

**ECLAT TEXTILE CO., LTD.**  
**Financial Statements**  
**December 31, 2011 and 2010**  
**(With Auditors' Report Thereon)**

## **Independent Auditors' Report**

To the Board of Directors of  
Eclat Textile Co., Ltd.

We have audited the accompanying balance sheet of Eclat Textile Co., Ltd. (the "Company") as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity, and 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 conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Eclat Textile Co., Ltd. as of December 31, 2011 and 2010, and the results of its operations and its 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.

We have audited the consolidated financial statements as of and for the years ended December 31, 2011 and 2010. Based on our audits, we expressed an unqualified opinion on those consolidated financial statements.

Taipei Taiwan (the Republic of China)  
March 27, 2012

### **Notes to Readers**

The accompanying financial statements are intended only to present the 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 financial statements are those generally accepted and applied in the Republic of China.

This document is an English translation of a report originally issued in Chinese. In the event of a conflict between the English translation and original Chinese version, the Chinese auditors' report and financial statements shall prevail.

**ECLAT TEXTILE CO., LTD.**

**Balance Sheets**

**December 31, 2011 and 2010**  
(Expressed in thousands of New Taiwan dollars)

<u>Assets</u>	<u>2011.12.31</u>		<u>2010.12.31</u>		<u>Liabilities and Stockholders' Equity</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash in bank (note 4)	\$ 236,201	4	139,411	3	Short-term borrowings (notes 13 and 21)	\$ 50,000	1	370,000	7
Financial assets reported at fair value through profit or loss (note 5)	-	-	17,252	-	Financial liabilities reported at fair value through profit or loss(note 5)	20,138	-	-	-
Notes receivable (note 6)	3,801	-	3,693	-	Notes payable	126,022	2	117,541	2
Notes receivable – related parties (note 20)	1,137	-	589	-	Notes payable – related parties (note 20)	84,411	2	108,012	2
Accounts receivable (note 6)	1,203,887	20	1,057,144	20	Accounts payable	378,709	6	335,570	6
Accounts receivable – related parties (note 20)	6,246	-	10,473	-	Accounts payable – related parties (note 20)	141,510	3	158,195	3
Other receivable – related parties (note 20)	-	-	203,910	4	Income tax payable	179,470	3	89,782	2
Other financial assets – current (note 20)	10,281	-	25,706	1	Accrued expenses (note 15)	282,790	5	231,905	4
Inventories, net (note 7)	1,549,545	26	1,242,006	23	Other payables (note 20)	21,255	-	42,844	1
Deferred income tax asset, net – current (note 16)	-	-	6,891	-	Deferred income tax liabilities(note 16)	20,714	-	-	-
Other current assets	114,731	2	105,245	2	Other current liabilities	26,874	-	17,130	-
<b>Total current assets</b>	<u>3,125,829</u>	<u>52</u>	<u>2,812,320</u>	<u>53</u>	<b>Total current liabilities</b>	<u>1,331,893</u>	<u>22</u>	<u>1,470,979</u>	<u>27</u>
<b>Funds and long-term investments</b>					<b>Long-term borrowings (notes 14 and 21)</b>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>2</u>
Long-term investments under equity method (note 8)	1,747,073	30	1,640,114	31	<b>Other liabilities:</b>				
Financial assets under cost method – non-current (note 9)	-	-	-	-	Accrued pension liability (note 15)	103,841	2	97,100	2
<b>Total funds and long-term investments</b>	<u>1,747,073</u>	<u>30</u>	<u>1,640,114</u>	<u>31</u>	Deposits received	59,401	1	65,951	1
<b>Property, plant and equipment (notes 10 and 21):</b>					<b>Total other liabilities</b>	<u>163,242</u>	<u>3</u>	<u>163,051</u>	<u>3</u>
Cost:					<b>Total liabilities</b>	<u>1,495,135</u>	<u>25</u>	<u>1,734,030</u>	<u>32</u>
Land	351,624	6	351,624	7	<b>Stockholders' equity (note 17):</b>				
Buildings	437,657	8	437,657	8	Common stock	2,112,419	35	1,992,848	37
Machinery and equipment	608,844	10	562,669	10	Capital surplus	293,678	5	293,678	6
Transportation equipment	26,648	-	19,729	-	Retained earnings:				
Office equipment	67,109	1	84,027	2	Legal reserve	358,550	6	282,178	5
Miscellaneous equipment	31,804	1	32,091	1	Special reserve	62,517	1	78,528	1
<b>Total cost</b>	<u>1,523,686</u>	<u>26</u>	<u>1,487,797</u>	<u>28</u>	Unappropriated earnings (note 16)	1,657,169	28	1,053,142	20
Less: accumulated depreciation	(693,624)	(12)	(680,457)	(13)	<b>Total Retained earnings</b>	<u>2,078,236</u>	<u>35</u>	<u>1,413,848</u>	<u>26</u>
Construction in progress and prepayments for machinery and equipment	111,104	2	4,193	-	Other Stockholders' equity:				
Net property, plant and equipment	<u>941,166</u>	<u>16</u>	<u>811,533</u>	<u>15</u>	Cumulative translation adjustments (note 8 and 16)	(24,448)	-	(62,516)	(1)
<b>Intangible assets</b>					Net loss not recognized as pension cost (note 8)	(1,422)	-	-	-
Computer software (note 11)	3,233	-	3,196	-	<b>Total stockholders' equity</b>	<u>4,458,463</u>	<u>75</u>	<u>3,637,858</u>	<u>68</u>
<b>Other assets:</b>					<b>Commitments and contingencies (note 22 and 24)</b>				
Assets leased to others, net (notes 10 and 21)	11,288	-	11,418	-					
Deferred charges (note 12)	21,276	-	7,536	-	<b>Total liabilities and stockholders' equity</b>	<u>\$ 5,953,598</u>	<u>100</u>	<u>5,371,888</u>	<u>100</u>
Deferred income tax asset, net – non-current (note 16)	30,277	1	12,498	-					
Other assets (note 21)	73,456	1	73,273	1					
<b>Total other assets</b>	<u>136,297</u>	<u>2</u>	<u>104,725</u>	<u>1</u>					
<b>Total assets</b>	<u>\$ 5,953,598</u>	<u>100</u>	<u>5,371,888</u>	<u>100</u>					

See accompanying notes to financial statements.

# ECLAT TEXTILE CO., LTD.

## Statements of Income

**For the years ended December 31, 2011 and 2010**

**(Expressed in thousands of New Taiwan dollars except for earnings per share)**

	2011		2010	
	Amount	%	Amount	%
<b>Operating revenues</b>				
Sales revenue	\$ 10,895,690	101	8,505,117	101
Less: Sales returns	(79,597)	(1)	(7,391)	-
Sales allowances	(32,847)	-	(48,766)	(1)
<b>Net operating revenues (note 20)</b>	10,783,246	100	8,448,960	100
<b>Cost of goods sold (note 7、11、15 and 20)</b>	(8,402,943)	(78)	(6,731,722)	(80)
<b>Gross profit</b>	2,380,303	22	1,717,238	20
<b>Operating expenses (notes 11、15 and 20)</b>				
Sales expenses	(636,131)	(6)	(486,694)	(6)
Administrative and general expenses	(340,647)	(3)	(391,619)	(5)
Research and development expenses	(60,204)	(1)	(29,419)	-
<b>Total operating expenses</b>	(1,036,982)	(10)	(907,732)	(11)
<b>Operating income</b>	1,343,321	12	809,506	9
<b>Non-operating income and gains:</b>				
Interest income (note 20)	1,453	-	5,381	-
Investment gain recognized under equity method, net (note 8)	58,631	1	126,978	2
Gain on disposal of property and equipment	98	-	-	-
Gain on disposal of investments	-	-	825	-
Foreign exchange gain, net	74,448	1	-	-
Rent income (note 20)	2,593	-	2,621	-
Evaluation gain on financial assets (note 5)	-	-	58,622	1
Miscellaneous income	18,618	-	5,344	-
<b>Total non-operating income and gains</b>	155,841	2	199,771	3
<b>Non-operating expenses and losses:</b>				
Interest expense	(8,796)	-	(4,324)	-
Loss on disposal of property and equipment	-	-	(499)	-
Loss on disposal of investments	(5)	-	-	-
Foreign exchange loss, net	-	-	(100,215)	(1)
Evaluation loss on financial assets (note 5)	(51,910)	(1)	-	-
Miscellaneous expenses	(131)	-	(3,899)	-
<b>Total non-operating expenses and losses</b>	(60,842)	(1)	(108,937)	(1)
<b>Income before income tax</b>	1,438,320	13	900,340	11
<b>Income tax (note 16)</b>	(255,791)	(2)	(136,623)	(2)
<b>Net income</b>	\$ 1,182,529	11	763,717	9
<b>Basic earnings per share (note 18)</b>				
Before income tax	\$ 6.81		4.26	
After income tax	5.60		3.62	

See accompanying notes to financial statements.

