

**Kwong Lung Enterprise Co., Ltd.  
and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2012 and 2011 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Kwong Lung Enterprise Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kwong Lung Enterprise Co., Ltd. (the "Company") and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2012 and 2011 financial statements of certain consolidated subsidiaries which reflect total assets constituting 34% (NT\$1,602,348 thousand) and 35% (NT\$1,943,367 thousand) of consolidated total assets as of December 31, 2012 and 2011, respectively, and total sales constituting 19% (NT\$1,514,962 thousand) and 18% (NT\$1,377,415 thousand) of consolidated total sales for the years then ended. Such financial statements of certain subsidiaries were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and information disclosed in Note 1 relative to these consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kwong Lung Enterprise Co., Ltd. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

March 22, 2013

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.*

**KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011  
(In Thousands of New Taiwan Dollars)**

ASSETS	2012		2011		LIABILITIES AND SHAREHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 366,161	8	\$ 763,494	14	Short-term loans (Notes 13 and 24)	\$ 953,155	20	\$ 1,157,228	21
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	64,683	1	7,546	-	Short-term bills payable (Note 14)	-	-	149,855	3
Notes receivable, net (Notes 2, 3 and 7)	177,954	4	184,569	3	Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	-	-	27,137	-
Accounts receivable, net (Notes 2, 3 and 8)	693,178	15	643,098	12	Notes payable	18,496	-	20,145	-
Other receivables	65,098	1	56,360	1	Accounts payable (Note 23)	467,728	10	968,967	18
Inventories (Notes 2, 9 and 24)	1,772,369	38	2,011,168	37	Income tax payable (Note 2)	21,619	1	42,860	1
Prepayments	136,216	3	268,271	5	Accrued expenses	238,246	5	220,368	4
Deferred tax asset - current (Notes 2 and 20)	1,591	-	7,115	-	Current portion of long-term liabilities (Notes 15 and 24)	379,590	8	234,791	4
Restricted assets - current (Note 24)	-	-	2,387	-	Other current liabilities	91,557	2	67,426	1
Other current assets	18,061	-	61,308	1					
Total current assets	3,295,311	70	4,005,316	73	Total current liabilities	2,170,391	46	2,888,777	52
<b>LONG-TERM INVESTMENTS (Notes 2, 6, 10 and 11)</b>					<b>LONG-TERM LIABILITIES</b>				
Available-for-sale financial assets - noncurrent	37,165	1	38,380	1	Long-term bank loans payable (Notes 15 and 24)	513,954	11	714,217	13
Financial assets measured carried at cost - noncurrent	35,095	1	35,095	1	<b>OTHER LIABILITIES</b>				
Investments accounted for by the equity method	28,232	-	25,997	-	Accrued pension cost (Notes 2 and 16)	12,417	-	9,595	-
Total long-term investments	100,492	2	99,472	2	Guarantee deposit received	3,534	-	-	-
<b>PROPERTIES (Notes 2, 12, 24 and 25)</b>					Deferred income tax liabilities - noncurrent (Notes 2 and 20)	62,557	2	22,852	1
Cost	2,177,147	47	2,176,404	39	Total other liabilities	78,508	2	32,447	1
Less: Accumulated depreciation	(1,033,931)	(22)	(968,186)	(18)	Total liabilities	2,762,853	59	3,635,441	66
Add: Construction in progress and prepayments for equipment	8,791	-	31,109	1	<b>SHAREHOLDERS' EQUITY (Note 17)</b>				
Net properties	1,152,007	25	1,239,327	22	Common stock	895,800	19	892,930	16
<b>INTANGIBLE ASSETS (Note 2)</b>					Capital surplus				
Trademarks	630	-	717	-	Additional paid-in capital	327,940	7	328,753	6
Computer software	53,532	1	50,591	1	Treasury stock transactions	29,284	1	22,358	1
Land use rights	62,804	1	67,873	1	Long-term investments	58	-	58	-
Total intangible assets	116,966	2	119,181	2	Total capital surplus	357,282	8	351,169	7
<b>OTHER ASSETS</b>					Retained earnings				
Refundable deposits	9,917	-	16,445	-	Legal reserve	191,139	4	176,907	3
Deferred charges (Note 2)	17,417	1	24,190	1	Unappropriated earnings	541,153	11	438,736	8
Long-term accounts receivable (Note 2)	-	-	2,604	-	Total retained earnings	732,292	15	615,643	11
Total other assets	27,334	1	43,239	1	Others				
<b>TOTAL</b>	<b>\$ 4,692,110</b>	<b>100</b>	<b>\$ 5,506,535</b>	<b>100</b>	Cumulative translation adjustments (Note 2)	(44,686)	(1)	29,775	-
					Net loss not recognized as pension cost (Notes 2 and 16)	(11,107)	-	(8,466)	-
					Unrealized gain (loss) on financial instruments (Note 2)	(324)	-	891	-
					Treasury stock (Notes 2 and 18)	-	-	(10,848)	-
					Total others	(56,117)	(1)	11,352	-
					Total shareholders' equity	1,929,257	41	1,871,094	34
					<b>TOTAL</b>	<b>\$ 4,692,110</b>	<b>100</b>	<b>\$ 5,506,535</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 22, 2013)

# KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
NET SALES (Note 2)	\$ 8,069,773	100	\$ 7,504,254	100
COST OF SALES (Notes 9, 19 and 23)	<u>(7,030,319)</u>	<u>(87)</u>	<u>(6,629,963)</u>	<u>(89)</u>
GROSS PROFIT	<u>1,039,454</u>	<u>13</u>	<u>874,291</u>	<u>11</u>
OPERATING EXPENSES (Note 19)				
Selling	(429,985)	(5)	(388,340)	(5)
General and administrative	(235,199)	(3)	(241,283)	(3)
Research and development	<u>(64,660)</u>	<u>(1)</u>	<u>(53,233)</u>	<u>(1)</u>
Total operating expenses	<u>(729,844)</u>	<u>(9)</u>	<u>(682,856)</u>	<u>(9)</u>
INCOME FROM OPERATIONS	<u>309,610</u>	<u>4</u>	<u>191,435</u>	<u>2</u>
NON-OPERATING INCOME AND GAINS				
Interest income	3,133	-	3,051	-
Investment income recognized under the equity method, net (Note 2)	3,011	-	605	-
Dividend income	1,891	-	8,703	-
Gain on disposal of properties	3,017	-	1,048	-
Exchange gain, net	-	-	44,445	1
Valuation gain on financial assets (Notes 2 and 5)	64,683	1	7,242	-
Other income	<u>35,106</u>	<u>-</u>	<u>54,313</u>	<u>1</u>
Total non-operating income and gains	<u>110,841</u>	<u>1</u>	<u>119,407</u>	<u>2</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	(35,607)	-	(33,524)	(1)
Loss on disposal of properties	(2,668)	-	(223)	-
Exchange loss, net	(53,502)	(1)	-	-
Financial expense	(11,116)	-	(11,717)	-
Valuation loss on financial liabilities (Notes 2 and 5)	-	-	(27,135)	-
Other expenses	<u>(21,939)</u>	<u>-</u>	<u>(18,796)</u>	<u>-</u>
Total non-operating expenses and losses	<u>(124,832)</u>	<u>(1)</u>	<u>(91,395)</u>	<u>(1)</u>
NET INCOME OF CONTINUING OPERATION BEFORE INCOME TAX	295,619	4	219,447	3
INCOME TAX EXPENSE (Notes 2 and 20)	<u>(89,652)</u>	<u>(1)</u>	<u>(77,124)</u>	<u>(1)</u>
NET INCOME	<u>\$ 205,967</u>	<u>3</u>	<u>\$ 142,323</u>	<u>2</u>

