

FORMOSA TAFFETA CO., LTD.

NON-CONSOLIDATED FINANCIAL STATEMENTS

AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2010 AND 2009

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying non-consolidated balance sheets of Formosa Taffeta Co., Ltd. as of December 31, 2010 and 2009, and the related non-consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method. These long-term investments amounted to \$3,765,298 thousand and \$2,960,581 thousand as of December 31, 2010 and 2009, respectively, and the related investment income for the years then ended amounted to \$463,086 thousand and \$112,557 thousand, respectively. The financial statements of these investees were audited by other auditors, whose reports thereon were furnished to us and our opinion, insofar as it relates to the amounts included in the non-consolidated financial statements relative to these long-term investments, is based solely on the reports of other auditors.

We conducted our audits in accordance with the "Rules Governing the Certification 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Formosa Taffeta Co., Ltd. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers", "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling", and generally accepted accounting principles in the Republic of China.

We have also audited the consolidated financial statements of Formosa Taffeta Co., Ltd., and subsidiaries (not presented herein) as of and for the years ended December 31, 2010 and 2009. In our report dated March 18, 2011, we expressed a modified unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers, Taiwan

PricewaterhouseCoopers, Taiwan

March 18, 2011

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 the Republic of China. Accordingly, the accompanying non-consolidated financial statements and report 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.

DECEMBER 31

DECEMBER 31

DECEMBER 31

3-

FORMOSA TAFFETA CO., LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	2010		2009	
	AMOUNT	%	AMOUNT	%
Operating Revenue				
Sales (Note 5)	\$ 32,634,381	100	\$ 26,824,227	100
Sales returns	(43,406)	-	(66,338)	-
Sales discounts	(59,496)	-	(85,345)	-
Net Sales	32,531,479	100	26,672,544	100
Service income	285,072	1	200,305	1
Net Operating Revenues	32,816,551	101	26,872,849	101
Operating Costs (Notes 4(21) and 5)				
Cost of goods sold (Note 4(7))	(28,787,376)	(89)	(23,235,214)	(87)
Service costs	(233,024)	(1)	(160,696)	(1)
Net Operating Costs	(29,020,400)	(90)	(23,395,910)	(88)
Gross profit	3,796,151	11	3,476,939	13
Operating Expenses (Notes 4(21) and 5)				
Sales and marketing expenses	(1,531,835)	(5)	(1,377,762)	(5)
General and administrative expenses	(458,760)	(1)	(442,282)	(2)
Total Operating Expenses	(1,990,595)	(6)	(1,820,044)	(7)
Operating income	1,805,556	5	1,656,895	6
Non-operating Income and Gains				
Interest income	1,183	-	18,209	-
Investment income accounted for under the equity method (Note 4(8))	1,467,780	5	-	-
Dividend income (Notes 4(3)(4))	1,451,154	5	457,020	2
Gain on disposal of property, plant and equipment (Note 5)	63,862	-	13,398	-
Gain on valuation of financial assets (Note 4(2))	1,045	-	6,580	-
Other non-operating income (Note 5)	142,431	-	173,063	1
Total Non-operating Income and Gains	3,127,455	10	668,270	3
Non-operating Expenses and Losses				
Interest expense (Note 4(9))	(81,547)	-	(109,410)	-
Investment loss accounted for under the equity method (Note 4(8))	-	-	(138,016)	(1)
Other investment loss (Notes 4(4)(8))	-	-	(1,530)	-
Foreign exchange loss	(124,585)	(1)	(73,225)	-
Impairment loss (Notes 4(3)(4))	-	-	(2,017,692)	(8)
Loss on valuation of financial liabilities (Note 4(10))	(6,535)	-	(33,801)	-
Other non-operating losses (Notes 4(21) and 5)	(113,406)	-	(112,628)	(1)
Total Non-operating Expenses and Losses	(326,073)	(1)	(2,486,302)	(10)
Income (loss) before income tax	4,606,938	14	(161,137)	(1)
Income tax (expense) benefit (Note 4(19))	(516,794)	(1)	252,457	1
Net Income	\$ 4,090,144	13	\$ 91,320	-
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (Note 4(20))				
Net income	\$ 2.74	\$ 2.43	(\$ 0.10)	\$ 0.05
Assuming shares held by subsidiary are not treated as treasury stock:				
Net income	\$ 4,606,938	\$ 4,090,144	(\$ 161,137)	\$ 91,320
Basic earnings per share				
Net income	\$ 2.74	\$ 2.43	(\$ 0.10)	\$ 0.05

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 18, 2011.

FORMOSA TAFFETA CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Capital Reserves			Retained Earnings			Unrealized gain or loss on financial instruments	Treasury stock	Total
	Common stock	Capital reserve from donated assets	Capital reserve from long-term investments	Legal reserve	Special reserve	Undistributed earnings	Cumulative translation adjustments	Unrecognized pension cost	
2009									
Balance at January 1, 2009	\$ 16,846,646	\$ 2,032	\$ 696,659	\$ 4,776,711	\$ 1,675,123	\$ 4,455,263	\$ 237,050	\$ 137,251	\$ 15,054,257
Appropriations of 2008 net income	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	300,200	-	(300,200)	-	-	-
Reversal of special reserve	-	-	-	-	(863,312)	863,312	-	-	-
Cash dividends	-	-	-	-	-	(2,526,997)	-	-	(2,526,997)
Net income for 2009	-	-	-	-	-	91,320	-	-	91,320
Foreign currency translation adjustments	-	-	-	-	-	-	(239,432)	-	(239,432)
Effect of changes in unrecognized pension cost	-	-	-	-	-	-	-	-	-
Effect of changes in unrealized gain or loss on available-for-sale financial instruments	-	-	-	-	-	-	(212,181)	-	(212,181)
Unrealized impairment on available-for-sale financial instruments	-	-	-	-	-	-	-	-	-
Realized gain or loss on financial instruments held by investors	-	-	-	-	-	-	-	-	-
Effect of changes in ownership percentage of investee companies	-	-	(184)	-	-	-	-	-	(184)
Balance at December 31, 2009	\$ 16,846,646	\$ 2,032	\$ 696,475	\$ 5,076,911	\$ 811,811	\$ 2,582,698	(\$ 2,382)	(\$ 349,432)	\$ 25,770,113
2010									
Balance at January 1, 2010	\$ 16,846,646	\$ 2,032	\$ 696,475	\$ 5,076,911	\$ 811,811	\$ 2,582,698	(\$ 2,382)	(\$ 349,432)	\$ 25,770,113
Appropriations of 2009 net income	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	9,132	-	(9,132)	-	-	-
Reversal of special reserve	-	-	-	-	(295,688)	295,688	-	-	-
Cash dividends	-	-	-	-	-	(1,347,732)	-	-	(1,347,732)
Net income for 2010	-	-	-	-	-	4,090,144	-	-	4,090,144
Foreign currency translation adjustments	-	-	-	-	-	-	(641,772)	-	(641,772)
Effect of changes in unrecognized pension cost	-	-	-	-	-	-	-	-	-
Effect of changes in unrealized gain or loss on available-for-sale financial instruments	-	-	-	-	-	-	-	-	-
Unrealized gain or loss on financial instruments and unrecognized pension cost held by investors	-	-	-	-	-	-	-	-	-
Balance at December 31, 2010	\$ 16,846,646	\$ 2,032	\$ 696,475	\$ 5,086,043	\$ 516,123	\$ 5,611,666	(\$ 644,154)	(\$ 378,477)	\$ 30,081,331

Note: Directors' and superiors' remuneration amounting \$0 and \$8,435 and employees' bonus amounting to \$0 and \$16,870 has been deducted from the non-consolidated statement of income in 2009 and 2008, respectively.

The accompanying notes are an integral part of these non-consolidated financial statements.

See report of independent accountants dated March 18, 2011.