**ECLAT TEXTILE CO., LTD.**  
**Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2011 and 2010**  
**(Expressed in thousands of New Taiwan dollars)**

	Common stock	Capital surplus	Retained earnings			Other stockholders' equity		Total
			Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Others	
<b>Balance as of January 1, 2010</b>	\$ 1,934,804	293,678	244,492	19,754	637,409	(78,527)	-	3,051,610
Appropriation and distribution of retained earnings (note 1):								
Appropriated as legal reserve	-	-	37,686	-	(37,686)	-	-	-
Appropriated as special reserve	-	-	-	58,774	(58,774)	-	-	-
Stock dividends to shareholders	58,044	-	-	-	(58,044)	-	-	-
Cash dividends to shareholders	-	-	-	-	(193,480)	-	-	(193,480)
Net income for 2010	-	-	-	-	763,717	-	-	763,717
Change in cumulative translation adjustments	-	-	-	-	-	16,011	-	16,011
<b>Balance as of January 1, 2011</b>	1,992,848	293,678	282,178	78,528	1,053,142	(62,516)	-	3,637,858
Reversal of special reserves	-	-	-	(16,011)	16,011	-	-	-
Appropriation and distribution of retained earnings (note 2):								
Appropriated as legal reserve	-	-	76,372	-	(76,372)	-	-	-
Cash dividends to shareholders	-	-	-	-	(398,570)	-	-	(398,570)
Stock dividends to shareholders	119,571	-	-	-	(119,571)	-	-	-
Net income for 2011	-	-	-	-	1,182,529	-	-	1,182,529
Change in cumulative translation adjustments	-	-	-	-	-	38,068	-	38,068
Change in net loss not recognized as pension cost	-	-	-	-	-	-	(1,422)	(1,422)
<b>Balance as of December 31, 2011</b>	<u>\$ 2,112,419</u>	<u>293,678</u>	<u>358,550</u>	<u>62,517</u>	<u>1,657,169</u>	<u>(24,448)</u>	<u>(1,422)</u>	<u>4,458,463</u>

Note 1: The employees' bonus of \$252 thousand appropriated from 2009 earnings is expensed in the 2009 non-consolidated statement.

Note 2: The employees' bonus of \$519 thousand appropriated from 2010 earnings is expensed in the 2010 non-consolidated statement.

See accompanying notes to financial statements.

# ECLAT TEXTILE CO., LTD.

## Statements of Cash Flows

**For the years ended December 31, 2011 and 2010**  
(Expressed in thousands of New Taiwan dollars)

	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,182,529	763,717
Adjustments:		
Depreciation and amortization	61,162	51,883
(Gain) loss on disposal of property and equipment, net	(98)	499
Loss on inventory valuation	-	10,000
Investment gain on equity-method investees	(58,631)	(126,978)
(Gain) loss on doubtful accounts	(3,132)	23,913
Loss (gain) on evaluation of financial assets	51,910	(58,622)
Increase in notes and accounts receivable	(140,040)	(242,055)
Increase in inventories	(307,539)	(459,878)
Decrease (increase) in other current assets	5,940	(47,741)
Decrease (increase) in deferred income tax assets	2,028	(19,662)
Increase in notes and accounts payable	11,334	182,718
Increase in accrued expense and other current liabilities	128,728	25,268
(Decrease) increase in deposits received	(6,550)	65,761
Unremitted pension	6,741	4,445
Dividends from equity-method investees	70,684	41,071
<b>Net cash provided by operating activities</b>	<b>1,005,066</b>	<b>214,339</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of property and equipment	1,800	-
Purchase of property and equipment	(183,936)	(61,650)
Increase in guarantee deposits paid	(183)	-
Increase in deferred charges	(20,580)	(6,464)
Decrease (increase) in other receivable — related parties	203,910	(11,970)
Increase in long-term investments	(74,569)	(469,907)
Increase in intangible assets	(1,628)	(2,176)
(Increase) decrease in financial assets	(14,520)	29,186
<b>Net cash used in investing activities</b>	<b>(89,706)</b>	<b>(522,981)</b>
<b>Cash flows from financing activities:</b>		
(Decrease) increase in short-term borrowings	(320,000)	370,000
(Decrease) increase in long-term borrowings	(100,000)	100,000
Cash dividends	(398,570)	(193,480)
<b>Net cash provided by (used in) financing activities</b>	<b>(818,570)</b>	<b>276,520</b>
<b>Net increase (decrease) in cash and cash in bank</b>	96,790	(32,122)
<b>Cash and cash in bank at beginning of year</b>	139,411	171,533
<b>Cash and cash in bank at end of year</b>	<b>\$ 236,201</b>	<b>139,411</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 8,790	4,124
Income tax paid	\$ 161,187	227,100

See accompanying notes to financial statements.

# **ECLAT TEXTILE CO., LTD.**

## **Notes to Financial Statements**

**December 31, 2011 and 2010**

**(Expressed in thousands of New Taiwan dollars unless otherwise specified)**

### **1 Organization and Business**

Eclat Textile Co., Ltd. (the Company) was incorporated in November 1977 and set up the Tashan Plant and Hsichou Plant in Miao-li and the Wu Ku Plant in Taipei. It has mainly been involved in the manufacturing and marketing of knitwear. As of December 31, 2011 and 2010, the number of employees hired by the Company was 974 and 888, respectively.

### **2 Summary of Significant Accounting Policies**

The financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles and practices generally accepted in Taiwan, the Republic of China. The significant accounting policies and measurement basis adopted in preparing the accompanying financial statements are summarized as follows:

#### **(a) Use of estimates**

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Economic conditions and events could cause actual results to differ significantly from these estimates.

#### **(b) Foreign currency transactions and translation**

The Company's reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency at the foreign exchange rates at the date the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

For long-term equity investments in foreign investees which are accounted for by the equity method, their foreign currency financial statements are translated into the Company's reporting currency. Assets and liabilities of foreign operations are translated using the exchange rates on the balance sheet date. Except for the beginning balance of retained earnings that is carried over from the prior period, the accounts under stockholders' equity are translated at historical exchange rates. Dividends are translated at exchange rates on the declaration date. Revenue and expense accounts are translated using average rates during the period. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency are accounted for as translation adjustment, a separate component of stockholders' equity.

(c) Classification of current and non-current assets and liabilities

Cash or cash equivalents, and assets that are held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets are classified as non-current.

Liabilities that are held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as non-current liabilities.

(d) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are comprised of financial assets held for trading and financial assets designated as fair value through profit or loss. Financial instruments held for short-term sale or repurchase purposes and derivative financial instruments not qualified for hedge accounting are classified as financial assets or liabilities at fair value through profit or loss.

If an entity is required to separate an embedded derivative from its host contract but is unable to measure the embedded derivative separately either at acquisition or at the subsequent balance sheet dates, the entire hybrid contract is designated as either financial asset or liability at fair value through profit or loss.

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**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements****(e) Notes, accounts and others receivable**

Effective January 1, 2011, the Company assesses accounts receivable to identify whether the existence of objective evidence indicates an impairment loss on individual accounts receivable at each balance sheet date. When the result of the assessment indicates that an impairment loss on accounts receivable exists, the Company recognizes the impairment loss. An impairment loss is recognized in profit or loss in the period when impairment is incurred based on the excess of the carrying value over the present value of estimated future cash flows at initial effective interest rate. The carrying value of accounts receivable is reduced through the use of an allowance account. If the impairment loss decreases in the subsequent period due to the improvement in debtor's credit rating, the Company reverses an impairment loss recognized in the prior periods by adjusting the allowance account. The carrying value after the reversal should not exceed the balance of accounts receivable assuming no impairment loss was recognized in the prior periods. The reversal of impairment loss is recognized as a gain in the period when impairment loss decreases.

Prior to January 1, 2011, allowance for doubtful accounts is provided according to the status of collectability of each account. The amount is determined by considering the past collection experience, credit ratings of the customers, and aging analysis of the outstanding receivables

**(f) Transfers of accounts receivable**

Transfers of rights to accounts receivable are in accordance with Statement of Financial Accounting Standards No. 33 (SFAS No. 33) "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities". The transferor has surrendered control over transferred assets if all of the following conditions are met:

- (i) The transferred assets have been isolated from the transferor. That is, they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- (ii) Each transferee has the right to pledge or exchange the transferred assets, and no condition constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

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**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

(iii) The transferor does not maintain effective control over the transferred assets through either:

- A. an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
- B. the ability to unilaterally cause the holder to return specific assets

The difference between accounts receivable and the advances received amount is reclassified to “other receivables”.

(g) Impairment of non-financial assets

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes the impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in the prior periods.

The Company assesses the goodwill and intangible assets that have indefinite lives or are not yet available for use on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

(h) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The allocation of production overheads to the finished goods and work in progress is based on the normal labor-hour or machine-hour capacity. Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

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**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

## (i) Long-term investment under equity method

Long-term equity investments in which the Company, directly or indirectly, owns 20% or more of the investee companies' voting shares, or owns less than 20% of the investee companies' voting shares but has significant influence on the investee companies, are accounted for by the equity method. Differences between investment cost and net equity at fair value are accounted for as follows:

- i If the difference could be attributed to specific reasons, the difference should be accounted for using the original accounting treatment. However, goodwill is no longer amortized, and preceding expenses cannot be reversed.
- ii If the difference could originally be amortized in a certain period, the unamortized portion belonging to investment cost in excess of net equity is accounted for as goodwill.
- iii Deferred credit of long-term equity investment is amortized over the remaining period.

An impairment test is performed annually. If any indication of impairment is identified, an impairment test is performed immediately. Whenever a recoverable amount is below the book value, impairment loss is recognized.

The difference between the selling price and the book value of long-term equity investments under the equity method is recognized as disposal gain or loss in the accompanying non-consolidated statements of income. If there is capital surplus resulting from long-term equity investments, the capital surplus should be debited to disposal gain or loss based on the disposal ratio.

In addition to recognized investment income or loss by the equity method, the Company compiles consolidated financial statements for investee companies which the Company has the power to control on a semi-annual and annual basis.

Unrealized gains and losses resulting from transactions between the Company and its investee companies and among subsidiaries are deferred. Unrealized gains or losses resulting from depreciable or amortizable assets are recognized over their useful lives. Gains or losses from other assets are recognized when realized.

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**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

When investee companies issue common stock and the Company does not purchase the stock in accordance with its ownership holding ratio, the Company adjusts its capital surplus based on the net changes in the capital surplus and long-term equity investment. If the capital surplus arising from long-term investment accounted for under the equity method is insufficient, the deficiency is debited to retained earnings.