(Continued)

# KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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	2012		2011	
	Pretax	After-tax	Pretax	After-tax
EARNINGS PER SHARE (Note 21)				
Basic earnings per share	<u>\$ 2.85</u>	<u>\$ 2.30</u>	<u>\$ 2.03</u>	<u>\$ 1.62</u>
Diluted earnings per share	<u>\$ 2.81</u>	<u>\$ 2.27</u>	<u>\$ 2.00</u>	<u>\$ 1.59</u>

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

(With Deloitte & Touche audit report dated March 22, 2013)

(Concluded)

**KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2012 AND 2011  
(In Thousands of New Taiwan Dollars)**

	Capital Stock Common Stock	Capital Surplus			Retained Earnings		Other Equity					Total
		Additional Paid-in Capital	Treasury Stock Transactions	Long-term Investments	Legal Reserve	Unappropri- ated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock		
BALANCE, JANUARY 1, 2011	\$ 886,670	\$ 329,820	\$ 22,358	\$ 58	\$ 158,795	\$ 411,218	\$ (42,711)	\$ (3,615)	\$ 72,079	\$ (10,848)	\$ 1,823,824	
Appropriations of 2010 earnings (Note 17)												
Legal reserve	-	-	-	-	18,112	(18,112)	-	-	-	-	-	
Cash dividends	-	-	-	-	-	(96,693)	-	-	-	-	(96,693)	
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	(4,851)	-	-	(4,851)	
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(71,188)	-	(71,188)	
Conversion of employee stock options	6,260	(1,067)	-	-	-	-	-	-	-	-	5,193	
Change in translation adjustments	-	-	-	-	-	-	72,486	-	-	-	72,486	
Net income in 2011	-	-	-	-	-	142,323	-	-	-	-	142,323	
BALANCE, DECEMBER 31, 2011	892,930	328,753	22,358	58	176,907	438,736	29,775	(8,466)	891	(10,848)	1,871,094	
Appropriations of 2011 earnings (Note 17)												
Legal reserve	-	-	-	-	14,232	(14,232)	-	-	-	-	-	
Cash dividends	-	-	-	-	-	(89,318)	-	-	-	-	(89,318)	
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	(2,641)	-	-	(2,641)	
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,215)	-	(1,215)	
Conversion of employee stock options	2,870	(813)	-	-	-	-	-	-	-	-	2,057	
Transfer to employees of treasury stock - 1,000 thousand shares	-	-	6,926	-	-	-	-	-	-	10,848	17,774	
Change in translation adjustments	-	-	-	-	-	-	(74,461)	-	-	-	(74,461)	
Net income in 2012	-	-	-	-	-	205,967	-	-	-	-	205,967	
BALANCE, DECEMBER 31, 2012	\$ 895,800	\$ 327,940	\$ 29,284	\$ 58	\$ 191,139	\$ 541,153	\$ (44,686)	\$ (11,107)	\$ (324)	\$ -	\$ 1,929,257	

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

(With Deloitte & Touche audit report dated March 22, 2013)

# KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 205,967	\$ 142,323
Adjustments		
Depreciation	125,140	106,811
Amortization	22,082	19,372
Compensation cost of transfer to employees of treasury stock	7,755	-
Deferred income tax	45,229	12,161
Valuation gain on financial assets	(64,683)	(7,242)
Valuation loss on financial liabilities	-	27,135
Investment loss (income) recognized under the equity method, net	(3,011)	(605)
Provision for (recovery of) loss on inventories	(23,595)	36,014
Loss on scrap of inventories	929	26
Gain on disposal of property, plant and equipment	(3,017)	(1,048)
Loss on disposal of property, plant and equipment	2,668	223
Loss on disposal of intangible assets	335	-
Changes in operating assets and liabilities		
Financial instruments held for trading	(19,591)	1,452
Notes receivable	6,615	(65,113)
Accounts receivable	(50,080)	(123,279)
Other receivables	(8,738)	(22,657)
Inventories	261,465	(499,128)
Prepayments	132,055	(107,569)
Other current assets	43,247	(30,206)
Long-term accounts receivable	2,604	3,737
Notes payable	(1,649)	16,121
Accounts payable	(501,239)	506,104
Income tax payable	(21,241)	22,838
Accrued expenses	17,878	4,106
Other current liabilities	25,944	14,986
Accrued pension cost	<u>181</u>	<u>(356)</u>
Net cash provided by operating activities	<u>203,250</u>	<u>56,206</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(78,449)	(138,057)
Proceeds from disposal of property, plant and equipment	5,193	1,776
Increase (decrease) in refundable deposits	6,528	(7,940)
Increase in intangible assets	(14,217)	(30,833)
Increase in deferred charges	(2,385)	(6,826)
Decrease in restricted assets	<u>2,387</u>	<u>38,490</u>
Net cash used in investing activities	<u>(80,943)</u>	<u>(143,390)</u>

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# KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term loans	\$ (204,073)	\$ (169,116)
Decrease in short-term bills payable	(149,855)	(125)
Proceeds from long-term debt	250,000	758,915
Repayment of long-term debt	(305,464)	(159,730)
Increase in guarantee deposits received	3,534	-
Conversion of employee stock options	2,057	5,193
Cash dividends	(89,318)	(96,693)
Proceeds from transfer to employees of treasury stock	<u>10,019</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(483,100)</u>	<u>338,444</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(36,540)</u>	<u>32,748</u>
NET INCREASE (DECREASE) IN CASH	(397,333)	284,008
CASH, BEGINNING OF YEAR	<u>763,494</u>	<u>479,486</u>
CASH, END OF YEAR	<u>\$ 366,161</u>	<u>\$ 763,494</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 34,823</u>	<u>\$ 32,610</u>
Income tax paid	<u>\$ 65,624</u>	<u>\$ 42,125</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Transfer of property, plant and equipment to investments accounted for by the equity method	<u>\$ -</u>	<u>\$ 14,840</u>
Transfer of property, plant and equipment to intangible assets	<u>\$ -</u>	<u>\$ 16,766</u>
Transfer of deferred charges to property, plant and equipment	<u>\$ -</u>	<u>\$ 3,072</u>
Current portion of long-term liabilities	<u>\$ 379,590</u>	<u>\$ 234,791</u>
<b>ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT PAID BY CASH</b>		
Acquisition of property, plant and equipment	\$ 76,636	\$ 121,410
Beginning balance of payable for property, plant and equipment purchased	14,498	31,145
Ending balance of payable for property, plant and equipment purchased	<u>(12,685)</u>	<u>(14,498)</u>
Cash paid	<u>\$ 78,449</u>	<u>\$ 138,057</u>

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

(With Deloitte & Touche audit report dated March 22, 2013)

(Concluded)

# KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

### 1. ORGANIZATION AND OPERATIONS

The Company was incorporated in February 1966 under the Company Law and related regulations of the Republic of China (ROC). The Company mainly manufactures and sells various feather products including apparel, down and bedding.

The Company's shares have been traded on the Taiwan GreTai Securities Market since April 1999.