FORMOSA TAFFETA CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 4,090,144	\$	91,320
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on valuation of inventory recovery	(140,803 )	(	64,260)
Depreciation	921,759		919,107
Amortization	3,490		16,748
Gain on valuation of financial assets	(1,045 )	(	6,580)
Gain on valuation of financial liabilities	(6,535 )	(	33,801)
Cash dividends from investments accounted for under the equity method	282,535		328,543
Investment loss accounted for under the equity method	(1,467,780)		138,016
Gain on disposal of investments	(297)		-
Loss (gain) on other investments	-		1,530
Gain on disposal of property, plant and equipment	(63,862 )	(	13,398)
Impairment loss	-		2,017,692
Changes in assets and liabilities			
Financial assets and liabilities at fair value through profit or loss	161,054	(	120,079)
Notes receivable, net	22,139		15,543
Notes receivable, net - related parties	8,757		2,442
Accounts receivable, net	(350,220)		66,791
Accounts receivable - related parties	(26,869)		31,672
Other receivables	(16,384)		133,756
Inventories	(346,771)		486,234
Prepayments	(30,107 )	(	13,466)
Deferred tax assets	350,492	(	251,823)
Other current assets	(139,278)		1,928
Financial liabilities at fair value through profit or loss - current	7,630		33,801
Notes payable	(8,218)		31,604
Notes payable - related parties	96,831		104,977
Accounts payable	177,735		23,191
Accounts payable - related parties	(6,702)		517,612
Income tax payable	161,627	(	123,257)
Accrued expenses	156,667		47,381
Other payables	(25,969)		17,365
Other current liabilities	9,431	(	26,424)
Accrued pension liabilities	125,814		77,857
Net cash provided by operating activities	3,945,265		4,452,022
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in available-for-sale financial assets	(289,074 )	(	482,414)
Financial assets carried at cost - non-current	(196,388)		-
Increase in long-term equity investments	(1,051,996 )	(	515,635)
Other financial assets - non-current	18,290		1,771
Acquisition of property, plant and equipment	(959,410 )	(	366,882)
Disposal of property, plant and equipment	77,117		16,645
Increase in deferred expenses	-	(	9,448)
Decrease (increase) in refundable deposits	23,935	(	17,462)
Decrease (increase) in other assets - others	34,626	(	34,676)
Net cash used in investing activities	(2,342,900 )	(	1,408,101)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) short-term loans	291,504	(	837,000)
Increase long-term loans	9,360,000		-
Decrease long-term loans	(9,773,595 )	(	614,577)
Increase (decrease) in deposits received	12,848		11,145
Increase (decrease) in other liabilities	54,928	(	22,037)
Payment of cash dividends	(1,347,732 )	(	2,526,997)
Net cash used in financing activities	(1,402,047 )	(	3,989,466)
Exchange Influence	(44,985)		1,157
Net increase (decrease) in cash and cash equivalents	155,333	(	944,388)
Cash and cash equivalents at beginning of year	996,842		1,941,230
Cash and cash equivalents at end of year	\$ 1,152,175	\$	996,842
Supplemental disclosure of cash flow information			
Interest paid (excluding interest capitalized)	\$ 90,958	\$	119,621
Income tax paid	\$ 4,567	\$	122,623

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 18, 2011.

FORMOSA TAFFETA CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(EXPRESSED IN NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Formosa Taffeta Co., Ltd. (the "Company") was incorporated on April 19, 1973 under the provisions of the Company Law of the Republic of China (R.O.C.). Formosa Chemicals & Fiber Corp. has significant control over the Company since Formosa Chemicals & Fiber Corp. holds over half of the Board seats after the stockholders' meeting on June 27, 2008. Since June 27, 2008, Formosa Chemicals & Fiber Corp. became the Company's parent company and accordingly, the Company and its subsidiaries are included in its consolidated financial statements. As of December 31, 2010, the Company had 4,863 employees.

The major operations of each department are as follows:

<u>Business departments</u>	<u>Major activities</u>
First department: Fabrics & dyeing	Amine fabrics, polyester fabrics, cotton fabrics, blending fabrics and umbrella ribs
Second department: Cord fabrics, petroleum & others	Cord, plastics bags, refineries for gasoline, diesel, crude oil and related petroleum products, cotton fibers, blending fibers and protection fibers

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1) Foreign currency transactions

- a) The Company maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rates on the transaction date and the exchange rates on the date of actual receipt and payment are recognized in current year's profit or loss.
- b) Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

- c) At the end of the year, foreign currency non-monetary assets and liabilities, which are recognized in profit or loss based on fair value measurement and changes, are evaluated for adjustments at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses on adjustments are recognized in the current year's profit or loss; foreign currency non-monetary assets and liabilities, which are recognized in "stockholders' equity adjustments" based on fair value measurement and changes, are evaluated for adjustments at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses on adjustments are recognized as "stockholders' equity adjustments"; foreign currency non-monetary assets and liabilities, which are not measured based on fair value, are evaluated using the historical exchange rate at the date of the transaction.
- 2) Criteria for classifying assets and liabilities as current or 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:
 - (1) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
 - (2) Assets held mainly for trading purposes;
 - (3) Assets that are expected to be realized within twelve months from the balance sheet date; and
 - (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
 - b) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (1) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
 - (2) Liabilities arising mainly from trading activities;
 - (3) Liabilities that are to be paid off within twelve months from the balance sheet date; and
 - (4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

3) Settlement date accounting

Any change in the fair value during the period between the trade date and the settlement date/balance sheet date is not recognized for financial assets carried at cost or amortized cost. For financial assets and financial liabilities at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for sale financial assets, the change in fair value is recognized directly in equity.

4) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquid investments which are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value resulting from fluctuations in interest rates.

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

- a) Financial assets and financial liabilities at fair value through profit or loss for equity financial instruments, beneficiary certificates and derivative financial instruments are recognized and derecognized as of the trade date at fair value.
- b) These financial instruments are subsequently evaluated and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.
- c) Financial instruments that meet any of the following criteria are designated as financial assets or financial liabilities at fair value through profit or loss.
 - (1) The instrument is a mixed financial instrument;
 - (2) The instrument is designated as a financial asset or liability at fair value through profit or loss in order to eliminate or substantially reduce the inconsistency in accounting measurement or recognition;
 - (3) The instrument is managed in accordance with the Company's documented risk management and investment strategies, and its performance is evaluated on a fair value basis.

6) Available-for-sale financial assets

- a) Available-for-sale financial assets are recognized and derecognized using trade date accounting and are initially stated at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- b) The financial assets are evaluated and stated at fair value, and the gain or loss is recognized in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. The fair values of listed stocks, OTC stocks and closed-end mutual funds are based on latest quoted fair prices of the accounting period. The fair values of open-end and balanced mutual funds are based on the net asset value at the balance sheet date.
- c) If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be transferred from equity to profit or loss. When the fair value of an equity instrument

subsequently increases, impairment losses recognized previously in profit or loss shall not be reversed. When the fair value of a debt instrument subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss recognized in profit or loss.

7) Financial assets and financial liabilities carried at cost

- a) Investment in financial instruments without active markets is recognized and derecognized using trade date accounting and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- b) If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss shall not be reversed when the fair value of the asset subsequently increases.

8) Accounts receivable

Accounts receivable are claims resulting from the sale of goods or services. The fair value of accounts receivable is calculated based on the imputed interest rate. Accounts receivable which are collectible within one year, and where the difference between the fair value and the value at maturity is insignificant are measured at carrying value.

9) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the results of evaluating the collectibility of notes and accounts receivable and other receivables, taking into account the bad debts incurred in prior years and the aging analysis of the receivables.

10) Inventories

The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. Cost is determined based on the weighted-average method. At the end of year, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value is based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses.

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

- a) Long-term equity investments in which the Company holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized. Retrospective adjustment

of the amount of goodwill amortized in previous years is not required. The excess of acquired net asset value of investee over the initial investment cost is allocated proportionately and applied as a reduction to the book values of identifiable non-current assets, and any remaining amount of such excess after this allocation is credited to extraordinary gains. Majority owned subsidiaries, in which the Company owns more than 50% of the investee companies' voting rights or has significant control ability on the investee's operations are accounted for under the equity method and included in quarterly consolidated financial statements.

- b) Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under stockholders' equity.
- c) The unrealized gains or losses between the Company and investees or subsidiaries are eliminated.

12) Property, plant and equipment

- a) Property, plant and equipment are stated at cost. Interest incurred during the construction or installation of the assets is capitalized.
- b) Depreciation is provided under the straight-line method based on the estimated economic service lives of the assets. Salvage value of fully depreciated assets that are still in use is depreciated over the re-estimated useful lives. The estimated useful lives are 25-60 years for main buildings and 3-15 years for subsidiary buildings, and 2-10 years for other property, plant and equipment.
- c) Major renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred. Gain (loss) on disposal of property, plant and equipment is recorded in the current year's non-operating income (loss).
- d) Assets leased to others are reclassified to "other assets" at book value. Depreciation provided on these assets is recognized as non-operating expenses and losses.
- e) Property, plant and equipment that are idle or have no value in use are reclassified to "other assets" at the lower of the fair value less costs to sell or book value. The resulting difference is included in current operations. Depreciation provided on these assets is charged to non-operating expense.

13) Intangible assets

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

14) Deferred assets

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

15) Impairment of non-financial assets

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

16) Retirement plan and pension reserve

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

17) Income tax

- a) Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits and loss carryforward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years' income tax liabilities is included in current year's income tax.
- b) Investment tax credits arising from expenditures incurred on acquisitions of equipment or technology, research and development, employees' training, and equity investments are recognized in the year the related expenditures are incurred.
- c) An additional 10% tax is levied on the undistributed retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- d) If the regular income tax is equal or more than the basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas the regular income tax is less than the basic tax, the income tax payable shall be equal to the basic tax.

- e) When a change in the tax laws is enacted, the deferred tax liability or asset is recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, is recognized as an adjustment to current income tax expense (benefit).

