996	$ -	$ -	$ -
Notes payable (including related parties)	699,228	-	-	-
Accounts payable (including related parties)	1,828,670	-	-	-
Other payables	777,770	-	-	-
Long-term borrowings (including current portion)	209,826	8,309,826	1,012,100	-

(d) Derivative financial liabilities:

As of December 31, 2013, December 31, 2012 and January 1, 2012, the derivative financial liabilities all matured within 1 year. The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(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 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	$ -	$ 904	$ -	$ 904
Available-for-sale financial assets				
Equity securities	31,473,225	365,700	-	31,838,925
	$ 31,473,225	$ 366,604	$ -	$ 31,839,829
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	$ -	$ -	$ -	$ -

December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	$ -	$ 15,289	$ -	$ 15,289
Available-for-sale financial assets				
Equity securities	32,615,724	324,066	-	32,939,790
	$ 32,615,724	$ 339,355	$ -	$ 32,955,079
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	$ -	$ 4,828	$ -	$ 4,828

January 1, 2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	$ -	$ 1,070	$ -	$ 1,070
Available-for-sale financial assets		-		
Equity securities	35,491,150	343,475	-	35,834,625
	$ 35,491,150	$ 344,545	$ -	$ 35,835,695
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	$ -	$ 1,013	$ -	$ 1,013

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 and debt 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 maximize 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.