As of December 31, 2012 and 2011, the Company and subsidiaries had 6,607 and 7,305 employees, respectively.

The consolidated entities were as follows:

Name of Investor	Name of Investee	Main Businesses	Percentage of Ownership December 31		Remark
			2012	2011	
The Company	Kwong Lung Feather (B.V.I.) Limited	Overseas reinvested holding company	100%	100%	Incorporated under the British Virgin Islands Law and related regulation
The Company	Kwong Lung Meko Co., Ltd.	Manufacturing and selling of down and bedding	100%	100%	-
The Company	Kwong Lung Japan Co., Ltd.	Manufacturing and selling of down and bedding	100%	100%	-
The Company	Bo Hsing Enterprise Co., Ltd.	Manufacturing and selling of apparel	100%	100%	-
The Company	Toptex Garment Co., Ltd.	Manufacturing and selling of apparel	100%	100%	-
The Company	Kwong Lung Vietnam Co., Ltd.	Manufacturing and selling of apparel	100%	100%	Incorporated in January 2011
Kwong Lung Feather (B.V.I.) Limited	Snowdown Merchandise (Suzhou) Co., Ltd.	Manufacturing and selling of down and bedding	100%	100%	-
Snowdown Merchandise (Suzhou) Co., Ltd.	Garland Sportswear Co., Ltd.	Manufacturing and selling of apparel	100%	100%	-

The investees' financial statements as of 2012 and 2011, which had been used to determine the carrying amount of the Company's investments, had been audited (Kwong Lung Meko Co., Ltd., Kwong Lung Japan Co., Ltd., Bo Hsing Enterprise Co., Ltd., Toptex Garment Co., Ltd. and Kwong Lung Vietnam Co., Ltd. were audited by other auditors). Foreign-currency accounts of foreign subsidiaries were translated into New Taiwan dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 14 - "The Effects of Changes in Foreign Exchange Rate" and consolidated financial statements were prepared in accordance with SFAS No. 7 - "Consolidated Financial Statements".

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries. The consolidated entities listed above are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

Jointly controlled entity, Vien Tien Meko Co., Ltd., is accounted for by the equity method instead of proportionate consolidation.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail.

The consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the ROC. Significant accounting policies are summarized as follows:

### **Foreign Currencies**

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

### **Accounting Estimates**

Under above guidelines and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of property, plant and equipment, amortization of intangible assets and deferred charges, income tax, pension cost, bonuses to employees, etc. Actual results may differ from these estimates.

### **Current and Noncurrent Assets/Liabilities**

Current assets include cash, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

### **Financial Assets and Liabilities at Fair Value through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company and subsidiaries recognizes a financial asset or a financial liability on its balance sheet when the Company and subsidiaries becomes a party to the contractual provisions of the financial instruments. A financial asset is derecognized when the Company and subsidiaries has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows:

Financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The fair value of available-for-sale financial assets at the balance sheet date is determined as follows:  
Publicly traded stocks - at closing prices.

Cash dividends are recognized upon the resolution of investee's shareholders, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

### **Financial Assets Carried at Cost**

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

### **Impairment of Accounts Receivable**

Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;

- Accounts receivable becoming overdue; or
- It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company and subsidiaries past experience in the collection of payments, and an increase in the number of delayed payments.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

### **Impairment of Assets**

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, deferred charges, land use rights and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized on the asset in prior years.

For the purpose of impairment testing, a CGU is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

For long-term equity investments in which the Company and subsidiaries have significant influence but with no control, the carrying amount of each investment is compared with its own recoverable amount for the purpose of impairment testing.

### **Inventories**

Inventories consist of raw materials, supplies, work in process, finished goods, goods in subcontractor and merchandise. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost. Inventories of apparel department are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

### **Investments Accounted for by the Equity Method**

Investments in which the Company and subsidiaries hold 20 percent or more of the investees' voting shares or exercise significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

Jointly controlled entity is accounted for by the equity method.

## **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions and improvements to property, plant and equipment are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over estimated useful lives as follows: Buildings - 2 to 50 years; machinery and equipment - 2 to 20 years; utilities equipment - 5 to 23 years; motor vehicles - 3 to 12 years; office equipment - 2 to 15 years; equipment under capital leases - 1 to 7 years; other equipment - 2 to 50 years.

Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

The related cost and accumulated depreciation of an item of property, plant and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

## **Land Use Rights**

Land use rights are amortized using the straight-line method over their useful lives.

## **Intangible Assets**

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software is amortized over 2 to 5 years; trademarks are amortized over 10 years.

## **Deferred Charges**

Deferred charges, consisting of costs of decoration and golf card, are amortized using the straight-line method over 2 to 20 years.

## **Pension Cost**

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailement or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the year.

## **Income Tax**

The Company and subsidiaries applies the intra-year and inter-year allocation method to its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, and unused loss carryforward. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

If the Company and subsidiaries can control the timing of the reversal of a temporary difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

### **Stock-based Compensation**

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Company and subsidiaries adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

### **Treasury Stock**

Treasury stock is stated at cost and shown as a deduction in shareholders' equity.

### **Revenue Recognition**

Revenue from sales of goods is recognized when the Company and subsidiaries have transferred to the buyer the significant risks and reward of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. The Company and subsidiaries do not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and subsidiaries and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

## **3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES**

### **Financial Instruments**

On January 1, 2011, the Company and subsidiaries adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company and subsidiaries are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change had no significant influence on the net income for the year ended December 31, 2011.

## Operating Segments

On January 1, 2011, the Company and subsidiaries adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Company and subsidiaries that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company and subsidiaries chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." For this accounting change, the Company and subsidiaries restated the segment information.

## 4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<b>2012</b>	<b>2011</b>
Petty cash	\$ 4,337	\$ 8,584
Cash in banks		
Demand deposits	246,128	361,222
Checking accounts	10,924	28,737
Foreign-currency deposits	<u>104,772</u>	<u>364,951</u>
	<u>\$ 366,161</u>	<u>\$ 763,494</u>

## 5. FINANCIAL INSTRUMENTS AT FVTPL

	<u>December 31</u>	
	<b>2012</b>	<b>2011</b>
<u>Financial assets held for trading</u>		
Forward exchange contracts	<u>\$ 64,683</u>	<u>\$ 7,546</u>
<u>Financial liabilities held for trading</u>		
Forward exchange contracts	<u>\$ -</u>	<u>\$ 27,137</u>

The Company and subsidiaries entered into derivatives during the years ended December 31, 2012 and 2011 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Company and subsidiaries is to minimize risks due to changes in fair value or cash flows.

Outstanding forward exchange contracts as of December 31 2012 and 2011 were as follows:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2012</u>			
Buy	NT\$/EUR	2013.01.07-2013.05.13	NT\$202,573/EUR5,500
Sell	US\$/CNY	2013.01.18-2013.08.20	US\$13,000/CNY83,416
Sell	JPY/NT\$	2013.02.19-2013.06.27	JPY1,294,000/NT\$485,048

(Continued)

	<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2011</u>			
Buy	NT\$/EUR	2012.01.17-2012.04.16	NT\$158,920/EUR4,000
Buy	JPY/US\$	2012.04.16	JPY167,240/US\$2,000
Sell	US\$/NT\$	2012.04.23-2012.09.04	US\$14,000/NT\$418,780
Sell	JPY/NT\$	2012.01.17-2012.07.20	JPY1,211,000/NT\$455,337
Sell	US\$/CNY	2012.01.31-2012.12.26	US\$24,000/CNY152,001
(Concluded)			

Net gains (losses) on financial instruments at FVTPL for the years ended December 31, 2012 and 2011 were NT\$90,728 thousand and NT\$(5,760) thousand, respectively.