18) Treasury stock

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

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

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

20) Earnings per share

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

21) Recognition of revenues, costs and expenses

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

22) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that

affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during the period. Actual results could differ from those assumptions and estimates.

3. CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2009, the Company adopted the amendments to R.O.C. Statement of Financial Accounting Standards No. 10, "Accounting for Inventories". This change in accounting principle had no significant effect on the 2009 net income.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2010	2009
Cash on hand	\$ 100,729,877	\$ 8,302,000
Checking and demand deposits	1,042,445,536	922,240,355
Time deposits	9,000,000	12,000,000
Cash equivalents - commercial paper	-	54,300,000
	<u>\$ 1,152,175,413</u>	<u>\$ 996,842,355</u>

2) Financial assets at fair value through profit or loss

	December 31,	
	2010	2009
Derivatives	\$ 747,755	\$ 5,439,718
Beneficiary certificate	-	155,000,000
	747,755	160,439,718
Adjustment of financial assets held for trading	-	20,565
	<u>\$ 747,755</u>	<u>\$ 160,460,283</u>

a) The Company recognized net gain of \$1,044,339 and \$6,579,737 for the years ended December 31, 2010 and 2009, respectively.

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

December 31, 2010					
		<u>Contract Amount</u>		<u>Fair Value</u>	<u>Contract Period</u>
Forward exchange contracts	Sell	JPY	82,700,000	\$ 394,835	2011.1
		JPY	88,300,000	247,773	2011.2
		JPY	51,600,000	105,147	2011.3
				<u>\$ 747,755</u>	
December 31, 2009					
		<u>Contract Amount</u>		<u>Fair Value</u>	<u>Contract Period</u>
Forward exchange contracts	Sell	JPY	323,050,000	\$ 3,760,732	2010.4
		USD	7,200,000	1,678,986	2010.1
				<u>\$ 5,439,718</u>	

- c) The forward exchange contracts are sell JPY to hedge the change of exchange rate due to import and export, but not adopting hedge accounting.
- d) The expected cash inflow of unsettled forward exchange contracts is NTD 64,419,935 and USD 637,706; and cash outflow is JPY 222,600,000 for the year ended December 31, 2010.

3) Available-for-sale financial assets

	December 31,	
	2010	2009
Current items:		
Listed (TSE and OTC) stocks	\$ 902,852,821	\$ 895,893,009
Adjustment of available-for-sale financial assets	<u>239,428,399</u>	<u>(47,294,453)</u>
	<u>\$ 1,142,281,220</u>	<u>\$ 848,598,556</u>
Non-current items:		
Listed (TSE and OTC) stocks	\$ 8,603,310,385	\$ 8,321,196,223
Adjustment of available-for-sale financial assets	<u>29,786,702,128</u>	<u>25,775,729,088</u>
	<u>\$38,390,012,513</u>	<u>\$ 34,096,925,311</u>

- a) For the years ended December 31, 2010 and 2009, the Company received cash dividends from investees accounted as available-for-sale financial assets amounting to \$1,437,944,068 and \$435,444,311, respectively.
- b) As Nan Ya Technology Corporation, an investee, incurred a permanent loss in 2009, the Company recognized an investment loss amounting to \$2,013,043,696 for the year ended December 31, 2009.
- c) In 2010, the Company subscribed for additional common stock of \$282,114,162, issued by Nan Ya Technology Corporation for cash at a subscription price of \$16.5 per share.

4) Financial assets carried at cost - non-current

	December 31,	
	2010	2009
Unlisted stocks	<u>\$ 353,621,031</u>	<u>\$ 157,232,373</u>

- a) The above investments were measured at cost since its fair value cannot be measured reliably.
- b) In 2010, the Company subscribed for common stock of \$196,388,658, issued by Nan Ya Photonics Inc. for cash at a subscription price of \$10.3 per share.
- c) For the years ended December 31, 2010 and 2009, the Company received cash dividends from investees accounted as financial assets carried at cost amounting to \$13,209,717 and \$21,575,134, respectively.

- d) In 2009, the investee, Genesis Semi Inc., had gone into liquidation and the related liquidation procedures had been completed. The Company recognized investment loss of \$224,988 for the year ended December 31, 2009.
- e) Terax Communication Technologies Inc., a financial asset measured at cost-non-current, has decreased its capital as approved during the shareholders' meeting on June 20, 2009. The rate of capital decrease was 58.96%. The Company has recognized investment loss of \$4,648,417 for the year ended December 31, 2009.

5) Notes and accounts receivable, net

	December 31,	
	2010	2009
Notes receivable	\$ 138,811,513	\$ 160,949,478
Less: Allowance for doubtful accounts	(1,965,882)	(1,965,882)
	<u>\$ 136,845,631</u>	<u>\$ 158,983,596</u>
Accounts receivable	\$ 2,697,593,568	\$ 2,347,374,163
Less: Allowance for doubtful accounts	(58,505,756)	(58,505,756)
	<u>\$ 2,639,087,812</u>	<u>\$ 2,288,868,407</u>

6) Other receivables

	December 31,	
	2010	2009
Other receivables	\$ 110,017,107	\$ 65,112,513
Other receivables - related parties	80,287,231	108,808,200
	190,304,338	173,920,713
Less: Allowance for doubtful accounts	(2,772,220)	(2,772,220)
	<u>\$ 187,532,118</u>	<u>\$ 171,148,493</u>

7) Inventories

	December 31,	
	2010	2009
Raw materials	\$ 595,241,437	\$ 450,647,697
Supplies	44,366,076	34,869,627
Work in process	1,539,492,134	1,251,730,372
Finished goods	2,474,250,041	2,647,894,390
Merchandise inventory	292,882,365	287,953,556
Inventory in transit	226,206,726	189,661,248
Finished goods and raw materials on consignment	82,334,652	45,246,048
	<u>5,254,773,431</u>	<u>4,908,002,938</u>
Less: Allowance for obsolescence and market price decline	(717,551,566)	(858,354,915)
	<u>\$ 4,537,221,865</u>	<u>\$ 4,049,648,023</u>

Expense and loss incurred on inventories in current period:

	2010	2009
Cost of inventories sold	\$ 28,987,049,769	\$ 23,321,476,837
Gain from recovery in inventory valuation and obsolescence	(140,803,349)	(64,260,277)
Others	(58,870,266)	(22,002,318)
	<u>\$ 28,787,376,154</u>	<u>\$ 23,235,214,242</u>

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

a) List of long-term investments

Investee Companies	December 31,			
	2010		2009	
	Cost	%	Cost	%
Formosa Advanced Technologies Co., Ltd.	\$ 6,250,504,512	65.68	\$ 5,518,477,481	65.68
Formosa Industry Co., Ltd.	1,720,931,708	10.00	1,280,704,788	10.00
Formosa Taffeta (Zhong Shan) Co., Ltd.	1,225,430,930	100.00	1,273,182,475	100.00
Taffeta (Dong Nai) Co., Ltd.	958,058,657	100.00	606,524,682	100.00
Formosa Taffeta Vietnam Co., Ltd.	822,508,311	100.00	742,993,120	100.00
Formosa Taffeta (Hong Kong) Co., Ltd.	418,255,163	99.90	495,022,946	99.90
Formosa Development Co., Ltd.	174,520,807	99.40	158,015,723	99.40
Kuang Yueh Co., Ltd.	172,495,563	24.13	154,773,232	24.13
Formosa Ha Tinh Steel Corporation	75,490,623	4.96	-	-
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	10,160,262	100.00	10,594,694	100.00
Schoeller F.T.C. (Hong Kong) Co., Ltd.	5,653,274	43.00	6,974,705	43.00
	<u>\$ 11,834,009,810</u>		<u>\$ 10,247,263,846</u>	

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

Investee Companies	2010	2009
Formosa Advanced Technologies Co., Ltd.	\$ 1,003,616,949	\$ 48,439,785
Formosa Taffeta Vietnam Co., Ltd.	200,630,422	75,773,212
Formosa Industry Co., Ltd.	187,729,527	41,227,057
Kuang Yueh Co., Ltd.	40,038,096	36,356,478
Formosa Taffeta (Zhong Shan) Co., Ltd.	32,094,568	(183,139,383)
Taffeta (Dong Nai) Co., Ltd.	28,562,215	(53,918,126)
Formosa Development Co., Ltd.	16,540,782	3,453,947
Schoeller F.T.C. (Hong Kong) Co., Ltd.	10,147,280	10,024,891
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	227,818	(360,347)
Formosa Ha Tinh Steel Corporation	(4,249,718)	-
Formosa Taffeta (Hong Kong) Co., Ltd.	(47,557,660)	(115,873,831)
	<u>\$ 1,467,780,279</u>	<u>(\$ 138,016,317)</u>

i) The investment income or loss for the year ended December 31, 2010 was based on the investees' financial reports 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.