Investees that the Company controls are the Company's subsidiaries. The Company recognizes fully investment losses when the equity in net assets of such subsidiaries is negative except to the extent to that the minority shareholders have a binding obligation to, and is able to, make good the losses. Such credit balance of the carrying amount of a long-term equity investment is recorded as a liability on the balance sheet.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost, which includes the capitalized interest incurred from the acquisition and installation of machinery and equipment. The cost of a major addition or improvement to, or replacement of, a component of an item of property, plant or equipment is capitalized to the carrying amount of the item. Costs associated with routine repairs and maintenance are expensed as incurred.

Property, plant and equipment not used in operations are classified as idle assets and are stated at the lower of carrying amount or net realizable value.

Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

In accordance with Interpretation (97)340 announced by the Accounting Research and Development Foundation ("ARDF") on November 20, 2008, the estimated costs of dismantling and removing an item and restoring the site on which it is located are capitalized. Each part of an item of property, plant or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The remaining useful life, depreciation method, and residual value are assessed at each fiscal year-end, and changes therein are accounted for as changes in accounting estimates.

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**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

The respective useful lives of assets are as follows:

- (i) Buildings: 10 to 60 years
- (ii) Machinery and equipment: 5 to 15 years
- (iii) Transportation equipment: 5 years
- (iv) Office equipment: 5 to 15 years
- (v) Miscellaneous equipment: 5 to 10 years

Gains or losses on the disposal of property, plant and equipment are recorded as non-operating income or expenses in the accompanying income statements.

(k) Intangible assets

The Company adopted SFAS No. 37 "Intangible Assets." In accordance with SFAS No. 37, other than intangible assets acquired by way of a government grant, which are measured at fair value, an intangible asset is measured initially at cost. Subsequent to initial recognition, an intangible asset is measured at its cost plus revaluation increment arising from revaluation made in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The amortizable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the useful lives of intangible assets from the date that they are available for use. The estimated useful lives for computer software are 2 to 5 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least at each fiscal year-end. Changes therein are accounted for as changes in accounting estimates.

(l) Deferred expenses and amortization

Deferred expenses are stated at cost and primarily consist of office remodeling. These expenses are deferred and amortized using the straight-line method over the estimated period benefited.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

## (m) Employee retirement plan

The Company has established an employee noncontributory defined benefit retirement plan covering all regular employees. In accordance with the plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements, or becoming disabled. Payments of retirement benefits are based on the basis points earned from years of service and the average salary for the six-month period before the employee's retirement. Each employee earns two points for each of the first fifteen years of service, and one point for each year of service thereafter.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require the following categories of employees to adopt the New Act's defined contribution plan:

- (i) employees who were covered by the original plan and opted to be subject to the pension mechanism under the New Act; and
- (ii) Employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the rate of the employer's monthly contribution to an individual labor pension fund account per month shall not be lower than 6% of the worker's monthly wages.

For the portion of the retirement plan adopting the defined contribution scheme, in accordance with the New Act, the Company provides monthly contributions to the Bureau of Labor Insurance at the rate of 6% of the worker's monthly wages. This contribution is recognized as expense in the year when it is made.

The Company has adopted SFAS No. 18 "Accounting for Pensions" for the defined benefit plan. SFAS No. 18 requires that the Company calculate actuarial pension liability using the balance sheet date as the measurement date. The amount of accumulated benefit obligation in excess of the fair value of pension plan assets is deemed to be the minimum pension liability and is recognized as accrued pension liability. The Company also recognizes the net periodic pension cost, which consists of service cost, amortized net obligations at transition, interest cost, and asset gains or losses. The net obligation at transition is amortized using the straight-line method over the average employee service life of 15 years. The Company contributes monthly at the rate of 2% of wages and salaries into a designated account maintained with Bank of Taiwan in compliance with the ROC Labor Standards Law.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements****(n) Income tax**

The Company has adopted SFAS No. 22 "Income Taxes" for income tax preparation. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carryforwards, and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

A tax imputation system was adopted in accordance with the amended ROC Income Tax Act. Under this system, the Company may retain the earnings arising after December 31, 1997, by paying 10% surtax on such undistributed earnings, and the surtax is accounted for as income tax expense on the date when the stockholders approve a resolution not to distribute the earnings.

**(o) Employees' bonus and directors' and supervisors' emoluments**

Employees' bonus and directors' and supervisors' emoluments appropriated on or after January 1, 2008, are accounted for based on Interpretation (96) 052 issued by the Accounting Research and Development Foundation (ARDF). The Company estimates the amount of employees' bonus and directors' and supervisors' emoluments according to the Interpretation and recognizes it as expenses. The difference between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, is accounted for as a change in accounting estimates and recognized as profit or loss.

**(p) Revenue recognition**

Revenue is recognized when products are delivered to customers and the significant risks and rewards of ownership are transferred.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (q) Earnings per common share

Earnings per share (“EPS”) of common stock are calculated by dividing net income (or loss) for the reporting period attributable to common stockholders by the weighted-average number of common shares outstanding during that period. The weighted-average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance (arising from the capitalization of retained earnings, additional paid-in capital, or employees’ bonus based on a resolution adopted by the shareholders’ meeting before January 1, 2009), bonus element (such as bonus element in a rights issue to existing stockholders), or stock split.

## (r) Operating segment disclosure

The Company has provided the operating segments disclosure in the consolidated financial statements.

**3 Reason for and Cumulative Effect of Accounting Principle Change**

- (a) Effective January 1, 2011, the Company adopted the third amended SFAS No. 34 “Financial Instruments: Recognition and Measurement”. In accordance with SFAS No. 34, loans and receivables originated by the Company shall apply the regulations on initial recognition, subsequent recognition and impairment. As of December 31, 2011, The adoption of this amended accounting principle affected the following:

<u>The characteristic of Accounting Principle Change</u>	<u>Decrease in income before income tax</u>	<u>Decrease in earnings per share before income tax</u>
recognition、valuation and impairment of receivables	<u>6,827</u>	<u>0.03</u>

- (b) Effective January 1, 2011, the Company adopted the newly issue SFAS No. 41 “Operating Segment.” In accordance with SFAS No. 41, an entity shall disclosed information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages, and the economic environments in which it operates. The Company determines and presents operating segments based on the information that is internally provided to the chief operating decision maker. The standard supersedes SFAS No. 20 “Segment Reporting.” Such changes in accounting principle did not have any effect for the year ended December 31, 2011. The comparative information for the initial year of application was restated.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

**4 Cash and Cash in Banks**

Cash and cash in banks as of December 31, 2011 and 2010, consisted of the following:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Cash on hand and petty cash	\$ 4,090	3,120
Cash in bank	<u>232,111</u>	<u>136,291</u>
	<u>\$ 236,201</u>	<u>139,411</u>

Cash in bank was not pledged or mortgaged to secure bank loans.

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

As of December 31, 2011 and 2010, the financial assets and liabilities at fair value through profit or loss were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Financial assets and liabilities at fair value through profit or loss:		
Trading financial assets:		
Stock traded on OTC—Jintex	\$ -	1,181
Forward exchange contracts	<u>-</u>	<u>16,071</u>
	<u>\$ -</u>	<u>17,252</u>
Trading financial liabilities:		
Forward exchange contracts	<u>\$ (20,138)</u>	<u>-</u>

For the years ended December 31, 2011 and 2010, the changes in fair value related to financial assets and liabilities at fair value through profit or loss recognized in earnings were as follows:

	<u>2011</u>	
	<u>Realized</u>	<u>Unrealize</u>
	<u>loss</u>	<u>d</u>
		<u>loss</u>
		<u>Total</u>
Financial assets and liabilities at fair value through profit or loss:		
Trading financial assets:		
Stock	\$ <u>52</u>	<u>-</u>
Trading financial liabilities:		
Forward exchange contracts	<u>\$ 31,720</u>	<u>20,138</u>
		<u>51,858</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

	<u>2010</u>		
	<u>Realized gain</u>	<u>Unrealized (loss) gain</u>	<u>Total</u>
Financial assets at fair value through profit or loss:			
Trading financial assets:			
Stock	\$ 1,141	(267)	874
Forward exchange contracts	<u>41,677</u>	<u>16,071</u>	<u>57,748</u>
	<u>\$ 42,818</u>	<u>15,804</u>	<u>58,622</u>

Derivative contracts of the Company with several banks were intended to manage foreign currency exchange and interest rate risks from operating, financing, and investing activities. As of December 31, 2011 and 2010, derivative financial instruments not qualified for hedge accounting were as follows:

	<u>2011.12.31</u>		
	<u>Nominal Amount (in thousands)</u>	<u>Currency</u>	<u>Expiry Date</u>
Foreign currency forward contracts	USD <u>21,000</u>	NTD Put / USD Call	2012.1.19~2012.4.6
	<u>2010.12.31</u>		
	<u>Nominal Amount (in thousands)</u>	<u>Currency</u>	<u>Expiry Date</u>
Foreign currency forward contracts	USD <u>17,000</u>	NTD Put / USD Call	2011.2.21~2011.5.25

Financial assets and liabilities at fair value through profit or loss were not pledged or mortgaged to secure bank loans.

**6 Notes and Accounts Receivable, Net**

	<u>2011.12.31</u>	<u>2010.12.31</u>
Notes receivable	\$ 3,801	4,539
Less: allowance for doubtful accounts	<u>-</u>	<u>(846)</u>
Notes receivable, net	<u>3,801</u>	<u>3,693</u>
Accounts receivable	1,216,458	1,072,001
Less: allowance for doubtful accounts	<u>(12,571)</u>	<u>(14,857)</u>
Accounts receivable, net	<u>\$ 1,203,887</u>	<u>1,057,144</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

Notes and accounts receivable were not discounting or pledged.