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<b>2012</b>	<b>2011</b>
Domestic quoted stocks	<u>\$ 37,165</u>	<u>\$ 38,380</u>

#### 7. NOTES RECEIVABLE

	<u>December 31</u>	
	<b>2012</b>	<b>2011</b>
Notes receivable	\$ 177,967	\$ 202,665
Less: Allowance for doubtful accounts	(13)	(47)
Notes receivable discounted	<u>-</u>	<u>(18,049)</u>
	<u>\$ 177,954</u>	<u>\$ 184,569</u>

#### 8. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<b>2012</b>	<b>2011</b>
Accounts receivable	\$ 698,590	\$ 650,108
Less: Allowance for doubtful accounts	<u>(5,412)</u>	<u>(7,010)</u>
	<u>\$ 693,178</u>	<u>\$ 643,098</u>

## 9. INVENTORIES

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Merchandise	\$ 57,293	\$ 93,749
Finished goods	209,542	228,083
Work in process	794,536	632,272
Raw materials	527,205	697,538
Supplies	47,643	54,127
Goods to subcontractor	62,291	134,530
Goods in transit	<u>73,859</u>	<u>170,869</u>
	<u>\$ 1,772,369</u>	<u>\$ 2,011,168</u>

As of December 31, 2012 and 2011, the allowance for inventory devaluation was NT\$134,461 thousand and NT\$162,377 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2012 and 2011 was NT\$7,030,319 thousand and NT\$6,629,963 thousand, respectively, which included NT\$23,595 thousand and NT\$(36,014) thousand (write-downs of inventories) reversal of write-downs of inventories, respectively; NT\$929 thousand and NT\$26 thousand loss on scrap of inventories.

## 10. FINANCIAL ASSETS CARRIED AT COST

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Domestic unquoted common stocks		
Snowdown Merchandise Corporation	<u>\$ 35,095</u>	<u>\$ 35,095</u>

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

## 11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	<u>December 31</u>			
	<u>2012</u>		<u>2011</u>	
	<u>Carrying</u>	<u>% of</u>	<u>Carrying</u>	<u>% of</u>
	<u>Amount</u>	<u>Owner-</u>	<u>Amount</u>	<u>Owner-</u>
		<u>ship</u>		<u>Ship</u>
Viet Tien Meko Co., Ltd.	<u>\$ 28,232</u>	<u>49</u>	<u>\$ 25,997</u>	<u>49</u>

As of December 31, 2012 and 2011, 49% of the US\$2,000 thousand capital stock Viet Tien Meko Co., Ltd., a jointly controlled entity.

The Company's share in the assets, liabilities, revenue and expenses of Viet Tien Meko Co., Ltd. as of December 31, 2012 and 2011 was as follows:

(In VND Thousands)

	December 31	
	2012	2011
Current assets	\$ 15,230,529	\$ 7,763,062
Noncurrent assets	9,335,462	13,172,522
Current liabilities	3,653,183	2,232,658
	Year Ended December 31	
	2012	2011
Revenue and income	\$ 23,952,147	\$ 16,262,817
Cost and expenses	21,742,265	16,104,891

## 12. PROPERTY, PLANT AND EQUIPMENT

	Cost		Accumulated Depreciation	
	December 31		December 31	
	2012	2011	2012	2011
Land	\$ 142,765	\$ 142,765	\$ -	\$ -
Buildings	1,027,530	1,044,285	337,720	319,174
Machinery and equipment	710,104	712,675	507,278	483,211
Utilities equipment	8,340	8,103	5,112	4,604
Motor vehicles	31,036	30,186	18,371	15,623
Office equipment	22,804	19,284	13,949	10,419
Equipment under capital leases	3,995	6,354	3,166	3,207
Other equipment	<u>230,573</u>	<u>212,752</u>	<u>148,335</u>	<u>131,948</u>
	<u>\$ 2,177,147</u>	<u>\$ 2,176,404</u>	<u>\$ 1,033,931</u>	<u>\$ 968,186</u>

## 13. SHORT-TERM LOANS

	December 31	
	2012	2011
Working capital loans	\$ 705,020	\$ 853,279
Usance letters of credit	114,359	128,787
Export negotiation loans	<u>133,776</u>	<u>175,162</u>
	<u>\$ 953,155</u>	<u>\$ 1,157,228</u>
Interest rates	0.71%-3.20%	0.72%-6.50%

#### 14. SHORT-TERM BILLS PAYABLE

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Commercial paper	\$ -	\$ 150,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>(145)</u>
	<u>\$ -</u>	<u>\$ 149,855</u>
Interest rate	<u>-</u>	<u>0.81%-0.85%</u>

#### 15. LONG-TERM DEBT

Type	Duration	2012	2011
Secured	April 29, 2008 to April 29, 2013 (repayment installment)	\$ -	\$ 15,570
Secured	August 21, 2008 to April 29, 2013 (repayment installment)	-	5,086
Secured	November 7, 2008 to April 29, 2013 (repayment installment)	-	2,258
Secured	December 1, 2008 to April 29, 2013 (repayment installment)	-	20,241
Secured	December 4, 2008 to April 29, 2013 (repayment installment)	-	16,608
Secured	July 23, 2009 to April 29, 2013 (repayment installment)	-	10,380
Secured	December 24, 2009 to April 29, 2013 (repayment installment)	-	16,868
Unsecured	July 12, 2010 to April 15, 2012 (repayment installment)	-	20,000
Unsecured	June 22, 2010 to June 22, 2012 (repayment installment)	-	20,000
Unsecured	December 21, 2010 to December 21, 2013 (repayment installment)	-	33,612
Unsecured	September 30, 2010 to September 30, 2013 (repayment installment)	-	29,470
Unsecured	July 22, 2011 to July 22, 2014 (repayment installment)	63,636	100,000
Secured	August 29, 2011 to August 29, 2014 (repayment installment)	45,210	58,915
Unsecured	April 7, 2011 to April 7, 2016 (repayment installment)	188,000	200,000
Secured	April 14, 2011 to April 7, 2016 (repayment installment)	169,200	180,000
Unsecured	April 22, 2011 to April 7, 2016 (repayment installment)	18,800	20,000
Unsecured	April 7, 2011 to March 18, 2014 (repayment installment)	37,500	50,000
Unsecured	March 31, 2011 to March 18, 2014 (repayment installment)	37,500	50,000
Unsecured	July 27, 2011 to July 26, 2013 (payment at maturity)	100,000	100,000

(Continued)

Type	Duration	2012	2011
Unsecured	June 4, 2012 to June 4, 2015 (repayment installment)	\$ 83,698	\$ -
Unsecured	December 14, 2012 to January 14, 2014 (repayment installment)	50,000	-
Unsecured	December 28, 2012 to December 28, 2015 (payment at maturity)	100,000	-
		<u>893,544</u>	<u>949,008</u>
Less: Current portion		<u>(379,590)</u>	<u>(234,791)</u>
		<u>\$ 513,954</u>	<u>\$ 714,217</u>
Interest rate		<u>1.42%-1.90%</u>	<u>1.06%-1.88%</u> (Concluded)

The Company paid its loan payable in advance to E.SUN Bank in June 2012, and to The Export-Import Bank of ROC in October 2012.