- ii) The investment income or loss for the year ended December 31, 2009 was based on the investees' financial reports audited by other auditors except for the investee companies, Formosa Taffeta (Hong Kong) Co., Ltd., Formosa Advanced Technologies Co., Ltd., and Formosa Taffeta (Zhong Shan) Co., Ltd.
- c) The effects of foreign currency exchange translation of long-term investments under the equity method as of December 31, 2010 and 2009 are summarized as follows:

<u>Investee Company</u>	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Formosa Taffeta (Zhong Shan) Co., Ltd.	\$ 339,633,993	\$ 419,480,106
Formosa Taffeta (Hong Kong) Co., Ltd.	61,860,516	91,070,639
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	5,268,596	5,930,846
Kuang Yueh Co., Ltd.	(5,016,225)	2,073,720
Schoeller F.T.C. (Hong Kong) Co., Ltd.	(9,826,115)	(2,764,705)
Formosa Ha Tinh Steel Corporation	(9,445,074)	-
Taffeta (Dong Nai) Co., Ltd.	(249,909,669)	(102,668,333)
Formosa Taffeta Vietnam Co., Ltd.	(319,848,581)	(198,733,350)
Formosa Industry Co., Ltd.	(<u>456,871,095</u>)	(<u>216,771,098</u>)
	(\$ <u>644,153,654</u>)	(\$ <u>2,382,175</u>)

- d) For the years ended December 31, 2010 and 2009, the Company received cash dividends of \$282,535,141 and \$328,542,990 from long-term equity investments accounted for under the equity method, respectively.
- e) The Company has subscribed for shares of USD 14,000,000 issued by Taffeta (Dong Nai) Co., Ltd. for cash from the year 2009 to 2010, which was authorized by the Board of Directors of the Company.
- f) The Company has subscribed for shares of USD 21,900,000 issued by Formosa Taffeta Vietnam Co., Ltd. for cash from the year 2008 to 2010, which was authorized by the Board of Directors of the Company. Additionally, the Company and its parent company, Formosa Chemicals & Fiber Corp., together hold more than 20% of voting shares; accordingly, Formosa Taffeta Vietnam Co., Ltd. was accounted for as long-term equity investments under the equity method.
- g) The Company planned to subscribe for shares of USD 134,000,000 issued by Formosa Ha Tinh Steel Corporation, which was authorized by the Board of Directors of the Company. For the year ended December 31, 2010, the Company has subscribed for shares of USD 2,826,000. Additionally, the Company and its parent company totally hold more than 20% voting shares; accordingly, Formosa

Ha Tinh Steel Corporation was accounted for as long-term equity investments under the equity method.

h) As of December 31, 2010 and 2009, the Company's common stocks owned by its subsidiary, Formosa Development Co., Ltd., were treated as treasury stock. Please refer to Note 4(18).

i) FTC International S.r.l., one of the Company's subsidiaries, was liquidated. The Company recognized investment loss of \$1,304,368 for the year ended December 31, 2009.

9) Property, plant and equipment

December 31, 2010			
Asset	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,222,581,270	\$ -	\$ 1,222,581,270
Land improvements	58,835,353	(54,961,803)	3,873,550
Buildings	5,994,800,693	(2,544,938,871)	3,449,861,822
Machinery and equipment	12,854,381,317	(10,658,835,247)	2,195,546,070
Transportation equipment	147,073,157	(138,930,829)	8,142,328
Other equipment	5,135,788,721	(4,526,687,524)	609,101,197
Prepayments for equipment and construction in progress	872,892,598	-	872,892,598
	<u>\$ 26,286,353,109</u>	<u>(\$ 17,924,354,274)</u>	<u>\$ 8,361,998,835</u>

December 31, 2009			
Asset	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,222,596,164	\$ -	\$ 1,222,596,164
Land improvements	58,835,353	(54,037,227)	4,798,126
Buildings	5,935,690,579	(2,335,000,774)	3,600,689,805
Machinery and equipment	13,206,667,861	(10,850,488,032)	2,356,179,829
Transportation equipment	150,134,299	(144,188,575)	5,945,724
Other equipment	5,124,722,179	(4,438,536,826)	686,185,353
Prepayments for equipment and construction in progress	448,714,226	-	448,714,226
	<u>\$ 26,147,360,661</u>	<u>(\$ 17,822,251,434)</u>	<u>\$ 8,325,109,227</u>

a) Certain fixed assets have been pledged for borrowings. Please refer to Note 6.

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

		December 31,	
		2010	2009
Land at cost	\$	329,338,269	\$ 329,541,454
Accumulated impairment	(	77,857,047)	(77,857,047)
	\$	<u>251,481,222</u>	<u>\$ 251,684,407</u>

The titles of the land had not yet been transferred to the Company, but were mortgaged to the Company in the amount of \$526,350,000 as of December 31, 2010 and 2009.

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

		December 31,	
		2010	2009
Land at cost	\$	679,634,965	\$ 674,210,087
Accumulated impairment	(	77,880,705)	(77,880,705)
	\$	<u>601,754,260</u>	<u>\$ 596,329,382</u>

- d) Certain land and buildings, amounting to \$503,299,933 and \$521,015,391 as of December 31, 2010 and 2009, respectively, were leased to the Company's subsidiary, Formosa Advanced Technologies Co., Ltd., and were reclassified as other assets - others.

10) Financial liabilities at fair value through profit or loss

		December 31,	
		2010	2009
Derivatives	\$	<u>1,095,345</u>	<u>\$ -</u>

- a) The Company recognized net loss of \$6,535,063 and \$33,800,757 for the years ended December 31, 2010 and 2009, respectively.
- b) The trading items and contract information of derivatives are as follows:

		December 31, 2010			
		Contract Amount		Fair Value	Contract Period
Forward exchange contracts	Sell	JPY	20,400,000	\$ 189,970	2011.3
		JPY	91,060,000	723,523	2011.4
		JPY	19,440,000	181,852	2011.5
				<u>\$ 1,095,345</u>	

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

- d) The expected cash inflow of unsettled forward exchange contracts is USD 1,573,503; and cash outflow is JPY 130,900,000 as of December 31, 2010.

11) Short-term loans

	December 31,	
	2010	2009
Purchase loans	\$ 31,503,990	\$ -
Unsecured loans	260,000,000	-
	<u>\$ 291,503,990</u>	<u>\$ -</u>
Interest rates	<u>0.69%~0.95%</u>	<u>-</u>

12) Long-term loans

Type of loans	Way of Repayment	December 31,	
		2010	2009
Secured bank loans	Installment	\$ 296,560,388	\$ 455,140,509
Unsecured bank loans	Upon maturity	8,100,000,000	8,400,000,000
		8,396,560,388	8,855,140,509
Less: current portion		(98,853,462)	(113,785,127)
		<u>\$ 8,297,706,926</u>	<u>\$ 8,741,355,382</u>
Interest rates		<u>0.35%~1.09%</u>	<u>0.35%~1.09%</u>

- a) Please refer to Note 6 for the carrying amount of pledged assets.

- b) The above long-term loans include a loan for \$2,000,000,000, which requires the Company to maintain a current ratio of not lower than 100% within the contract period. The ratio calculation would be based on the Company's audited financial statements.

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

- c) Long-term loans as of December 31, 2010 and 2009 will be repaid in five years as follows:

	December 31,	
	2010	2009
January 1, 2010~December 31, 2010	\$ -	\$ 113,785,127
January 1, 2011~December 31, 2011	98,853,462	6,813,785,127
January 1, 2012~December 31, 2012	7,098,853,463	1,813,785,127
January 1, 2013~December 31, 2013	<u>1,198,853,463</u>	<u>113,785,128</u>
	<u>\$ 8,396,560,388</u>	<u>\$ 8,855,140,509</u>

13) Pension plans

- a) The Company has a non-contributory and funded defined benefit pension plan in accordance with the R.O.C. Labor Standards Law, covering all regular employees, before the implementation of the Labor Pension Act on July 1, 2005. The defined benefit plan will continue to cover the employees who choose to remain with the defined benefit plan. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to an independent retirement trust fund with the Bank of Taiwan, the trustee.
- b) As of December 31, 2010 and 2009, the pension information based on the actuarial reports are as follows:
- i) The related assumptions used for the actuarial valuation are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	2.5%	2.5%
Average salary increase rate	2.0%	2.0%
Expected return rate on plan assets	2.0%	2.0%