Movements of the allowance for doubtful receivables were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Balance, beginning of year	\$ 15,703	8,703
(Write-off) provision	<u>(3,132)</u>	<u>7,000</u>
Balance, end of year	<u><b>12,571</b></u>	<u><b>15,703</b></u>

As of December 31, 2011 and 2010, The Company's accounts receivable insured by the credit insurance amounted to \$103,556 and \$64,249, respectively. The protection percentage provided by the insurer to the buyer is 90 percent. The Company had recognized the impairment loss of accounts receivable after considering the recoverable amount of the insurance.

## 7 Inventories

As of December 31, 2011 and 2010, the components of inventories were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Finished goods	\$ 94,663	12,626
Less: provision for obsolescence	<u>(2)</u>	<u>-</u>
Sub-total	<u>94,661</u>	<u>12,626</u>
Work in process	408,329	344,128
Less: provision for obsolescence	<u>(2,361)</u>	<u>(9,584)</u>
Sub-total	<u>405,968</u>	<u>334,544</u>
Raw materials	924,109	817,304
Less: provision for obsolescence	<u>(15,490)</u>	<u>(8,269)</u>
Sub-total	<u>908,619</u>	<u>809,035</u>
Supplies	140,297	85,801
Less: provision for obsolescence	<u>-</u>	<u>-</u>
Sub-total	<u>140,297</u>	<u>85,801</u>
	<u><b>\$ 1,549,545</b></u>	<u><b>1,242,006</b></u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

The recognized losses on inventories for the years ended December 31, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Loss on devaluation of inventories	\$ -	10,000
Loss on inventory shortage	-	<u>527</u>
	<u>\$ -</u>	<u>10,527</u>

For the years ended December 31, 2011 and 2010, the Company recognized loss on inventories of \$0 and \$10,000, respectively, from write-down of the book value of inventories for the difference between cost and net realizable value.

Inventories were not pledged or mortgaged to secure bank loans.

## 8 Long-term Equity Investments

(a) Investments as of December 31, 2011 and 2010, consisted of the following:

Investee	<u>2011.12.31</u>			<u>2010.12.31</u>		
	<u>Amount</u>	<u>% of ownership</u>	<u>Investment gain (loss)</u>	<u>Amount</u>	<u>% of ownership</u>	<u>Investment gain (loss)</u>
Under equity method:						
Being Long Enterprise Co., Ltd.	\$ 508,477	100.00%	65,681	514,902	100.00%	78,507
Best Information Technology Co., Ltd.	12,283	59.05%	(42)	12,325	59.05%	3,340
Eclat Cayman Islands Holdings	1,134,661	100.00%	(9,110)	1,069,202	100.00%	39,642
Grand Elite Holdings Inc.	<u>121,108</u>	100.00%	<u>2,102</u>	<u>119,006</u>	100.00%	<u>5,489</u>
	<u>1,776,529</u>		<u>58,631</u>	<u>1,715,435</u>		<u>126,978</u>
Cumulative translation adjustments:						
Best Information Technology Co., Ltd.	(529)			(503)		
Eclat Cayman Islands Holdings	(12,929)			(54,541)		
Grand Elite Holdings Inc.	<u>(15,998)</u>			<u>(20,277)</u>		
	<u>(29,456)</u>			<u>(75,321)</u>		
Cumulative translation adjustments, net	<u>\$ 1,747,073</u>			<u>1,640,114</u>		

(b) The board of directors of Being Long Enterprise Co., Ltd. approved a resolution to declare cash dividends of \$70,684 and \$41,071 in March 2011 and 2010, respectively. The Company accounted for it as a reduction of long-term equity investment.

As of December 31, 2011, the Company's net loss not recognized as pension cost from Being Long Enterprise Co., Ltd. amounted to \$1,422, which is accounted for as a reduction of long-term equity investment and stockholders' equity.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

(c) Long-term equity investment was not pledged or mortgaged to secure bank loans.

**9 Financial Assets Carried at Cost**

	<u>2011.12.31</u>	<u>2010.12.31</u>
Privately held - ANKL Co., Ltd.		
Acquisition cost	\$ 7,569	7,569
Accumulated impairment	<u>(7,569)</u>	<u>(7,569)</u>
	<u>\$ -</u>	<u>-</u>

Since there is no directly observable price in an active market, the fair value cannot be reliably measured; financial assets carried at cost held by the Company are measured at cost.

The Company invested \$7,569 in ANKL Co., Ltd. As the shareholding is less than 20%, the Company reclassified the investment from equity method to cost method.

Considering ANKL could not show a turn from loss to profit in the short term, the Company recognized impairment loss of \$7,569 .

None of the financial assets were pledged as of December 31, 2011 and 2010.

**10 Property, Plant and Equipment**

Please refer to note 21 for assets pledged as collateral for loans as of December 31, 2011 and 2010.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## 11 Intangible Assets

As of December 31, 2011 and 2010, the original cost and cumulative amortization of intangible assets were as follows:

<b>Original cost</b>	<b><u>Software cost</u></b>
Balance at January 1, 2010	\$ 46,022
Additions	2,176
Amortization completed	<u>(43,417)</u>
Balance at December 31, 2010	<b><u>\$ 4,781</u></b>
Balance at January 1, 2011	\$ 4,781
Additions	<u>1,628</u>
Balance at December 31, 2011	<b><u>\$ 6,409</u></b>
<b>Cumulative amortization</b>	
Balance at January 1, 2010	\$ 43,009
Amortization	1,993
Amortization completed	<u>(43,417)</u>
Balance at December 31, 2010	<b><u>\$ 1,585</u></b>
Balance at January 1, 2011	\$ 1,585
Amortization	<u>1,591</u>
Balance at December 31, 2011	<b><u>\$ 3,176</u></b>
<b>Book value</b>	
Balance at January 1, 2010	<b><u>\$ 3,013</u></b>
Balance at December 31, 2010	<b><u>\$ 3,196</u></b>
Balance at January 1, 2011	<b><u>\$ 3,196</u></b>
Balance at December 31, 2011	<b><u>\$ 3,233</u></b>

The Company amortized intangible assets in the amount of \$1,591 and \$1,993 as operating expenses and operating costs according to the usage of each department for the years ended December 31, 2011 and 2010, respectively.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

**12 Deferred Charges**

The components of deferred charges as of December 31, 2011 and 2010, were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Air conditioning equipment and safety equipment	\$ 2,454	786
Deferred maintenance and improvement costs and others	17,852	6,358
Deferred maintenance costs of buildings and equipment	<u>970</u>	<u>392</u>
	<u>\$ 21,276</u>	<u>7,536</u>

**13 Short-term Borrowings**

Short-term borrowings as of December 31, 2011 and 2010, consisted of the following:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Secured bank loans	\$ 50,000	350,000
Credit loans	<u>-</u>	<u>20,000</u>
	<u>\$ 50,000</u>	<u>370,000</u>
Range of interest rates	<u>1.34%</u>	<u>1.30%~1.32%</u>

As of December 31, 2011 and 2010, unused credit lines available amounted to \$1,162,832 and \$402,412, respectively.

The Company's assets listed in note 21 secured the above borrowings.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## 14 Long-term Borrowings

Long-term borrowings as of December 31, 2011 and 2010, consisted of the following:

Creditor Bank	Repayment Period	Mortgage	2011.12.31		2010.12.31	
			Amount	Interest Rate	Amount	Interest Rate
HuaNan Bank	December 19, 2010~December 29, 2012. The principal is to be repaid at maturity.	Land and plant (Secured loan)	\$ -	-	50,000	1.45%
ShangHai Bank	December 28, 2010~December 28, 2012. The principal is to be repaid at maturity.	Land and plant (Secured loan)	-	-	50,000	1.45%
			\$ <u>-</u>		<u>100,000</u>	

The Company paid off the total long-term borrowings of \$100,000 ahead of schedule during 2011.

Please refer to the note 13 for the unused credit facilities and to note 21 for the pledged assets for borrowings.

## 15 Pension Plans

The pension information for the years ended December 31, 2011 and 2010, was as follows:

	2011	2010
Balance of retirement fund	\$ <u>49,802</u>	<u>45,520</u>
Periodic pension cost:		
Defined benefit retirement plan	\$ <u>10,141</u>	<u>8,265</u>
Defined contribution retirement plan	\$ <u>19,422</u>	<u>17,460</u>
Balance of accrued pension liability		
Accrued expenses	\$ <u>3,403</u>	<u>3,565</u>
Accrued pension liability	\$ <u>103,841</u>	<u>97,100</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

The funded status was reconciled to accrued pension liability as of December 31, 2011 and 2010, as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Benefit obligation:		
Vested benefit obligation	\$ (52,826)	(46,750)
Non-vested benefit obligation	<u>(91,037)</u>	<u>(93,044)</u>
Accumulated benefit obligation	(143,863)	(139,794)
Projected compensation increases	<u>(66,893)</u>	<u>(69,305)</u>
Projected benefit obligation	(210,756)	(209,099)
Plan assets at fair value	<u>49,802</u>	<u>45,838</u>
Funded status	(160,954)	(163,261)
Unrecognized pension loss	57,113	65,312
Unrecognized transitional net benefit obligation	<u>-</u>	<u>849</u>
Accrued pension liabilities	<u>\$ (103,841)</u>	<u>(97,100)</u>

The components of the net periodic pension cost for 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 3,693	3,969
Interest cost	3,645	3,720
Actual return on plan assets	(565)	(700)
Amortization and deferral	<u>3,368</u>	<u>1,276</u>
Net periodic pension cost	<u>\$ 10,141</u>	<u>8,265</u>

The balance of vested benefits calculated based on the Company's pension plan totaled \$64,759 and \$57,442 as of December 31, 2011 and 2010, respectively.