## 16. PENSION PLANS

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$10,181 thousand and NT\$9,526 thousand for the years ended December 31, 2012 and 2011, respectively.

Based on the defined benefit plan under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 6.92% and 7.72% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee in 2012 and 2011, respectively. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of NT\$5,568 thousand and NT\$6,010 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about the defined benefit plan was as follows:

### a. Components of net periodic pension cost

	<u>Year Ended December 31</u>	
	<u>2012</u>	<u>2011</u>
Service cost	\$ 2,686	\$ 2,688
Interest cost	2,310	2,281
Projected return on plan assets	(1,467)	(1,321)
Amortization	<u>2,039</u>	<u>2,362</u>
Net periodic pension cost	<u>\$ 5,568</u>	<u>\$ 6,010</u>

- b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2012 and 2011

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Benefit obligation		
Vested benefit obligation	\$ (14,604)	\$ (20,253)
Non-vested benefit obligation	<u>(52,095)</u>	<u>(60,066)</u>
Accumulated benefit obligation	(66,699)	(80,319)
Additional benefit based on future salaries	<u>(30,286)</u>	<u>(35,763)</u>
Projected benefit obligation	(96,985)	(116,082)
Fair value of plan assets	<u>54,282</u>	<u>70,724</u>
Funded status	(42,703)	(45,358)
Unrecognized net loss	41,393	44,229
Additional liability	<u>(11,107)</u>	<u>(8,466)</u>
Accrued pension cost	<u>\$ (12,417)</u>	<u>\$ (9,595)</u>
Vested benefit	<u>\$ (16,997)</u>	<u>\$ (24,083)</u>

- c. Actuarial assumptions as of December 31, 2012 and 2011

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Discount rate used in determining present values	1.75%	2.00%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	1.75%	2.00%

	<u>Year Ended December 31</u>	
	<u>2012</u>	<u>2011</u>
d. Contributions to the fund	<u>\$ 5,387</u>	<u>\$ 6,366</u>
e. Payments from the fund	<u>\$ 22,423</u>	<u>\$ -</u>

## 17. SHAREHOLDERS' EQUITY

- a. Common stock

As of December 31, 2012 and 2011, the authorized capital was NT\$1,100,000 thousand. As of December 31, 2012 and 2011, the issued capital stock was NT\$895,800 thousand and NT\$892,930 thousand, respectively.

- b. Employee stock option plans

In December 2003 and September 2007, 7,407 and 3,000 options, respectively, were granted to qualified employees of the Company and its subsidiaries. Each option entitles the holder to subscribe for one thousand common shares of the Company when exercisable. The options granted are valid for 10 years and 6 years and exercisable at certain percentages after the second anniversary year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the GreTai Securities Market on the grant date. For any subsequent changes in the Company's paid-in capital, the exercise price and the number of options are adjusted accordingly.

Information about employee stock options was as follows:

	<b>Year Ended December 31, 2012</b>			
	<b>Granted in 2003</b>		<b>Granted in 2007</b>	
	<b>Number of Options</b>	<b>Weighted -average Exercise Price (NT\$)</b>	<b>Number of Options</b>	<b>Weighted -average Exercise Price (NT\$)</b>
Balance, beginning of year	493	\$ 7.36	181	\$ 7.56
Options exercised	(136)	6.99	(151)	7.32
Options expired and forfeited	-	-	-	-
Balance, end of year	<u>357</u>	<u>\$ 6.36</u>	<u>30</u>	<u>\$ 6.56</u>

  

	<b>Year Ended December 31, 2011</b>			
	<b>Granted in 2003</b>		<b>Granted in 2007</b>	
	<b>Number of Options</b>	<b>Weighted -average Exercise Price (NT\$)</b>	<b>Number of Options</b>	<b>Weighted -average Exercise Price (NT\$)</b>
Balance, beginning of year	804	\$ 8.46	496	\$ 8.66
Options exercised	(311)	8.18	(315)	8.26
Options expired and forfeited	-	-	-	-
Balance, end of year	<u>493</u>	<u>\$ 7.36</u>	<u>181</u>	<u>\$ 7.56</u>

The weighted-average stock price at the date of exercise for stock options exercised during the years ended December 31, 2012 and 2011 was NT\$19.88 and NT\$21.80, respectively.

Information about outstanding options as of December 31, 2012 and 2011 was as follows:

<b>December 31</b>			
<b>2012</b>		<b>2011</b>	
<b>Range of Exercise Price (NT\$)</b>	<b>Weighted-average Remaining Contractual Life (Years)</b>	<b>Range of Exercise Price (NT\$)</b>	<b>Weighted-average Remaining Contractual Life (Years)</b>
\$6.36	0.92	\$7.36	1.92
6.56	0.68	7.56	1.68

There was no compensation cost recognized by intrinsic value method for the years ended December 31, 2012 and 2011.

The pro forma information for the years ended December 31, 2012 and 2011 assuming employee stock options granted before January 1, 2008 were accounted for under SFAS No. 39 is as follows:

	<b>Year Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
Net income	<u>\$ 205,967</u>	<u>\$ 142,323</u>
After income tax basic earnings per share (NT\$)	<u>\$ 2.30</u>	<u>\$ 1.62</u>

c. Capital surplus

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Company's paid-in capital and once a year).

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

d. Appropriation of earnings and dividend policy

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative translation adjustments) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Corporation's Articles of Incorporation provide that 10% of the annual net income (less any deficit) should be appropriated as legal reserve. A special reserve should be provided in accordance with relevant regulations, and the appropriations of the remainder should be resolved by the board of directors and then submitted in the shareholders' meeting for approval. These appropriations should include more than 20% as cash dividends, more than 1% as employees' bonus and less than 5% as remuneration to directors and supervisors.

For the years ended December 31, 2012 and 2011, the bonus to employees were \$15,000 thousand and \$8,000 thousand and the remuneration to directors and supervisors was \$6,000 thousand and \$4,000 thousand, respectively. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the shareholders' meeting.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2011 and 2010 had been approved in the shareholders' meetings on June 28, 2012 and June 22, 2011, respectively.

The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For Year 2011</b>	<b>For Year 2010</b>	<b>For Year 2011</b>	<b>For Year 2010</b>
Legal reserve	\$ 14,232	\$ 18,112		
Cash dividends	89,138	96,693	\$ 1.0	\$ 1.1

The bonus to employees and the remuneration to directors and supervisors for 2011 and 2010 approved in the shareholders' meetings on June 28, 2012 and June 22, 2011, respectively, were as follows:

	<b>Year Ended December 31</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Bonus to Employees</b>	<b>Remuneration to Directors and Supervisors</b>	<b>Bonus to Employees</b>	<b>Remuneration to Directors and Supervisors</b>
Amounts approved in shareholders' meetings	\$ 8,000	\$ 4,000	\$ 8,000	\$ 3,600
Amounts recognized in respective financial statements	<u>8,000</u>	<u>4,000</u>	<u>8,000</u>	<u>3,600</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The appropriations of earnings for 2012 had been proposed by the board of directors on March 22, 2013. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 20,597	
Special reserve	56,117	
Cash dividends	116,454	\$1.3

The 2012 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled for June 20, 2013.