- ii) The reconciliation between the funded status and accrued pension liability as of December 31, 2010 and 2009 are summarized as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Benefit obligation:		
Vested benefit obligation	\$ 706,348,000	\$ 595,012,000
Non-vested benefit obligation	<u>1,111,685,000</u>	<u>1,103,831,000</u>
Accumulated benefit obligation	1,818,033,000	1,698,843,000
Additional benefits based on future salary increase	<u>664,658,000</u>	<u>660,608,000</u>
Projected benefit obligation	2,482,691,000	2,359,451,000
Plan assets at fair value	(<u>550,147,000</u>)	(<u>557,141,000</u>)
Funded status	1,932,544,000	1,802,310,000
Unrecognized transition obligation	(50,593,000)	(57,022,000)
Unrecognized net pension loss	(1,020,889,000)	(1,010,040,000)
Additional pension liability	<u>406,824,000</u>	<u>406,454,000</u>
Accrued pension liability	<u>\$ 1,267,886,000</u>	<u>\$ 1,141,702,000</u>
Vested obligation	<u>\$ 1,077,408,000</u>	<u>\$ 898,955,000</u>

- iii) The components of net pension cost for the years ended December 31, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 54,565,000	\$ 47,460,000
Interest cost	57,417,000	46,788,000
Expected return on plan assets	(12,606,000)	(15,430,000)
Unrecognized net pension loss amortized	<u>45,289,000</u>	<u>23,988,000</u>
	<u>\$ 144,665,000</u>	<u>\$ 102,806,000</u>

- c) Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the "New Plan") under the R.O.C. Labor Pension Act for eligible employees holding Republic of China citizenship. The Company deposits the pension amount based on 6% of the employees' monthly salaries and wages into each employee's individual pension accounts with the Bureau of Labor Insurance. The pension cost under the New Plan for the years ended December 31, 2010 and 2009 amounted to \$55,253,912 and \$47,028,897, respectively.

14) Common stock

As of December 31, 2010, the Company's authorized and issued capital amounted to \$16,846,646,310, consisting of 1,684,665,000 shares of common stocks, with a par value of \$10 per share.

15) Capital reserve

In accordance with the R.O.C. Company Law, the Company may use the capital reserve initially to cover accumulated deficit; thereafter the Company may apply to capitalize the capital reserve not exceeding 10% of the paid-in capital once a year, arising from the paid-in capital in excess of par from the issuance of stock and donation.

16) Legal reserve

According to the R.O.C. Company Law, the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as legal reserve until it has reached 100% of contributed capital. Under the R.O.C. Company Law, the legal reserve shall be exclusively used to cover accumulated deficit or, if the balance of reserve exceeds 50% of contributed capital, to increase capital not exceeding 50% of reserve balance and shall not be used for any other purpose except under other acts.

17) Retained earnings

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

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

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

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

- c) The appropriation of 2009 and 2008 earnings had been approved during the stockholders' meeting on June 29, 2010 and June 26, 2009, respectively, as follows:

	2009		2008	
	Amount (in thousands)	Dividends per share (in dollars)	Amount (in thousands)	Dividends per share (in dollars)
Legal reserve	\$ 9,132		\$ 300,200	
Cash dividends	1,347,732	\$ 0.80	2,526,997	\$ 1.50
Total	<u>\$ 1,356,864</u>		<u>\$ 2,827,197</u>	

The estimated appropriations of 2009 and 2008 earnings proposed by the Board of Directors were the same as the actual appropriations approved by the shareholders.

As of March 18, 2011, the appropriation of 2010 earnings had not been resolved by the Board of Directors. Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

- d) The estimated employees' bonus and directors' and supervisors' remuneration amounted to \$11,112,833 and \$22,225,666, respectively, for the year ended December 31, 2010 which are recognized as operating costs and operating expenses based on the net income within the range stipulated in the Company's Articles of Incorporation in consideration of the legal reserve and other factors. While, if the estimated amounts are different from the amounts approved by the stockholders subsequently, the difference is recognized as gain or loss in 2011.
- e) Based on the net income within the range stipulated in the Company's Articles of Incorporation in consideration of the legal reserve and other factors, the Company did not accrue the amounts of employees' bonus and directors' and supervisors' remuneration, which was approved during the stockholders' meeting on June 26, 2009.
- f) As of December 31, 2010 and 2009, unpaid stock dividends amounted to \$14,133,657 and \$13,906,972, respectively.

18) Treasury stock

Changes in the treasury stock for the years ended December 31, 2010 and 2009 are set forth below:

	2010					
	Beginning		Disposal		Ending	
	Shares (in thousands)	Market price	Shares (in thousands)	Sale price	Shares (in thousands)	Market Price
<u>Investee company</u>						
Formosa Development Co., Ltd.	3,043	\$ 8.76	-	\$	3,043	\$ 28.4
	2009					
	Beginning		Disposal		Ending	
	Shares (in thousands)	Market price	Shares (in thousands)	Sale price	Shares (in thousands)	Market price
<u>Investee company</u>						
Formosa Development Co., Ltd.	3,043	\$ 8.76	-	\$	3,043	\$ 25.9

19) Income tax

- a) The reconciliation between income tax expense (benefit) and income tax payable (refundable) are as follows:

	<u>For the years ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Current year income tax expense (benefit)		
based on statutory income	\$ 783,179,292	(\$ 40,284,196)
Tax effect of permanent differences	(412,076,086)	(314,000,782)
Tax effect of investment tax credits	(36,201,068)	(75,294,953)
Under (over) provision of prior year's income tax	7,770,635	(704,821)
Tax effect of tax benefit of loss carryforwards	68,736,315	-
Effect of amendments to the tax law on deferred income tax	100,995,852	168,326,423
Valuation allowance	4,388,655	(7,960,192)
Additional 10% corporate taxed on prior year's undistributed earnings	-	17,480,163
Income tax on separately taxed interest income	(-)	(18,401)
Income tax expense (benefit)	516,793,595	(252,456,759)
Net change in deferred income tax assets and liabilities	(350,492,814)	251,823,199
Income tax payable for 2008	3,204,754	-
Prepaid and withholding taxes	(108,143)	(250,178)
Income tax on separately taxed interest income	-	(71,261)
(Under) over provision of prior year's income tax	(7,770,635)	704,821
Income tax payable (refundable)	<u>(\$ 161,626,757)</u>	<u>(\$ 250,178)</u>

- b) As of December 31, 2010 and 2009, the deferred income tax assets and liabilities were as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Total deferred income tax assets	<u>\$ 484,300,676</u>	<u>\$ 835,758,429</u>
Total deferred income tax liabilities	<u>(\$ 127,118)</u>	<u>(\$ 1,092,057)</u>

- c) As of December 31, 2010 and 2009, details of deferred income tax assets (liabilities) were as follows:

	December 31			
	2010		2009	
	Amount	Tax effect	Amount	Tax effect
Current:				
Provision for inventory obsolescence	\$ 597,493,382	\$ 101,573,875	\$ 738,296,731	\$ 147,659,346
Allowance for bad debts in excess of tax-deductible limit	40,153,134	6,826,033	40,253,279	8,050,656
Unrealized foreign exchange loss	52,600,710	8,942,121	33,434,209	6,686,842
Investment tax credits	-	20,927,567	-	21,006,279
Gain on valuation of financial assets	(747,755)	(127,118)	(5,439,718)	(1,092,057)
Loss on valuation of financial liabilities	1,095,345	186,209	-	-
Others	-	-	20,911,295	4,187,372
		<u>\$ 138,328,687</u>		<u>\$ 186,498,438</u>
Non-current:				
Investment loss	\$852,167,942	\$ 144,868,550	\$ 1,255,345,093	\$ 251,069,018
Investment tax credits	-	65,373,320	-	140,354,406
Provision for pension	797,664,711	135,603,001	671,851,088	134,370,218
Tax benefit of loss carryforwards	-	-	606,992,704	121,398,541
Others	-	-	4,878,757	975,751
		<u>\$ 345,844,871</u>		<u>\$ 648,167,934</u>

- d) The Company's income tax returns through 2008, except for 2006, have been assessed and approved by the Tax Authority.
- e) The Company's income tax return for the year ended December 31, 2007 was assessed by the Tax Authority in January 2010. An additional tax of \$4,459,140 was levied. The Company has paid the amount and recognized the related expense in 2010.
- f) The Company's income tax return for the year ended December 31, 2008 was assessed by the Tax Authority in January 2011. An additional tax of \$3,204,745 was levied. The Company has recognized the additional income tax payable.

- g) As of December 31, 2010, according to the "Statute for Upgrading Industries," the Company had investment tax credits as follows:

<u>Qualifying Item</u>	<u>Income tax credits</u>	<u>Unused income tax credits</u>	<u>Year of expiration</u>
Research and development expenditures	\$ 22,421,919	\$ 3,045,678	2011
	12,965,139	12,965,139	2012
	<u>16,497,523</u>	<u>16,497,523</u>	2013
	<u>51,884,581</u>	<u>32,508,340</u>	
Automated production equipment	50,859,716	20,927,567	2012
	6,175,119	6,175,119	2013
	<u>25,709,487</u>	<u>25,709,487</u>	2014
	<u>82,744,322</u>	<u>52,812,173</u>	
Employees' training expenditures	980,374	980,374	2013
	<u>\$ 135,609,277</u>	<u>\$ 86,300,887</u>	

- h) As of December 31, 2010 and 2009, the undistributed earnings are as follows:

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
On or After January 1, 1998		
Earnings that have been imposed 10% tax	\$ 1,521,522,645	\$ 2,491,377,685
Earnings that have not been imposed 10% tax	<u>4,090,143,416</u>	<u>91,319,977</u>
	<u>\$ 5,611,666,061</u>	<u>\$ 2,582,697,662</u>

- i) As of December 31, 2010 and 2009, the imputation tax credit account balance were \$297,912,330 and \$270,936,798, respectively; and the estimated and actual creditable tax ratio for 2010 and 2009 were 8.19% and 17.47%, respectively.