Major assumptions used to determine the above amounts were as follows:

	<u>2011</u>	<u>2010</u>
Discount rate	2.00%	1.75%
Rate of increase in future compensation levels	3.00%	3.00%
Expected long-term rate of return on plan assets	2.00%	1.75%

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## 16 Income Tax

For the years ended December 31, 2011 and 2010, the Company is subject to an income tax at a statutory rate of 17%, and is also subject to the requirements of the “Income Basic Tax Act” in calculating the basic tax.

The components of income tax were as follows:

	<u>2011</u>	<u>2010</u>
Current income tax expense	\$ 235,241	153,397
Deferred income tax expense (benefit)	2,028	(19,662)
10% surtax on undistributed earnings	<u>18,522</u>	<u>2,888</u>
Income tax expense	<u>\$ 255,791</u>	<u>136,623</u>

The deferred income tax expense (benefit) in 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Reserve for overseas investment losses	\$ -	(5,995)
Unrealized foreign exchange gains and losses	10,171	(7,620)
Investment gain and loss under equity method	(1,160)	8,240
Pension in excess of tax limit	(1,146)	(755)
Unrealized gain and loss on financial liabilities appraisal	(6,111)	1,882
Change in valuation allowance for deferred income tax assets	1,160	(8,240)
Impairment loss on financial instruments	(1,418)	-
Loss on inventory valuation	-	(1,700)
Deferred income tax effect of change in income tax rate	-	(1,962)
Allowance for doubtful account	<u>532</u>	<u>(3,512)</u>
Deferred income tax expense (benefit)	<u>\$ 2,028</u>	<u>(19,662)</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010, differences between the "expected" income tax expense computed at statutory rates and the "estimated" income tax expense were as follows:

	<u>2011</u>	<u>2010</u>
Estimated income tax expenses	\$ 244,514	153,058
Adjustment of estimated deferred income tax assets	1,160	(8,240)
Estimated adjustment for prior year's income tax expense	(562)	171
10% surtax on undistributed earnings	18,522	2,888
Difference between estimated and authorized income tax expense	3,272	3,563
Effect of change in income tax rate	-	(1,962)
Other adjustment based on income tax regulation	<u>(11,115)</u>	<u>(12,855)</u>
Income tax expense	<u>\$ 255,791</u>	<u>136,623</u>

The components of deferred income tax assets (liabilities) as of December 31, 2011 and 2010 were as follows:

	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Deferred income tax assets – current				
Unrealized foreign exchange loss	\$ -	-	56,340	9,578
Valuation loss on financial liabilities	20,138	<u>3,424</u>	-	-
Net deferred income tax assets – current		<u>3,424</u>		<u>9,578</u>
Deferred income tax liabilities – current				
Valuation gain on financial assets	-	-	(15,804)	(2,687)
Reserve for overseas investment losses	(138,497)	(23,5454)	-	-
Unrealized foreign exchange gain	(3,487)	<u>(593)</u>	-	-
Net deferred income tax assets – current		<u>(24,138)</u>		<u>(2,687)</u>
Net deferred income tax (liabilities) assets – current		<u><b>(20,714)</b></u>		<u><b>6,891</b></u>
Deferred income tax assets – non-current				
Allowance for doubtful accounts in excess of tax limit	\$ 18,609	3,163	21,740	3,696
Provision for inventory obsolescence	17,853	3,035	17,853	3,035
Impairment loss of financial assets	8,343	1,418	-	-
Pension in excess of tax limit	103,842	17,653	97,100	16,507
Investment loss – equity method	527,519	89,678	520,694	88,518
Impairment loss	7,569	1,287	7,569	1,287
Cumulative translation adjustment	29,456	5,008	75,321	12,805
Valuation allowance		<u>(90,965)</u>		<u>(89,805)</u>
Net deferred income tax assets – non-current		<u>30,277</u>		<u>36,043</u>
Deferred income tax liabilities – non-current				
Reserve for overseas investment losses	-	-	(138,497)	<u>(23,545)</u>
Net deferred income tax assets – non-current		<u>\$ 30,277</u>		<u>12,498</u>

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

In accordance with Section 12 of the Statute for Upgrading Industries, the Company recognizes provision for foreign investment loss as current expense during the year when the investment is made. The recognized amount is 20% of the total foreign investment if the percentage of shares owned by the Company is no less than 50%. If there is no investment loss realized during the next five years, the recognized provision for foreign investment loss will be transferred to revenues in the fifth year. The details were as follows:

<u>Investment year</u>	<u>Provision for investment loss</u>	<u>Year of reversal</u>
2008	\$ <u>138,497</u>	2012

The Company's income tax returns have been examined by the ROC tax authorities through 2009.

As of the December 31, 2011 and 2010, the undistributed earnings were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Before 1997	\$ 430	430
After 1998	1,656,739	1,052,712
	\$ <u>1,657,169</u>	<u>1,053,142</u>
Balance of imputation credit account (ICA)	\$ <u>220,105</u>	<u>219,187</u>
	<b>2011</b>	<b>2010</b>
	<b>(estimated)</b>	<b>(actual)</b>
Creditable ratio for earnings distribution to domestic stockholders	<u>24.12%</u>	<u>28.16%</u>

**17 Stockholders' Equity****(a) Common stock**

At the stockholders' meetings on June 17, 2011 and June 15, 2010, the shareholders approved a resolution to increase the Company's capital stock by capitalizing retained earnings of \$119,571 and \$58,044, respectively, through issuance of 11,957 thousand shares and 5,804 thousand shares, respectively, with par value of \$10 (dollars) per share. The capital increase dates were August 9, 2011, and July 28, 2010, respectively. The related registration processes were completed.

As of December 31, 2011 and 2010, the Company's total authorized share capital amounted to \$2,500,000, and the total issued common stock amounted to 211,242 thousand shares and 199,285 thousand shares, respectively, with \$10 (dollars) par value per share.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

## (b) Capital surplus

As of December 31, 2011 and 2010, capital surplus was as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Paid-in capital in excess of par value	\$ 270,000	270,000
Treasury stock	396	396
Compensation due to directors and supervisors	1,377	1,377
Net assets from merger with Everbright Garment	15,866	15,866
Long-term equity investment	<u>6,039</u>	<u>6,039</u>
	<b>\$ <u>293,678</u></b>	<b><u>293,678</u></b>

According to the ROC Company Law, realized capital surplus can be transferred to common stock or distributed the cash dividends after deducting the accumulated deficit, if any. Realized capital surplus includes the additional paid-in capital from issuance of common stock in excess of the common stock's par value and donation from others. The Company's paid-in capital in excess of par value is transferrable to common stock annually but shall not exceed 10% of total issued and outstanding common stock according to Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

## (c) Legal reserve

According to the ROC Company Law, the Company's annual net profit, after providing for income tax is appropriated for legal reserve at the rate of 10% thereof until the accumulated balance of legal reserve equals the total issued capital. If the shareholders resolved during their meeting to distribute dividend in the form of new shares of stock or cash, legal reserve may be transferred to capital or distributed in cash if the Company incurs no accumulated deficit, but the amount should not exceed 25% of total issued capital.

## (d) Retained earnings, and distributions of dividends and bonus

According to the Company's articles of incorporation, 10% of annual net earnings (net of income taxes), after deducting accumulated deficits, must be set aside as legal reserve. The remaining portion is to be distributed upon a proposal by the board of directors and approval in a regular stockholders' meeting, with employees' bonus of not less than 0.1%.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

The Company is now in the growth stage and has a plan to expand the product line. Due to the need for capital to fulfill the plan, the policy for dividend distribution should reflect factors such as investment planning, financial structure, future fund requirements, and status of earnings. The board of directors shall make the distribution proposal, and it is then approved at the shareholders' meeting. The ratio for distributing cash dividends shall not be lower than 20% of the total distribution.

For the years ended December 31, 2011 and 2010, the employees' bonus amounted to \$761 and \$519, respectively. Abovementioned amounts were estimated according to the Company's articles of incorporation. According to the articles, the Company provides 0.1% of net income for employees' bonus.

If the actual distributed amount approved thereafter by the stockholders' meeting is different from the estimate, the difference is treated as a change in accounting estimate, and is charged to profit or loss for the year.

In the stockholders' meetings held on June 17, 2011, and June 15, 2010, the Company decided the distribution of 2010 and 2009 earnings. The information on employees' bonus distribution and earnings per share is as follows:

	<u>2010</u>	<u>2009</u>
Employees' bonus — cash	\$ <u>519</u>	<u>252</u>

The appropriation of earnings did not differ from the resolutions approved by the board of directors.