Information about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 18. TREASURY STOCK

(Shares in Thousands)

<b>Purpose of Treasury Stock</b>	<b>Number of Shares, Beginning of Year</b>	<b>Addition During the Year</b>	<b>Reduction During the Year</b>	<b>Number of Shares, End of Year</b>
<u>Year ended December 31, 2012</u>				
For transfer to employees	1,000	-	(1,000)	-
<u>Year ended December 31, 2011</u>				
For transfer to employees	1,000	-	-	1,000

Under the Securities and Exchange Act, the Company shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

## 19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31					
	2012			2011		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel						
Salary	\$ 424,861	\$ 271,927	\$ 696,788	\$ 490,049	\$ 250,240	\$ 740,289
Insurance of labor and health	32,012	18,548	50,560	24,828	17,298	42,126
Pension	2,093	13,656	15,749	2,478	13,058	15,536
Others	<u>206,390</u>	<u>40,620</u>	<u>247,010</u>	<u>156,631</u>	<u>50,626</u>	<u>207,257</u>
	<u>\$ 665,356</u>	<u>\$ 344,751</u>	<u>\$ 1,010,107</u>	<u>\$ 673,986</u>	<u>\$ 331,222</u>	<u>\$ 1,005,208</u>
Depreciation	\$ 97,469	\$ 27,671	\$ 125,140	\$ 90,615	\$ 16,196	\$ 106,811
Amortization	6,274	15,808	22,082	\$ 8,927	\$ 10,445	\$ 19,372

## 20. INCOME TAX

The tax returns through 2010 have been assessed by the tax authorities. The Company disagreed with the tax authorities' assessment of its 2010 tax return and had applied for a re-examination. Nevertheless, the Company has provided for the income tax assessed by the tax authorities for conservatism.

Kwong Lung Enterprise Co., Ltd. applies income tax law of the ROC and subsidiaries apply local income tax law.

Deferred income tax assets (liabilities) were as follows:

	December 31	
	2012	2011
Current		
Deferred income tax assets		
Unrealized allowance for loss on inventories	\$ 21,197	\$ 26,783
Unrealized exchange losses	8,128	3,204
Unrealized allowance for doubtful accounts	386	23
Valuation losses on financial liabilities	-	4,606
Operating loss carryforward of subsidiaries	-	3,413
Others	<u>700</u>	<u>330</u>
	30,411	38,359
Less: Valuation allowance	<u>(13,790)</u>	<u>(24,717)</u>
	<u>16,621</u>	<u>13,642</u>
Deferred income tax liabilities		
Valuation gain on financial assets	(10,996)	(312)
Unrealized exchange gains	(3,893)	(6,043)
Unrealized allowance for doubtful accounts	(141)	(141)
Others	<u>-</u>	<u>(31)</u>
	<u>(15,030)</u>	<u>(6,527)</u>
	<u>\$ 1,591</u>	<u>\$ 7,115</u>

(Continued)

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Noncurrent		
Deferred income tax assets		
Unrealized intercompany gain	\$ 1,223	\$ 1,509
Accrued pension cost	152	100
Operating loss carryforward of subsidiaries	13,911	14,323
Operating loss carryforward of parent	<u>5,080</u>	<u>-</u>
	20,366	15,932
Less: Valuation allowance	<u>(13,911)</u>	<u>(14,323)</u>
	6,455	1,609
Deferred income tax liabilities		
Investment income recognized on overseas equity-method investments	<u>(69,012)</u>	<u>(24,461)</u>
	<u>\$ (62,557)</u>	<u>\$ (22,852)</u>
		(Concluded)

A reconciliation of income tax expense based on income before income tax at the statutory rate of 17% and income tax expense was as follows:

	<b>Year Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
Income tax expense at the statutory rate	\$ 43,362	\$ 30,319
Tax effect of adjusting items:		
Permanent differences		
Tax-exempt income	(321)	(1,479)
Others	2,188	550
Temporary differences	(50,309)	(622)
Loss carryforward	5,080	-
Additional 10% income tax on unappropriated earnings	3,877	6,632
Current income tax expense of subsidiaries	<u>40,546</u>	<u>29,563</u>
Current income tax expense	44,423	64,963
Deferred income tax expense		
Temporary differences	50,309	622
Deferred income tax expense of subsidiaries	<u>(5,080)</u>	<u>11,539</u>
	<u>\$ 89,652</u>	<u>\$ 77,124</u>

Loss carryforwards as of December 31, 2012 comprised of:

<b>Unused Amount</b>	<b>Expiry Year</b>
<u>\$ 29,885</u>	2022

Information about integrated income tax was as follows:

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Unappropriated earnings generated before January 1, 1998	\$ -	\$ -
Unappropriated earnings generated on and after January 1, 1998	<u>541,153</u>	<u>438,736</u>
	<u>\$ 541,153</u>	<u>\$ 438,736</u>

As of December 31, 2012 and 2011, the balance of the imputation credits which can be allocated to the shareholders amounted to NT\$69,444 thousand and NT\$57,746 thousand.

The creditable ratio for distribution of earnings of 2012 and 2011 was 13.45% (estimate) and 20.63%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

## 21. EARNINGS PER SHARE (“EPS”)

	Amounts (Numerator)		Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2012</u>					
Basic EPS					
Income for the year attributable to common shareholders	<u>\$ 255,073</u>	<u>\$ 205,967</u>	89,386	<u>\$ 2.85</u>	<u>\$ 2.30</u>
Effect of dilutive potential common stock					
Stock option to employee			333		
Bonus to employees			<u>942</u>		
Diluted EPS					
Income for the year attributable to common shareholders plus effect of potential dilutive common stock	<u>\$ 255,073</u>	<u>\$ 205,967</u>	<u>90,661</u>	<u>\$ 2.81</u>	<u>\$ 2.27</u>
<u>Year ended December 31, 2011</u>					
Basic EPS					
Income for the year attributable to common shareholders	<u>\$ 178,345</u>	<u>\$ 142,323</u>	88,040	<u>\$ 2.03</u>	<u>\$ 1.62</u>
Effect of dilutive potential common stock					
Stock option to employee			576		
Bonus to employees			<u>617</u>		
Diluted EPS					
Income for the year attributable to common shareholders plus effect of potential dilutive common stock	<u>\$ 178,345</u>	<u>\$ 142,323</u>	<u>89,233</u>	<u>\$ 2.00</u>	<u>\$ 1.59</u>

If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 22. FINANCIAL INSTRUMENTS

### a. Fair values of financial instruments

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at FVTPL - current	\$ 64,683	\$ 64,683	\$ 7,546	\$ 7,546
Available for sale financial assets - noncurrent	37,165	37,165	38,380	38,380
Financial assets carried at cost - noncurrent	35,095	-	35,095	-
Refundable deposits	9,917	9,917	16,445	16,445
Long-term accounts receivable	-	-	2,604	2,604
<u>Liabilities</u>				
Financial liabilities at FVTPL - current	-	-	27,137	27,137
Long-term loans	893,544	893,544	949,008	949,008
Guarantee deposits received	3,534	3,534	-	-

### b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

- 1) The foregoing financial instruments do not include short-term financial instruments such as cash, receivables, other receivable, restricted assets - current, short-term loans, short-term bills payable, payables and accrued expenses. The carrying amounts of these short-term financial instruments approximate their fair values.
- 2) Fair values of financial instruments designated as at FVTPL, available-for-sale financial assets and derivatives financial assets are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.
- 3) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair value. Therefore, no fair value is presented.
- 4) The fair value of refundable deposits is based on their carrying amounts because the amounts to be received in the future approximate their carrying amounts.
- 5) Fair value of Long-term accounts receivable and long-term loans is estimated using the present value of future cash flows discounted at the interest rates the Company may obtain on similar loans (e.g., similar maturities).