20) Earnings per share

	<u>For the year ended December 31, 2010</u>				
	<u>Amount (in thousands)</u>		<u>Earnings per share (in dollars)</u>		
	<u>Before tax</u>	<u>After tax</u>	<u>Weighted-average outstanding common shares (in thousands)</u>	<u>Before tax</u>	<u>After tax</u>
Basic earnings per share:					
Net income	<u>\$ 4,606,938</u>	<u>\$ 4,090,144</u>	<u>1,681,622</u>	<u>\$ 2.74</u>	<u>\$ 2.43</u>

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 stock:

For the year ended December 31, 2010					
	<u>Amount (in thousands)</u>		<u>Weighted-average outstanding common shares (in thousands)</u>	<u>Earnings per share (in dollars)</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
Net income attributable to common stockholders	\$ 4,606,938	\$ 4,090,144	1,684,665	\$ 2.74	\$ 2.43

For the year ended December 31, 2009					
	<u>Amount (in thousands)</u>		<u>Weighted-average outstanding common shares (in thousands)</u>	<u>Earnings per share (in dollars)</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
Basic earnings per share:					
Net (loss) income	(\$ 161,137)	\$ 91,320	1,681,622	(\$ 0.10)	\$ 0.05

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 stock:

For the year ended December 31, 2009					
	<u>Amount (in thousands)</u>		<u>Weighted-average outstanding common shares (in thousands)</u>	<u>Earnings per share (in dollars)</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
Net (loss) income attributable to common stockholders	(\$ 161,137)	\$ 91,320	1,684,665	(\$ 0.10)	\$ 0.05

As 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, 2010 and 2009. It also had no significant effect on earnings per share.

21) Personnel, depreciation and amortization expenses

Personnel, depreciation and amortization expenses are summarized as follows:

	<u>For the year ended December 31, 2010</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 1,655,977,462	\$ 669,021,612	\$ 2,324,999,074
Labor and health insurances	117,822,468	51,771,221	169,593,689
Pension and retirement	154,799,744	45,119,168	199,918,912
Others	134,446,241	23,991,214	158,437,455
Depreciation (Note)	739,808,517	162,567,266	902,375,783
Amortization	264,257	3,225,312	3,489,569

	<u>For the year ended December 31, 2009</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 1,705,996,288	\$ 688,431,641	\$ 2,394,427,929
Labor and health insurances	108,068,414	49,140,940	157,209,354
Pension and retirement	114,996,903	34,837,994	149,834,897
Others	103,373,451	27,518,469	130,891,920
Depreciation (Note)	733,885,626	165,859,810	899,745,436
Amortization	13,522,706	3,225,312	16,748,018

Note : Excluding depreciation on leased assets which is classified as other non-operating expense and losses amounting to \$19,383,496 and \$19,361,388 for the years ended December 31, 2010 and 2009, respectively.

5. RELATED PARTY TRANSACTIONS

1) Names and relationship of related parties

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Formosa Chemicals & Fiber Corp.	Parent company
Formosa Plastics Corp.	The managing director is the chairman of the Company
Formosa Petrochemical Corp.	The chairman is a second-degree relative of the chairman of the Company
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 managing director
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.	//
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.	//
Formosa Taffeta (Changshu) Co., Ltd.	An indirect investee company accounted for under the equity method

2) Significant transactions and balances with related parties

a) Sales

	For the years ended December 31,			
	2010		2009	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Yugen Co., Ltd.	\$ 319,607,097	0.98	\$ 284,436,927	1.07
Kuang Yueh Co., Ltd.	310,718,401	0.95	298,603,869	1.12
Schoeller F.T.C. (Hong Kong) Co., Ltd.	121,594,192	0.37	121,770,755	0.46
Formosa Chemicals & Fiber Corp.	97,660,411	0.30	83,377,534	0.31
Kong You Industrial Co., Ltd.	97,504,684	0.30	104,923,654	0.39
Formosa Taffeta (Zhong Shan) Co., Ltd.	96,197,151	0.30	79,653,660	0.30
Formosa Taffeta Vietnam Co., Ltd.	86,555,478	0.27	46,972,914	0.18
Formosa Taffeta (Changshu) Co., Ltd.	82,876,372	0.25	73,366,879	0.28
Bellmart Industrial Co., Ltd.	64,337,284	0.20	54,975,603	0.21
Others	<u>78,286,723</u>	<u>0.25</u>	<u>28,275,346</u>	<u>0.10</u>
	<u>\$ 1,355,337,793</u>	<u>3.19</u>	<u>\$ 1,176,357,141</u>	<u>3.35</u>

The sales prices to related parties are similar to third parties, and the collection terms are 60 to 120 days after the goods are delivered.

b) Purchases and processing charges

(1) Purchases

	For the years ended December 31,			
	2010		2009	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
Formosa Petrochemical Corp.	\$12,389,691,255	47.62	\$ 10,203,223,112	51.17
Formosa Chemicals & Fiber Corp.	4,506,992,757	17.32	2,952,245,146	14.81
Nan Ya Plastics Corp.	1,276,792,932	4.91	810,130,305	4.06
Formosa Plastics Corp.	348,979,639	1.34	292,114,150	1.47
Toa Resin Co., Ltd.	60,781,164	0.23	54,223,878	0.27
Others	<u>14,688,987</u>	<u>0.06</u>	<u>15,322,028</u>	<u>0.08</u>
	<u>\$18,597,926,734</u>	<u>71.48</u>	<u>\$ 14,327,258,619</u>	<u>71.86</u>

(2) Processing charges

For the years ended December 31,				
	2010		2009	
	Amount	Percentage of net processing charges	Amount	Percentage of net processing charges
Formosa Taffeta (Dong Nai) Co., Ltd.	\$ 87,463,127	20.39	\$ 136,595,086	27.29
Formosa Taffeta Vietnam Co., Ltd.	85,507,691	19.94	98,907,538	24.02
	<u>\$ 172,970,818</u>	<u>40.33</u>	<u>\$ 235,502,624</u>	<u>51.31</u>

- (3) Purchases from Formosa Petrochemical Corp. consist of gasoline, and payments are made semi-monthly.
- (4) Purchases from Formosa Chemicals & Fiber Corp. consist of raw materials, and the payment term was about two months.
- (5) Purchases from Nan Ya Plastics Corp. consist of raw materials, and the payment date was on the 15th of the following month.
- (6) Purchases from Formosa Plastics Corp. consist of raw materials, and the payment date was on the 15th of the following month.
- (7) Purchases from Toa Resin Co., Ltd. consist of raw materials, and payments are made after the goods are received.
- (8) The Company engaged Formosa Taffeta Vietnam Co, Ltd. and Formosa Taffeta (Dong Nai) Co., Ltd. to process its raw materials, supplies and work in process. When the goods are finished, these will be delivered back to the Company. Payments were made after the goods were received and accepted.
- (9) The prices and payment terms for related parties were not significantly different from those of non-related general suppliers.

3) Receivables

a) Notes receivable

December 31,				
	2010		2009	
	Amount	Percentage of notes receivable	Amount	Percentage of notes receivable
Kong You Industrial Co., Ltd.	\$ 7,967,135	5.39	\$ 17,652,763	9.99
Others	929,371	0.63	-	-
	<u>\$ 8,896,506</u>	<u>6.02</u>	<u>\$ 17,652,763</u>	<u>6.02</u>

b) Accounts receivable

December 31,				
2010			2009	
	Amount	Percentage of accounts and other receivables	Amount	Percentage of accounts and other receivables
Yugen Co., Ltd.	\$ 112,965,823	3.73	\$ 97,169,634	3.87
Kuang Yueh Co., Ltd.	35,039,430	1.15	23,479,629	0.94
Formosa Taffeta (Changshu)	18,413,600	0.61	32,390,682	1.29
Formosa Taffeta Vietnam Co., Ltd.	18,300,842	0.60	8,712,597	0.35
Formosa Taffeta (Zhong Shan) Co., Ltd.	18,121,608	0.60	18,413,235	0.73
Formosa Chemicals & Fiber Corp.	15,097,998	0.50	11,283,014	0.45
Bellmart Industrial	13,589,462	0.45	12,443,194	0.50
Schoeller F.T.C. (Hong Kong) Co., Ltd.	10,474,889	0.35	6,413,025	0.26
Others	9,458,849	0.30	13,406,805	0.53
	251,462,501	8.29	223,711,815	8.92
Less: Overdue accounts receivable reclassified as "other receivables"	(10,896,650)	(0.36)	(10,014,479)	(0.41)
	<u>\$ 240,565,851</u>	<u>7.93</u>	<u>\$ 213,697,336</u>	<u>8.51</u>