The appropriation of the Company's 2011 earnings is subject to a resolution approved by the board of directors and the stockholders' during their regular meetings. Following the approval of those resolutions, related information can be obtained from the Market Observation Post System website of the Taiwan Stock Exchange.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## 18 Earnings per Share

As of December 31, 2011 and 2010, the weighted-average number of outstanding shares of common stock and the common stock equivalents for calculating the basic EPS consisted of the following:

	<b>2011</b>				
	<b>Amount</b>		<b>Weighted- average number of outstanding shares of common stock (in thousands)</b>	<b>EPS (in dollars)</b>	
	<b>Before income taxes</b>	<b>After income taxes</b>		<b>Before income taxes</b>	<b>After income taxes</b>
Basic EPS: Net income	\$ <u>1,438,320</u>	<u>1,182,529</u>	211,242	<u>6.81</u>	<u>5.60</u>
	<b>2010</b>				
	<b>Amount</b>		<b>Weighted- average number of outstanding shares of common stock (in thousands)</b>	<b>EPS (in dollars)</b>	
	<b>Before income taxes</b>	<b>After income taxes</b>		<b>Before income taxes</b>	<b>After income taxes</b>
Basic EPS: Net income	\$ <u>900,340</u>	<u>763,717</u>	211,242	<u>4.26</u>	<u>3.62</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## 19 Disclosure of Financial Instruments

## (a) Fair value of financial instruments

As of December 31, 2011 and 2010, financial assets and liabilities of the Company evaluated at fair value were as follows:

	2011.12.31			2010.12.31		
	Book value	Public quote value	Valuation method value	Book value	Public quote value	Valuation method value
Non-derivative financial instruments:						
Financial assets						
Cash and cash in bank	\$ 236,201	236,201	-	139,411	139,411	-
Notes and accounts receivable (including related parties)	1,215,071	-	1,215,071	1,071,899	-	1,071,899
Other financial assets	10,281	-	10,281	25,706	-	25,706
Other receivable—related parties	-	-	-	203,910	-	203,910
Financial assets reported at fair value through profit or loss—stocks	-	-	-	1,181	1,181	-
Financial assets reported at fair value through profit or loss—foreign currency forward contract	-	-	-	16,071	-	16,071
Financial liabilities						
Short-term borrowings	\$ 50,000	-	50,000	370,000	-	370,000
Notes and accounts payable (including related parties)	730,652	-	730,652	719,318	-	719,318
Long-term borrowings	-	-	-	100,000	-	100,000
Other payables	21,255	-	21,255	42,844	-	42,844
Deposits received	59,401	-	-	65,951	-	-
Financial liabilities reported at fair value through profit or loss—foreign currency forward contract	20,138	-	20,138	-	-	-

## (b) Assumptions and methods the Company used to evaluate the fair market value of financial instruments

- (i) The book value of short-term financial instruments including cash, cash in bank, notes and accounts receivable/payable (including related parties), other financial assets, other receivable-related parties, short-term loans and other payables, is believed to be not materially different from the fair value because the maturity dates of these short-term financial instruments are within one year from the balance sheet date.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

- (ii) If public quotes for financial assets and liabilities are available, then the quotes are adopted as the fair value. If public quotes are not available, an assessment method will be used. The assumptions used are the same as those used by financial market traders when quoting their prices.
  - (iii) For long-term borrowings, the interest rate is close to the market interest rate, and the book value is considered to be the fair value.
  - (iv) Deposits are received in cash, so the fair value should be equal to the book value.
- (c) Disclosure of financial risks

(i) Market risk

The Company uses statistical analysis to assess the market price risk of forward exchange contracts based on historical information and market trends. Market risk represents the accounting loss that would be recognized on the reporting date for derivative financial instruments due to changes in market interest rates or foreign exchange rates. As the Company's derivative financial instruments are mainly for hedging purposes, the hedged items will offset the gains or losses from changes in interest rates or foreign exchange rates. As a result, market price risk is considered low.

(ii) Concentrations of credit risk

Credit risk is the risk that the counter-party will default on its obligation. The banks that the Company entered into derivative transactions with are all well-known financial institutions. Therefore, the Company does not expect the banks to default. As a result, the Company estimates credit risk to be reasonably low.

(iii) Liquidity risk

Because the hedge-purpose forward contracts will offset the Company's cash flow, there is no significant influence on the Company's cash flow; therefore, the Company has no risk associated with funding working capital. Also, the interest rates of forward exchange contracts are settled. As a result, the Company estimates cash flow risk to be reasonably low.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

(iv) Cash flow risk related to the fluctuation of interest rates

The Company's short-term borrowings and long-term borrowings bear floating interest rates. The changes in effective rate along with the fluctuation of the market interest rate influence the Company's future cash flow. If the market interest rate increases by 1%, the Company's future yearly cash outflow would increase by approximately \$36.

**20 Transactions with Related Parties**

(a) Names of and relationship with related parties

<u>Name of related party</u>	<u>Relationship with the Company</u>
Best Information Technology Co., Ltd. (Best Information Technology)	A 59.05%-owned subsidiary of the Company
Being Long Enterprise Co., Ltd. (Being Long)	A 100%-owned subsidiary of the Company
Eclat Textile Co., Ltd. (Vietnam) (Eclat Vietnam)	A 100%-owned subsidiary of an indirectly held investment
Unison (Wuxi) Textile and Garment Inc. (Unison)	A 100%-owned subsidiary of an indirectly held investment
Eclat Fabrics (Vietnam) Co., Ltd. (Fabrics)	A 100%-owned subsidiary of an indirectly held investment
Grand Elite Holdings Inc. (Elite)	A 100%-owned subsidiary of the Company
Eclat Cayman Islands Holdings (Eclat Cayman)	A 100%-owned subsidiary of the Company
Colltex Garment MFY Co., Ltd. (VN) (Colltex)	A 100%-owned subsidiary of an indirectly held investment
Directors, supervisors, general manager and vice general manager	Main management

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (b) Significant transactions with related parties

## (i) Sales, notes receivable, and accounts receivable

Sales to related parties for the years ended December 31, 2011 and 2010, were as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percentage of net sales</u>	<u>Amount</u>	<u>Percentage of net sales</u>
Being Long	\$ 12,157	0.11	8,554	0.10
Fabrics	<u>207,252</u>	<u>1.92</u>	<u>42,297</u>	<u>0.50</u>
	<u>\$ 219,409</u>	<u>2.03</u>	<u>50,851</u>	<u>0.60</u>

As of December 31, 2011 and 2010, receivables from related parties resulting from sales transactions were as follows:

	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Percentage of the account</u>	<u>Amount</u>	<u>Percentage of the account</u>
Accounts receivable:				
Being Long	\$ 1,214	0.10	1,844	0.17
Fabrics	<u>5,032</u>	<u>0.41</u>	<u>8,629</u>	<u>0.81</u>
	<u>\$ 6,246</u>	<u>0.51</u>	<u>10,473</u>	<u>0.98</u>
Notes receivable:				
Being Long	<u>\$ 1,084</u>	<u>0.09</u>	<u>589</u>	<u>0.05</u>

Sales prices and terms for related parties do not significantly differ from those for non-related parties.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (ii) Purchases, outsourcing, notes payable and accounts payable

The Company's purchases from related parties in 2011 and 2010 was as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percentage of total purchases</u>	<u>Amount</u>	<u>Percentage of total purchases</u>
Being Long	\$ 10,831	0.21	7,966	0.19
Eclat Vietnam	1,278	0.02	-	-
Fabrics	979,630	18.70	654,924	15.32
Colltex	18	-	-	-
	<u>\$ 991,757</u>	<u>18.93</u>	<u>662,890</u>	<u>15.51</u>

The Company's outsourcing expenditures for related parties in 2011 and 2010 were as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percentage of total outsourcing expenditures</u>	<u>Amount</u>	<u>Percentage of total outsourcing expenditures</u>
Being Long	\$ 888,372	29.31	879,375	34.71
Unison	228,879	7.55	225,678	8.91
Eclat Vietnam	425,577	14.04	425,856	16.81
Fabrics	36	-	312	0.01
Colltex	88,520	2.92	-	-
	<u>\$ 1,631,384</u>	<u>53.82</u>	<u>1,531,221</u>	<u>60.44</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

As of December 31, 2011 and 2010, payables to related parties resulting from the above transactions were as follows:

	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Percentage of the account</u>	<u>Amount</u>	<u>Percentage of the account</u>
Notes payable:				
Being Long	\$ <u>84,411</u>	<u>11.55</u>	<u>108,012</u>	<u>15.02</u>
Accounts payable:				
Being Long	\$ 62,332	8.53	68,720	9.55
Unison	10,203	1.40	19,021	2.64
Eclat Vietnam	12,956	1.77	27,042	3.76
Fabrics	43,680	5.98	43,412	6.04
Colltex	12,339	1.69	-	-
	\$ <u>141,510</u>	<u>19.37</u>	<u>158,195</u>	<u>21.99</u>

## (iii) Financing transactions

Lending to related parties in 2011 and 2010 was as follows:

		<u>2011</u>				
	<u>Date of maximum balance</u>	<u>Maximum balance</u>	<u>Interest rate</u>	<u>Ending balance</u>	<u>Amount of interest</u>	<u>Interest receivable</u>
Eclat Vietnam	January 2011	\$ 60,550	2.5%	-	237	-
Fabrics	January 2011	151,375	2.5%	-	554	-
Colltex	January 2011	<u>60,550</u>	2.5%	<u>-</u>	<u>642</u>	<u>91</u>
		\$ <u>272,475</u>		<u>-</u>	<u>1,433</u>	<u>91</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

		<b>2010</b>				
	<b>Date of maximum balance</b>	<b>Maximum balance</b>	<b>Interest rate</b>	<b>Ending balance</b>	<b>Amount of interest</b>	<b>Interest receivable</b>
Eclat Vietnam	April 2010	\$ 58,260	2.5%	58,260	1,382	427
Fabrics	January 2010	<u>145,650</u>	2.5%~2.8%	<u>145,650</u>	<u>3,942</u>	<u>902</u>
		<b>\$ <u>203,910</u></b>		<b><u>203,910</u></b>	<b><u>5,324</u></b>	<b><u>1,329</u></b>

## (iv) Leasing

Rent revenue from related parties is summarized as follows:

	<b>Rent revenue</b>		<b>Lease objective</b>
	<b>2011</b>	<b>2010</b>	
Best Information Technology	\$ <u>300</u>	<u>300</u>	Chang An E. Road office
Being Long	\$ <u>120</u>	<u>120</u>	Chang An E. Road office
Being Long	\$ <u>1,189</u>	<u>1,189</u>	Machinery & equipment

As of December 31, 2011 and 2010, receivable to related parties resulting from the above transactions were as follows:

	<b>Notes Receivable</b>	
	<b>2011.12.31</b>	<b>2010.12.31</b>
Best Information Technology	\$ <u>53</u>	<u>-</u>

## (v) Service fees

The Company's purchases of computers from related parties and the maintenance of software in 2011 and 2010 were as follows:

	<b>Purchases of computers &amp; maintenance of software</b>	
	<b>2011</b>	<b>2010</b>
Best Information Technology	\$ <u>387</u>	<u>320</u>

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (vi) Payment on behalf of others

The Company paid certain expenses on behalf of related parties. As of December 31, 2011 and 2010, the related outstanding receivables, accounted for as other financial assets, were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Being Long	\$ 59	74
Eclat Vietnam	231	2,758
Fabrics	1,855	1,261
Colltex	<u>109</u>	<u>312</u>
	<u>\$ 2,254</u>	<u>4,405</u>

For the years ended December 31, 2011 and 2010, payments by related parties on behalf of the Company, accounted for as other payables, were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Eclat Vietnam	\$ 208	25
Unison	-	466
Eclat Cayman	-	33,334
Colltex	<u>139</u>	<u>-</u>
	<u>\$ 347</u>	<u>33,825</u>

## (vii) Guarantees and endorsements for other parties

The Company provided guarantees and endorsements for other parties. As of December 31, 2011 and 2010, they were as follows

	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u> <u>(in thousands)</u>	<u>New Taiwan</u> <u>dollars</u>	<u>Amount</u> <u>(in thousands)</u>	<u>New Taiwan</u> <u>dollars</u>
Eclat Cayman	USD 25,000	756,875	USD 16,400	477,732
Eclat Vietnam	-	-	3,000	87,390
Elite	<u>1,700</u>	<u>51,468</u>	<u>1,700</u>	<u>49,521</u>
	<u>USD 26,700</u>	<u>808,343</u>	<u>USD 21,100</u>	<u>614,643</u>

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements**

## (viii) Compensation of board of directors, supervisors, and management personnel

For the years ended December 31, 2011 and 2010, the compensation of the board of directors, supervisors, general manager, and vice general manager was as follows:

	<u>2011</u>	<u>2010</u>
Salaries	\$ 12,033	12,043
Special compensation	41,173	28,972
Allowance	<u>790</u>	<u>680</u>
	<u>\$ 53,996</u>	<u>41,695</u>

**21 Collateral Assets**

As of December 31, 2011 and 2010, the net book values of assets pledged under debt agreements were as follows:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Property, plant and equipment:		
Land	\$ 327,695	327,695
Buildings	<u>245,782</u>	<u>253,686</u>
	<u>573,477</u>	<u>581,381</u>
Other assets – land	<u>72,450</u>	<u>72,450</u>
Other assets – rental assets:		
Land	340	340
Buildings	<u>708</u>	<u>727</u>
	<u>1,048</u>	<u>1,067</u>
	<u>\$ 646,975</u>	<u>654,898</u>

**22 Commitments and Contingencies**

- (a) As of December 31, 2011, the Company had outstanding letters of credit of approximately \$117,319.
- (b) As of December 31, 2011, Eclat Cayman and Elite had borrowed USD 19,000 thousand and USD 1,180 thousand, respectively, from banks. The Company served as guarantor, total amount of guarantees were USD 26,700 thousand.

(Continued)

**ECLAT TEXTILE CO., LTD.****Notes to Financial Statements****23 Significant Disaster Loss: None****24 Significant Subsequent Events:**

In order to organize production capacity, the Company increases its overseas production bases to reduce production costs.

(a) The expected total amount of the indirect investment in a new company in Cambodia by Eclat Cayman was about USD 800 thousand to USD 1,000 thousand.

(b) Expected to obtain Miaw Shun(Cambodia) Garments Co., Ltd's 100% capital by Eclat Cayman.

**25 Others**

(a) Total personnel expenses, depreciation, and amortization incurred for the years ended December 31, 2011 and 2010, are summarized as follows:

By item \ By function	2011			2010		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salaries	184,628	450,775	635,403	184,003	405,794	589,797
Insurance	13,696	28,167	41,863	12,906	23,879	36,785
Pensions	8,425	21,138	29,563	7,712	18,013	25,725
Others	4,406	4,570	8,976	2,838	3,908	6,746
Sub-total	211,155	504,650	715,805	207,459	451,594	659,053
Depreciation	26,651	25,950	52,601	27,829	19,581	47,410
Amortization	2,533	5,898	8,431	1,438	2,904	4,342
Total	240,339	536,498	776,837	236,726	474,079	710,805

**(b) Reclassifications**

Certain accounts in the 2010 financial statements have been reclassified to conform to 2011 financial statement presentation for comparison purposes. These reclassifications do not have a significant impact on the financial statements.

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## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

(c) The significant financial assets and liabilities denominated in foreign currencies were as follows:

	2011.12.31			2010.12.31		
	Foreign currency	Exchange rate	New Taiwan dollars	Foreign currency	Exchange rate	New Taiwan dollars
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	41,542	30.275	1,257,684	42,664	29.13	1,242,804
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	13,637	30.275	412,860	9,495	29.13	276,589
<u>Long-term investments under equity method</u>						
USD	41,172	30.275	1,246,482	38,676	29.13	1,126,632

## 26 Other Disclosure Items

(a) Related information on material transaction items

(i) Lending to other parties:

No	Name of lender	Name of borrower	Account name	Maximum Balance for the Year 2011	Balance as of December 31, 2011(Approved by Board Meeting)	Appropriated credit as of December 31,2011	Range of interest rates during the period	Type of financing	Transaction amounts	Purpose of fund financing of the borrower	Allowance for bad debt	Guarantee		Limitation on fund financing to individual party (Note 2)	Limitation on fund financing (Note 3)
												Item	Value		
01	The Company	Eclat Vietnam	Other receivable - related parties	60,550 (USD2,000 thousand)	- (USD0) (Note 4)	-	2.5%	Note 1	-	Operating capital	-	-	-	445,846	891,692
01	The Company	Fabrics	Other receivable - related parties	151,375 (USD5,000 thousand)	- (USD0) (Note 4)	-	2.5%	Note 1	-	Operating capital	-	-	-	445,846	891,692
01	The Company	Colltex	Other receivable - related parties	60,550 (USD2,000 thousand)	60,550 (USD2,000 thousand)	-	2.5%	Note 1	-	Operating capital	-	-	-	445,846	891,692

Note 1: Short-term financing.

Note 2: Not exceeding 10% of net stockholders' equity.

Note 3: Not exceeding 20% of net stockholders' equity.

Note 4: The Company has no intention to loan to the borrower

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (ii) Guarantees and endorsements for other parties:

No	Name of Guarantor	Name of warrantee		Limitation for individual party	Highest balance to other party during the period	Balance as of December 31, 2011	Amount guaranteed by properties	Ratio of cumulative guarantees and endorsements amount to total stockholders' equity	Limitation on guarantees and endorsements
		Name of company	Relationship						
0	The Company	Eclat Cayman	Subsidiary of the Company	1,337,539	756,875 (USD25,000 thousand)	756,875	-	16.98%	2,229,232
0	The Company	Eclat Vietnam	Indirectly held investment through a holding company	1,337,539	90,825 (USD3,000 thousand)	-	-	-	2,229,232
0	The Company	Grand Elite	Subsidiary of the Company	1,337,539	51,468 (USD1,700 thousand)	51,468	-	1.15%	2,229,232

## (iii) Information regarding securities held:

Name of company which holds securities	Category of security and issuer	Relationship between issuer of security and the company which holds securities	Account name	December 31, 2011				Notes
				Shares/units (in thousands)	Carrying value (Note 1)	Percentage of shares	Market value or net asset value	
The Company	Stock - Best Information	Subsidiary of the Company	Equity method investments	1,181	11,754	59.05%	11,754	-
The Company	Stock - Being Long	Subsidiary of the Company	Equity method investments	43,000	508,477	100.00%	508,477	-
The Company	Stock - Eclat Cayman	Subsidiary of the Company	Equity method investments	51,366	1,121,732	100.00%	1,138,682	-
The Company	Stock - Grand Elite	Subsidiary of the Company	Equity method investments	4,459	105,110	100.00%	107,810	-
The Company	Stock - ANKL	-	Financial assets carried at cost - noncurrent	3,000	-	18.75%	(1,151)	-

Note 1: including cumulative translation adjustment

- (iv) Information regarding purchase or sale of securities for the period which exceeded \$100 million or 20% of the Company's paid-in capital: None
- (v) Information on acquisition of real estate for which the purchase amount exceeded \$100 million or 20% of the Company's paid-in capital: None
- (vi) Information regarding the amount from disposal of real estate exceeding \$100 million or 20% of the Company's paid-in capital: None

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

(vii) Information regarding related-party purchase and sale transactions for which the amount exceeded \$100 million or 20% of the Company's paid-in capital:

Name of company which purchased or sold	Name of counter-party	Relationship with the Company	Transaction details				Reasons why and description of how the transaction conditions differ from general transactions		Accounts/notes receivable (payable)		Notes
			Purchase/sale	Amount	Percentage of total purchases/sales	Credit terms	Amount	Credit terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Being Long	Subsidiary of the Company	Purchase and Outsourcing	899,203	10.87% (Note 1)	3 months	(Note)	(Note)	146,743	20.08%	-
The Company	Unison	Indirectly held investment through a holding company	Outsourcing	228,879	7.55% (Note 1)	30 days	(Note)	(Note)	10,203	1.40%	-
The Company	Eclat Vietnam	Indirectly held investment through a holding company	Purchase and Outsourcing	426,855	5.16% (Note 1)	30 days	(Note)	(Note)	12,956	1.77%	-
The Company	Fabrics	Indirectly held investment through a holding company	Purchase and Outsourcing	979,666	11.85% (Note 1)	30 days	(Note)	(Note)	43,680	5.98%	-
The Company	Fabrics	Indirectly held investment through a holding company	Sale	(207,252)	(1.92)%	30 days	(Note)	(Note)	(5,032)	(0.41)%	-

Note: The sales terms to related parties are not significantly differ from those to non-related parties. Purchase prices and outsourcing expenditure prices for related parties do not significantly differ from those for non-related parties.