- c. Fair values of financial assets and financial liabilities based on quoted market prices or valuation techniques were as follows:

	<u>Quoted Market Prices</u>		<u>Valuation Techniques</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Assets</u>				
Financial assets at FVTPL - current	\$ -	\$ -	\$ 64,683	\$ 7,546
Available-for-sale financial assets - noncurrent	37,165	38,380	-	-
<u>Liabilities</u>				
Financial liabilities at FVTPL - current	-	-	-	27,137

Valuation gains (losses) from changes in fair value of financial instruments determined using valuation techniques were NT\$64,683 thousand and NT\$(19,893) thousand for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, financial liabilities exposed to fair value interest rate risk amounted to NT\$632,617 thousand and NT\$627,300 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$350,900 thousand and NT\$728,560 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk amounted to NT\$1,214,082 thousand and NT\$1,628,791 thousand, respectively.

## **Financial Risks**

- a. Market risk

The Company and subsidiaries are exposed to foreign exchange rate risk of purchases and sales using nonfunctional currency. The fair value of these market prices of financial assets fluctuates in accordance with foreign exchange rate changes. The Company and subsidiaries also take derivatives contracts to offset the foreign exchange rate risk; therefore, the market risk is not material.

- b. Credit risk

Credit risk represents the potential loss that would be incurred by the Company and subsidiaries if the counterparties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counterparties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Company and subsidiaries' exposure to default by those parties to be material.

- c. Liquidity risk

The operating funds of the Company and subsidiaries are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

The investments of the Company and subsidiaries in equity instruments except available-for-sale financial assets have no active markets; therefore, the liquidity risk is expected to be high.

d. Cash flow risk from interest rate fluctuations

The Company and subsidiaries have demand deposits, short-term loans and long-term loans with floating interest rates. As a result, the effective interest rate on deposits and loans will change as the market interest rate changes.

## 23. RELATED PARTY TRANSACTIONS

a. Related parties and their relationships with the Company

<u>Related Party</u>	<u>Relationship with the Company</u>
Viet Tien Meko Co., Ltd.	Equity-method investee

b. Significant transactions with related parties:

Manufacturing overhead

	<u>Year Ended December 31</u>	
	<u>2012</u>	<u>2011</u>
Viet Tien Meko Co., Ltd.	<u>\$ 91,025</u>	<u>\$ 46,617</u>

Accounts payable

	<u>December 31</u>			
	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>% to Total</u>	<u>Amount</u>	<u>% to Total</u>
Viet Tien Meko Co., Ltd.	<u>\$ 14,383</u>	<u>3</u>	<u>\$ 6,510</u>	<u>1</u>

c. Compensation of directors, supervisors and management personnel:

	<u>Year Ended December 31</u>	
	<u>2012</u>	<u>2011</u>
Salaries	\$ 20,603	\$ 19,455
Incentives	3,758	4,976
Bonus	<u>4,000</u>	<u>1,720</u>
	<u>\$ 28,361</u>	<u>\$ 26,151</u>

## 24. MORTGAGED OR PLEDGED ASSETS

The assets mortgaged or pledged as collateral for bank acceptance, usance Letters of Credit and bank loans were as follows:

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 140,441	\$ 140,441
Buildings, net	91,051	96,266
Inventories	-	2,936
Restricted assets - current	<u>-</u>	<u>2,387</u>
	<u>\$ 231,492</u>	<u>\$ 242,030</u>

## 25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, there are commitments and contingencies as follows:

- a. Unused letters of credit for purchases of raw materials amounted as follows:

	<b>Amount (Thousand)</b>
USD	USD 1,060
EUR	EUR 1,685

- b. Amount of guaranteed by financial institutions is NT\$30,840 thousand.
- c. Kwong Lung Japan Co., Ltd. had a commitment to lease equipment for JPY117,985 thousand of which JPY47,948 thousand had not been paid.

## 26. SUBSEQUENT EVENTS

- a. The Board of Directors proposed to grant six thousand employee stock options on March 22, 2013. Each option entitles the holder to subscribe for one thousand common shares when exercisable; thus, six million common stocks are set aside for exercise of stock options.
- b. The Board of Directors proposed to invest JPY3 hundred million to subsidiary, Kwong Lung Japan Co., Ltd., on March 22, 2013.
- c. On March 22, 2013, the Board of Directors proposed to dissolve the subsidiary, Kwong Lung Vietnam Co., Ltd., and transfer its real estate and equipment to Kwong Lung Meko Co., Ltd. for US\$859 thousand.

## 27. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant foreign-currency financial assets and liabilities were as follows:

Unit: Thousands

	December 31					
	2012			2011		
<u>Financial assets</u>	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Monetary items						
USD	\$ 19,177	29.04	\$ 556,891	\$ 18,234	30.275	\$ 552,027
JPY	1,027,156	0.3364	345,535	1,031,903	0.3906	403,061
CNY	45,515	4.6202	210,286	93,104	4.805	447,351
VND	17,813,498	0.00135	24,048	54,777,055	0.00139	76,140
Nonmonetary items						
JPY	-	-	-	3,525	0.3906	1,377
USD	-	-	-	16	30.275	460
CNY	-	-	-	1,188	4.805	5,709
Long-term equity investments						
VND	20,912,808	0.00135	28,232	18,702,927	0.00139	25,997

(Continued)

December 31						
2012			2011			
Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars	
<u>Financial liabilities</u>						
Monetary items						
USD	\$ 16,675	29.04	\$ 484,253	\$ 22,933	30.275	\$ 694,306
EUR	3,865	38.49	148,779	4,416	39.18	173,004
JPY	36,180	0.3364	12,171	49,780	0.3906	19,444
CNY	142,596	4.6202	658,817	255,348	4.805	1,226,913
VND	50,619,487	0.00135	68,336	85,183,939	0.00139	118,406
Nonmonetary items						
USD	-	-	-	212	30.275	6,390
EUR	-	-	-	50	39.18	1,946
JPY	-	-	-	48,030	0.3906	18,761
CNY	-	-	-	8	4.805	40

(Concluded)

## 28. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company and subsidiaries pre-disclosure information on the adoption of International Financial Reporting Standards (IFRSs) was as follows:

- a. On May 14, 2009, the FSC announced the “Framework for Adoption of International Financial Reporting Standards by Companies in the ROC.” In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Company and subsidiaries has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is assistant manager of finance division, Ms. Jessica Tsao. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2012 were as follows:

Contents of Plan	Responsible Department	Status of Execution
1) Establish the IFRSs taskforce	Finance	Finished in October 2009
2) Establish an IFRSs implementation plan	Finance	Finished in October 2009
3) Identify the differences between ROC GAAP and IFRSs	Accounting	Finished in March 2011
4) Identify the consolidated entities under IFRSs	Accounting	Finished in July 2011
5) Evaluate the impact of optional exemptions under IFRS based on IFRS1	Accounting	Finished in July 2011

(Continued)

<b>Contents of Plan</b>	<b>Responsible Department</b>	<b>Status of Execution</b>
6) Evaluate the possible impact on the IT systems	Information technology	Finished in December 2011
7) Evaluate the possible modification to relevant internal controls	Internal audit	Finished in December 2011
8) Select accounting policies under IFRS	Finance	Finished in December 2011
9) Determine applicable optional exemptions under IFRS based on IFRS1	Accounting	Finished in December 2011
10) Prepare the opening balance sheet in conformity with IFRSs.	Accounting	Finished in March 2012
11) Prepare comparative financial information under IFRSs for 2012	Accounting	Finished in March 2013
12) Complete the modification to relevant internal controls	Accounting, information technology and internal audit	Finished in December 2011

(Concluded)

b. As of December 31, 2012, the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs were as follows:

1) IAS 1 - Presentation of financial statements - classifications of deferred income tax asset/liability:

Under ROC GAAP, a deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRSs, a deferred tax asset or liability is classified as noncurrent asset or liability.