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

December 31, 2010				
	91-120 days	121-360 days	Over 361 days	Total
Kuang Yueh Co., Ltd.	\$ 10,880,518	\$ -	\$ -	\$ 10,880,518
Others	16,132	-	-	16,132
	<u>\$ 10,896,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,896,650</u>

	December 31, 2009			
	91-120 days	121-360 days	Over 361 days	Total
Formosa Taffeta (Zhong Shan) Co., Ltd.	\$ -	\$ -	\$ 7,899,878	\$ 7,899,878
Formosa Taffeta Vietnam Co., Ltd.	-	-	1,686,152	1,686,152
Others	428,449	-	-	428,449
	<u>\$ 428,449</u>	<u>\$ -</u>	<u>\$ 9,586,030</u>	<u>\$ 10,014,479</u>

4) Payments

a) Notes payable

	December 31,			
	2010		2009	
	Amount	Percentage of notes payable	Amount	Percentage of notes payable
Formosa Chemicals & Fiber Corp.	<u>\$ 395,140,992</u>	<u>91.90</u>	<u>\$ 298,309,858</u>	<u>87.39</u>

b) Accounts payable

	December 31,			
	2010		2009	
	Amount	Percentage of accounts payable	Amount	Percentage of accounts payable
Formosa Petrochemical Corp.	<u>\$ 508,939,804</u>	<u>26.69</u>	<u>\$ 555,067,648</u>	<u>31.96</u>
Formosa Chemicals & Fiber Corp.	455,189,525	23.87	485,051,828	27.93
Nan Ya Plastics Corp.	133,979,942	7.03	71,326,215	4.11
Formosa Taffeta Vietnam Co., Ltd.	38,541,224	2.02	17,022,430	0.98
Formosa Plastics Corp.	34,463,834	1.81	29,645,053	1.71
Formosa Taffeta (Dong Nai) Co., Ltd.	14,629,972	0.77	34,834,725	2.01
Others	5,578,884	0.29	5,076,750	0.29
	<u>\$ 1,191,323,185</u>	<u>62.48</u>	<u>\$ 1,198,024,649</u>	<u>68.99</u>

c) Other accounts payable

		December 31,	
	Nature	2010	2009
Formosa Taffeta (Changshu) Co., Ltd.	Expenses paid on behalf of the company	\$ 18,925,907	\$ -
Formosa Taffeta (Zhong Shan) Co., Ltd.	Receipts under custody	7,754,507	5,527,976
		<u>\$ 26,680,414</u>	<u>\$ 5,527,976</u>

5) Acquisitions and disposals of property, plant and equipment

- a) The Company purchased raw materials for the related parties and sold fixed assets to related parties. Gain or loss is recorded as non-operating income (expense). Details are as follows:

		December 31, 2010		
	Item	Book value	Sales price	Gain (loss)
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies	\$ 29,431,121	\$ 30,222,386	\$ 791,265
Formosa Taffeta Vietnam Co., Ltd.	"	5,848,926	6,245,606	396,680
Formosa Taffeta (Dong Nai) Co., Ltd.	"	7,540,534	7,526,881	(13,653)
Formosa Taffeta (Zhong Shan) Co., Ltd.	Disposal of property, plant and equipment	3,985,243	8,481,630	4,496,387
Formosa Taffeta Vietnam Co., Ltd.	"	1,268,631	1,476,061	207,430
		<u>\$ 48,074,455</u>	<u>\$ 53,852,564</u>	<u>\$ 5,878,109</u>
		December 31, 2009		
	Item	Book value	Sales price	Gain (loss)
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies	\$ 25,975,521	\$ 26,592,606	\$ 617,085
Formosa Taffeta Vietnam Co., Ltd.	"	9,816,171	10,168,018	351,847
Formosa Taffeta (Dong Nai) Co., Ltd.	"	1,413,446	1,788,856	375,410
Formosa Taffeta Vietnam Co., Ltd.	Disposal of property, plant and equipment	-	138,906	138,906
		<u>\$ 37,205,138</u>	<u>\$ 38,688,386</u>	<u>\$ 1,483,248</u>

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 to Formosa Advanced Technologies Co., Ltd. The lessee pays the Company at the beginning of every month. For the years ended December 31, 2010 and 2009, rental income amounted to \$28,574,952 for both years.

c) Other receivables

December 31, 2010			
	Item	Amount	%
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies and disposal of property, plant and equipment	\$ 48,984,852	25.73
Formosa Taffeta (Dong Nai) Co., Ltd.	"	9,845,888	5.17
Formosa Taffeta Vietnam Co., Ltd.	"	6,307,770	3.31
Formosa Advanced Technologies Co., Ltd.	Rent receivable and payments made by the Company on behalf of related party	4,238,781	2.23
Others	Payments made by the Company on behalf of related party	13,290	0.01
		<u>\$ 69,390,581</u>	<u>36.45</u>

December 31, 2009			
	Item	Amount	%
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies and disposal of property, plant and equipment	\$ 75,386,506	44.05
Formosa Taffeta Vietnam Co., Ltd.	"	12,742,610	7.44
Formosa Taffeta (Dong Nai) Co., Ltd.	"	4,942,500	2.76
Formosa Taffeta Vietnam Co., Ltd.	Rent receivable and payments made by the Company on behalf of related party	4,721,324	2.76
Others	Payments made by the Company on behalf of related party	1,000,781	0.58
		<u>\$ 98,793,721</u>	<u>57.59</u>

6) Commission expenses

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

	For the years ended December 31,	
	2010	2009
Formosa Taffeta (Hong Kong) Co., Ltd.	<u>\$ 12,066,019</u>	<u>\$ 7,259,695</u>

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

	December 31,			
	2010		2009	
	Amount	Percentage of accrued expenses	Amount	Percentage of accrued expenses
Formosa Taffeta (Hong Kong) Co., Ltd.	\$ 1,441,744	0.15	\$ 931,444	0.12
Yugen Co., Ltd.	-	-	4,156,675	0.52
	<u>\$ 1,441,744</u>	<u>0.15</u>	<u>\$ 5,088,119</u>	<u>0.64</u>

7) Endorsements and guarantees

	December 31,	
	2010	2009
Formosa Taffeta (Zhong Shan) Co., Ltd.	\$ 2,301,270,000	\$ 2,207,310,000
Formosa Taffeta Vietnam Co., Ltd.	2,155,620,000	2,709,553,000
Formosa Taffeta (Changshu) Co., Ltd.	3,294,703,000	3,227,466,000
Formosa Taffeta (Dong Nai) Co., Ltd.	3,087,780,000	2,655,170,000
	<u>\$ 10,839,373,000</u>	<u>\$ 10,799,499,000</u>

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

	For the years ended December 31	
	2010	2009
Salaries and bonuses	\$ 31,428,744	\$ 28,711,848
Services fees	460,000	497,968
Distribution of earnings	11,112,833	8,434,758
	<u>\$ 43,001,577</u>	<u>\$ 37,644,574</u>

- (1) Salaries include wages, allowances and retirement pension, etc.
- (2) Bonus includes all kinds of incentives.
- (3) Service fees include traveling allowance and subsidies, etc.
- (4) Distribution of earnings include directors' and supervisors' remuneration and employees' bonus.
- (5) For the related information, please refer to the annual report.

6. PLEDGED OR RESTRICTED ASSETS

Assets	December 31,		Purpose
	2010	2009	
Property, plant and equipment	\$ 696,321,366	\$ 819,662,914	Security for long-term debts
Other financial assets - non-current	-	18,289,944	Exercise guarantee for lawsuits
Guarantee deposits	-	23,148,463	"
	<u>\$ 696,321,366</u>	<u>\$861,101,321</u>	

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2010, in addition to those disclosed in Note 5, the significant commitments and contingent liabilities are the outstanding letters of credit for materials and equipment purchases with various companies listed as follows:

Currency	December 31, 2010
USD	\$ 5,015,632
JPY	1,224,120,700
EUR	3,785,073
CHF	492,470

8. MAJOR CATASTROPHE

None.

9. SUBSEQUENT EVENT

None.

10. OTHERS

1) Certain accounts in the 2009 financial statements were reclassified to conform with the 2010 financial statement presentation.

2) Fair values of the financial instruments

December 31, 2010			
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
<u>Non-derivative financial instruments</u>			
<u>Assets</u>			
Financial assets with fair values equal to book values	\$ 4,365,103,331	-	\$ 4,365,103,331
Available-for-sale financial assets	39,532,293,733	39,532,293,733	-
Financial assets carried at cost	353,621,031	-	353,621,031
Refundable deposits	55,348,049	-	55,348,049
<u>Liabilities</u>			
Financial liabilities with fair values equal to book values	3,624,606,846	-	3,624,606,846
Long-term liabilities (including current portion)	8,396,560,388	-	8,396,560,388
Deposits received	55,795,017	-	-
<u>Derivative financial instruments</u>			
<u>Assets</u>			
Forward exchange contracts	747,755	-	747,755
<u>Liabilities</u>			
Forward exchange contracts	1,095,345	-	1,095,345

	December 31, 2009		
		Fair value	
		Quotations in an active market	Estimated using a valuation technique
	Book value		
<u>Non-derivative financial instruments</u>			
<u>Assets</u>			
Financial assets with fair values equal to book values	\$ 3,847,192,950	\$ -	\$ 3,847,192,950
Available-for-sale financial assets	34,945,523,867	34,945,523,867	-
Financial assets carried at cost	157,232,373	157,232,373	-
Refundable deposits	79,283,486	-	79,283,486
<u>Liabilities</u>			
Financial liabilities with fair values equal to book values	2,942,758,727	-	2,942,758,727
Long-term liabilities (including current portion)	8,855,140,509	\$ -	8,855,140,509
Deposits received	42,947,115	-	-
<u>Derivative financial instruments</u>			
<u>Assets</u>			
Interest exchange contract	5,439,718	-	5,439,718

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

- (1) For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables, other financial assets-non-current, short-term loans, notes payable, accounts payable (including related parties), accrued expenses, and other payables.
- (2) The financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets are regarded as quoted in the active market.
- (3) Financial assets carried at cost are equity stocks, with no active market and no fair value.
- (4) The fair values of refundable deposits (accounted as other assets-other) and guarantee deposits received (accounted as other liabilities-other) were determined based on their carrying values because the discounted values are approximately the same as the carrying values.

- (5) For long-term loans, including the current portion, the fair value is determined based on their carrying values because the discounted values are approximately the same as the carrying values.
- (6) The fair value of derivative financial instruments which include unrealized gains or losses on unsettled contracts was determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date. The fair value was provided by the counterparty financial institution.

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

For available-for-sale financial assets, during the years ended December 31, 2010 and 2009, the amount of gain recognized directly in equity was \$4,297,695,892 and \$10,207,265,025, respectively. The amount deducted from equity item and shown as impairment loss was \$2,013,043,696 for the year ended December 31, 2009.

4) Information on interest rate risk items

As of December 31, 2010 and 2009, the financial assets with cash flow risk due to the change of interest rate amounted to \$812,827,557 and \$551,981,699, respectively, and the financial liabilities amounted to \$8,396,560,388 and \$8,855,140,509, respectively.

5) Procedure of financial risk control and hedge

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

a) Foreign exchange risk

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

b) Interest rate risk

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

c) Cash flow risk

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

d) Credit risk

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

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

6) Information of material financial risk

A) Market risk

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

<u>December 31, 2010</u>			
	<u>Currency</u>	<u>Amount</u>	<u>Exchange rate</u>
<u>Effect on net income</u>			
Financial assets			
Cash and cash equivalents	USD	\$ 11,617,810	\$ 29.130
	JPY	25,871,178	0.374
Receivables	USD	59,553,635	29.130
	JPY	313,684,808	0.374
Financial liabilities			
Bank loans	USD	2,845,782	29.130
	JPY	17,494,908	0.374
<u>December 31, 2009</u>			
	<u>Currency</u>	<u>Amount</u>	<u>Exchange rate</u>
<u>Effect on net income</u>			
Financial assets			
Cash and cash equivalents	USD	\$ 6,448,106	\$ 31.990
	JPY	185,234,064	0.347
Receivables	USD	46,583,749	31.990
	JPY	276,975,443	0.347
Financial liabilities			
Bank loans	USD	3,794,376	31.990
	JPY	23,326,544	0.347

- b) The investments in equity financial instruments owned by the Company are exposed to price risk, but the possibility of market risk is low as a result of the setting of stop-loss point.
- c) The loans mostly belong to adjustable rate mortgage and the Company adjusts the loan position at market rates. Therefore, the Company expects no significant market risk.
- d) The Company's major import and export transactions are conducted in USD currency. The change of fair value will be caused by foreign exchange rate, however, the amounts and periods of the Company's foreign currency assets and liabilities are equivalent, so the market risk could be offset. If the gap is raised, the Company would adopt the forward contract to hedge the risk, so the Company estimates there would be no material risk.

B) Credit risk

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

	December 31,	
	2010	2009
Loan guarantees for related parties	<u>\$10,839,373,000</u>	<u>\$10,799,499,000</u>

C) Liquidity risk

- a) 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 the fair value. The Company's investments in equity financial instruments without active markets are exposed to liquidity risk.

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

D) Cash flow risk due to changes in interest rate

- a) The Company's receivables and payables are expected to be realized within a year, and the Company expects to have no significant cash flow risk from changes in interest rate.
- b) The loans are mostly issued at floating interest rate. Accordingly, the future cash flow will fluctuate with the yield rate of these debt instruments. The amount of cash flow would be decreased by \$86,880,644 based on the assumption that interest rate is raised by 1% on balance sheet date.
- c) The investments in equity financial instruments owned by the Company are not interest-related financial assets. Therefore, no cash flow risk due to changes in interest rate is expected to arise.

11. SEGMENT INFORMATION

A) Financial information by industry

For the year ended December 31, 2010							
	First division	Tire code division	Plastic factory division	Cotton textile factory division	Special textile factory division	Gasoline division	Total
Revenues from external customers	\$ 9,379,749	\$ 8,786,776	\$ 445,740	\$ 601,415	\$ 653,936	\$ 12,548,459	\$ 32,416,075
Segment profits	\$ 1,151,056	\$ 616,621	\$ 71,511	\$ 109,220	\$ 108,079	\$ 207,829	2,264,316
General expenses							(458,760)
Investment income, net							2,913,444
Interest expense, net							(80,364)
Non-operating expenses, net							(31,698)
Income before income tax							\$ 4,606,938
Identifiable assets	\$ 6,467,681	\$ 4,756,621	\$ 170,910	\$ 443,957	\$ 442,719	\$ 1,436,795	\$ 13,718,683
Long-term investments							\$ 50,577,643
General assets							7,161,816
Total assets							\$ 71,458,142
Depreciation and amortization							
Belonging to each segment	\$ 358,151	\$ 275,007	\$ 13,115	\$ 29,213	\$ 11,660	\$ 116,182	\$ 803,328
Belonging to overall company							\$ 121,921
Capital expenditures							
Belonging to each segment	\$ 757,353	\$ 35,064	\$ 4,952	\$ 33,288	\$ 32,188	\$ 18,167	\$ 881,012
Belonging to overall company							\$ 78,398

For the year ended December 31, 2009							
	First division	Tire code division	Plastic factory division	Cotton textile factory division	Special textile factory division	Gasoline division	Total
Revenues from external customers	\$ 7,925,911	\$ 6,819,390	\$ 432,256	\$ 476,668	\$ 457,461	\$ 10,433,016	\$ 26,544,702
Segment profits	\$ 1,105,752	\$ 576,706	\$ 81,872	\$ 50,932	\$ 87,100	\$ 196,815	2,099,177
General expenses							(442,282)
Investment income, net							(1,727,439)
Interest expense, net							(91,201)
Non-operating expenses, net							608
Income before income tax							(\$ 161,137)
Identifiable assets	\$ 6,142,489	\$ 4,626,901	\$ 164,165	\$ 392,222	\$ 335,336	\$ 1,648,060	\$ 13,309,173
Long-term investments							\$ 44,519,712
General assets							6,657,063
Total assets							\$ 64,485,948
Depreciation and amortization							
Belonging to each segment	\$ 388,750	\$ 251,653	\$ 8,635	\$ 25,909	\$ 9,122	\$ 119,899	\$ 803,968
Belonging to overall company							\$ 131,887
Capital expenditures							
Belonging to each segment	\$ 106,204	\$ 96,763	\$ 641	\$ 15,789	\$ 8,497	\$ 72,568	\$ 300,462
Belonging to overall company							\$ 66,420

B) Financial information by geographic area

The Company has no overseas operations. Therefore, the geographic information is not required.

C) Export sales by geographic area (expressed in thousands of New Taiwan dollars):

<u>Area</u>	<u>For the years ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Asia	\$ 7,882,623	\$ 6,626,555
Hong Kong	4,203,196	3,608,316
Japan	668,030	415,180
Others	1,218,720	493,102
Total	<u>\$ 13,972,569</u>	<u>\$ 11,143,153</u>

D) Information on major customers

For the years ended December 31, 2010 and 2009, sales to any individual customer did not exceed 10% of the Company's net sales, therefore, the information on major customers is not required.