2) IAS 12 - Income taxes - valuation allowance of deferred income tax asset/liability:

Under ROC GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

3) IAS 21 - The effects of changes in foreign exchange rates - functional currency

Under ROC GAAP, the Company is not a foreign operation, so there is no need to determine its functional currency. Under IFRSs, all reporting entities, including the parent company, should determine the functional currency.

4) IAS 19 - Employee benefits - compensated absences

Under ROC GAAP, there are no specific requirements for recording compensated absences. Companies usually recognize the costs when the payments are made. Under IFRSs, accumulating compensated absences are treated as short-term compensation cost. The expected cost of short-term accumulated compensated absences should be recognized when the employees render service. For non-accumulating compensated absences, an entity recognizes no liability or expense until the time of the absence.

5) IAS 19 - Employee benefits - actuarial gains and losses:

Under ROC GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which requires deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees.

Under IFRSs, the parent company will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

6) IAS 1 - Presentation of financial statements - classifications of land use right and deferred charges:

Under ROC GAAP, land use right is recorded under intangible assets or property, plant and equipment; deferred expenses are recorded under other assets. Under IFRSs, these items are reclassified as property, plant and equipment or intangible assets or other assets according to their nature.

7) IAS 7 - Statement of cash flows - classifications of the payments of interest expense and income tax expense:

Under ROC GAAP, when statement of cash flows reported under indirect method, interest and income tax paid should be disclosed as part of operating cash flows section.

Under IFRS, interest and dividends received and paid, and the cash flows due to income tax should be disclosed separately.

- c. The Company and subsidiaries has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.

## 29. OPERATING SEGMENT FINANCIAL INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Company and subsidiaries' reportable segments under SFAS No. 41 are as follows:

Apparel department - manufacturing, developing, design and selling of apparel  
Down material department - manufacturing, developing and selling of down  
Home textile department - manufacturing, developing, design and selling of bedding  
OBM department - channel managing and marketing of private bedding brand

a. Segment revenues and results

The analysis of the Company's revenue and results from continuing operations by reportable segment was as follows:

	Segment Revenue		Segment Profit	
	Year Ended December 31			
	2012	2011	2012	2011
Apparel department	\$ 2,248,255	\$ 2,371,894	\$ 75,877	\$ (4,022)
Down material department	3,579,149	3,292,970	176,679	196,514
Home textile department	2,421,969	2,280,705	135,804	53,549
OBM department	<u>169,062</u>	<u>131,374</u>	<u>(78,750)</u>	<u>(54,606)</u>
Total for continuing operations	8,418,435	8,076,943	309,610	191,435
Less: Sales among consolidated entities	<u>(348,662)</u>	<u>(572,689)</u>	-	-
Sales to other than consolidated entities	<u>\$ 8,069,773</u>	<u>\$ 7,504,254</u>	309,610	191,435
Interest income			3,133	3,051
Investment income (loss) recognized under the equity method			3,011	605
Dividend income			1,891	8,703
Gain (loss) on disposal of property, plant and equipment			349	825
Exchange gain			(53,502)	44,445
Valuation gain on financial instruments			64,683	7,242
Other income			35,106	54,313
Interest expense			(35,607)	(33,524)
Valuation loss on financial instruments			-	(27,135)
Other expenses			<u>(33,055)</u>	<u>(30,513)</u>
Profit before tax (continuing operations)			<u>\$ 295,619</u>	<u>\$ 219,447</u>

Segment profit represents the profit earned by each segment without interest income, investment income or loss recognized under the equity method, dividend income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, other income, interest expense, valuation gain or loss on financial instruments, and other expenses.

b. Segment assets and liabilities

	December 31	
	2012	2011
<u>Segment assets</u>		
Apparel department	\$ 772,147	\$ 1,153,839
Down material department	1,929,792	2,182,700
Home textile department	784,421	1,202,671
OBM department	<u>134,069</u>	<u>181,653</u>
Total assets for reportable segments	3,620,429	4,720,863
Other assets	<u>314,965</u>	<u>512,968</u>
Total segment assets	<u>\$ 3,935,394</u>	<u>\$ 5,233,831</u>

For the purposes of monitoring segment performance and allocating resources among segments:

- 1) All assets other than receivables, inventories and property, plant and equipment, net are not reported to the chief operating decision maker.
- 2) All liabilities are not reported to the chief operating decision maker.

c. Other segment information

	<b>Depreciation and Amortization</b>		<b>Additions to Noncurrent Assets</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Apparel department	\$ 53,298	\$ 56,696	\$ 14,407	\$ 81,575
Down material department	39,894	26,243	32,277	16,188
Home textile department	26,964	22,676	17,515	19,074
OBM department	<u>10,637</u>	<u>8,512</u>	<u>1,762</u>	<u>3,129</u>
Total for reportable segments	130,793	114,127	65,961	119,966
Others	<u>16,429</u>	<u>12,056</u>	<u>27,277</u>	<u>39,103</u>
	<u>\$ 147,222</u>	<u>\$ 126,183</u>	<u>\$ 93,238</u>	<u>\$ 159,069</u>

d. Revenue from major products and services

The following is an analysis of the Company and subsidiaries revenue from continuing operations from its major products and services:

	<b>Year Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
Apparel products	\$ 2,248,255	\$ 2,371,894
Down material products	3,274,668	2,720,281
Home textile products	<u>2,546,850</u>	<u>2,412,079</u>
	<u>\$ 8,069,773</u>	<u>\$ 7,504,254</u>

e. Geographical area

The Company and subsidiaries operates in four principal geographical areas - Taiwan, China, Vietnam and Japan. The Company and subsidiaries' revenue from continuing operations from external customers and information about its noncurrent assets by geographical location are detailed below.

	<b>Revenue from External Customers</b>		<b>Noncurrent Assets</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
United States of America	\$ 1,659,847	\$ 1,924,678	\$ -	\$ -
Taiwan	619,357	624,038	357,811	353,140
China	1,379,040	982,890	448,723	513,312
Vietnam	780,454	521,997	468,400	502,629
Japan	3,348,313	3,242,938	456	13,617
Other	<u>282,762</u>	<u>207,713</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,069,773</u>	<u>\$ 7,504,254</u>	<u>\$ 1,286,390</u>	<u>\$ 1,382,698</u>

Noncurrent assets excluded those classified as financial instruments and deferred tax assets, post-employment benefit assets.

f. Major customers

Customer	Year Ended December 31			
	2012		2011	
	Amount	% to Total	Amount	% to Total
A	\$ 1,475,989	18	\$ 1,346,685	18