Note 1: Percentage of total purchase and outsourcing fees.

(viii) Information regarding receivables from related parties for which the amount exceeded \$100 million or 20% of the Company's paid-in capital: None

(ix) Information regarding trading in derivative financial instruments: Discussed in note 5.

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (b) Investees of the Company

## (i) Names and locations of, and related information on, investees over which the Company exercises significant influence:

Investor company	Investee company	Address	Major operations	Original investment amount		Balance as of December 31, 2011			Net income (losses) of the investee company (in thousands)	Investment income (losses) recognized by the Company (in thousands)	Note
				December 31, 2011 (in thousands)	December 31, 2010 (in thousands)	Shares (in thousands)	%	Carrying value (in thousands) (Note 1)			
The Company	Best Information	10F., No.80, Sec. 2, Chang-an E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	Computer equipment installation, software retailing and international commerce	11,715	11,715	1,181	59.05%	11,754	(72)	(42)	Subsidiary of the Company
The Company	Being Long	10F., No.80, Sec. 2, Chang-an E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	Dyeing and weaving of various kinds of fibers and cloth	534,024	534,024	43,000	100.00%	508,477	65,681	65,681	Subsidiary of the Company
The Company	Grand Elite	PO Box 3151, Road Town, Tortola, British Virgin Islands	Investments in securities, real estate, and manufacturing industry	149,409	149,409	4,459	100.00%	105,110	2,102	2,102	Subsidiary of the Company
The Company	Eclat Cayman	PO Box 613, 4 <sup>th</sup> Floor Harbour Centre, George Town, Grand Cayman, Cayman Islands	Investments in securities, real estate, and manufacturing industry	1,629,411	1,554,842	51,366	100.00%	1,121,732	(2,714)	(9,110)	Subsidiary of the Company
Grand Elite	Aegis	PO Box 3151, Road Town, Tortola, British Virgin Islands	Garment merchandise and manufacture	USD 1,802	USD 1,802	1,500	100.00%	USD 2,006	USD (21)	USD (21)	Subsidiary of Grand Elite
Grand Elite	Antares	RM 302, Block 3, 420 Long Wu Road, Xuhui Dist., Shanghai	Design clothing	USD 300	USD 300	300	100.00%	USD 215	USD 53	USD 53	Subsidiary of Grand Elite
Eclat Cayman	Unison	No. 25 Chunxiang Rd, Xishan District, Wuxi, Jiangsu	Design, manufacture, processing and sale of clothing	USD 1,776	USD 1,776	3,125	100.00%	USD 3,157	USD 1,097	USD 1,097	Subsidiary of Eclat Cayman
Eclat Cayman	E-Top	Equity Trust (BVI) Limited Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands	Investments in securities, real estate, and manufacturing industry	USD 2,550	USD 2,550	2,535	100.00%	USD 2,131	USD (145)	USD (145)	Subsidiary of Eclat Cayman
Eclat Cayman	Colltex	LOT 28, ROAD NO.7, TRANG BANG INDUSTRIAL PARK, AN TINH VILLAGE, TRANG BANG DISTRICT, TAY NINH PROVINCE, VIETNAM	Design, manufacture, processing and sale of clothing	USD 2,455	USD 2,400	3,300	100.00%	USD 439	USD (1,189)	USD (1,667)	Subsidiary of Eclat Cayman
Eclat Cayman	E-TOP(VN)	My Xuan A2 Industrial Zone, Tan Thanh District, Baria-Vungtau Province, Vietnam	Design, manufacture, processing and sale of clothing	USD 4,000	USD 1,500	4,000	100.00%	USD 2,913	USD (1,086)	USD (1,086)	Subsidiary of Eclat Cayman
Eclat Cayman	Eclat Vietnam	Nhon Trach 2 IZ, Nhon Trach District, Dong Nai Province, Vietnam	Design, manufacture, processing and sale of clothing	USD 9,171	USD 9,171	10,000	100.00%	USD 2,310	USD 555	USD 555	Subsidiary of Eclat Cayman
Eclat Cayman	Fabrics	My Xuan A2 Industrial Zone, Tan Thanh District, Baria-Vungtau Province, Vietnam	Manufacture, processing and sale of fabric	USD 30,000	USD 30,000	30,000	100.00%	USD 25,348	USD 955	USD 955	Subsidiary of Eclat Cayman
E-Top	E-TOP (Wuxi)	No.25 Chunxiang Rd, Xishan District, Wuxi, Jiangsu	Design, manufacture, processing and sale of clothing	USD 2,500	USD 2,500	2,500	100.00%	USD 2,115	USD (144)	USD (144)	Subsidiary of E-Top
Best Information	United Fortune	113 Barksdale Professional Center Newark, New Jersey, USA	Investments in securities, real estate, and manufacturing industry	USD 144	USD 144	144	100.00%	USD 22	USD (41)	USD (41)	Subsidiary of Best Information
United Fortune	Shanghai Jiguan	676-24, Building 2, No.351 Guoshoujing Rd., Zhangjiang High Sci. & Tech. Park, Shanghai	Computer software development	USD 140	USD 140	140	100.00%	USD (71)	USD (6)	USD (6)	Subsidiary of United Fortune

Note 1: including cumulative translation adjustment

(Continued)

## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (ii) Lending to other parties

No	Name of lender	Name of borrower	Account name	Highest balance during the period (in thousands)	Balance as of December 31, 2011 (Approved by Board Meeting) (in thousands)	Appropriated credit as of December 31, 2011 (in thousands)	Range of interest rates during the period	Type of financing	Transaction amounts	Purpose of fund financing of the borrower	Allowance for bad debt	Guarantee		Limitation on fund financing to individual party (in thousands)	Limitation on fund financing (in thousands)
												Item	Value		
01	Aegis	Eclat Vietnam	Other receivable	USD 1,000	USD 1,000	USD 1,000	2.5%	Note 1	-	Operating capital	-	-	-	USD 1,605 (Note 2)	USD 1,806 (Note 3)
02	Aegis	Colltex	Other receivable	USD 700	USD 700	-	2.5%	Note 1	-	Operating capital	-	-	-	USD 1,605 (Note 2)	USD 1,806 (Note 3)
03	Grand Elite	E-Top (Wuxi)	Other receivable	USD 500	USD 500	USD 500	2.6%	Note 1	-	Factory capital	-	-	-	USD 2,849 (Note 2)	USD 3,205 (Note 3)
04	Grand Elite	Fabrics	Other receivable	USD 1,700	USD 1,700	USD 1,700	2.5%-2.6%	Note 1	-	Operating capital	-	-	-	USD 2,849 (Note 2)	USD 3,205 (Note 3)
05	E-TOP	E-Top (Wuxi)	Other receivable	USD 220	USD 220	USD 220	2.5%-2.6%	Note 1	-	Factory capital	-	-	-	USD 1,705 (Note 2)	USD 1,918 (Note 3)
06	Eclat Cayman	Eclat Vietnam	Other receivable	USD 4,000	USD 4,000	USD 1,750	2.5%	Note 1	-	Operating capital	-	-	-	USD 30,089 (Note 2)	USD 33,850 (Note 3)
07	Eclat Cayman	E-Top	Other receivable	USD 250	USD 250	USD 250	2.5%	Note 1	-	Operating capital	-	-	-	USD 30,089 (Note 2)	USD 33,850 (Note 3)
08	Eclat Cayman	Fabrics	Other receivable	USD 13,000	USD 13,000	USD 7,400	2.5%	Note 1	-	Operating capital	-	-	-	USD 30,089 (Note 2)	USD 33,850 (Note 3)
09	Eclat Cayman	Colltex	Other receivable	USD 5,000	USD 5,000	USD 4,800	2.5%	Note 1	-	Operating capital	-	-	-	USD 30,089 (Note 2)	USD 33,850 (Note 3)
10	Eclat Cayman	E-Top (VN)	Other receivable	USD 6,000	USD 6,000	USD 4,400	2.5%	Note 1	-	Operating capital	-	-	-	USD 30,089 (Note 2)	USD 33,850 (Note 3)

Note 1: Short-term financing.

Note 2: Not exceeding 80% of the net equity of the latest financial statements of the lender.

Note 3: Not exceeding 90% of the net equity of the latest financial statements of the lender.

(iii) Guarantees and endorsements for other parties: None.

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## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

## (iv) Information regarding securities held:

Name of company which holds securities	Category of security and issuer	Relationship between the issuer and the company which holds securities	Account name	December 31, 2011				Notes
				Shares/units (in thousands)	Carrying value (in thousands)	Percentage of shares	Market value or net asset value (in thousands)	
Grand Elite	Stock – Aegis	Subsidiary of Grand Elite	Equity method investments	1,500	USD 2,006	100.00%	USD 2,006	-
Grand Elite	Stock – Antares	Subsidiary of Grand Elite	Equity method investments	300	USD 215	100.00%	USD 215	-
Grand Elite	Stock – Eclat Highter	None	Cost method financial asset—non-current	450	-	15.52%	-	-
Eclat Cayman	Stock – Unison	Subsidiary of Eclat Cayman	Equity method investments	3,125	USD 3,157	100.00%	USD 3,157	-
Eclat Cayman	Stock – E-Top	Subsidiary of Eclat Cayman	Equity method investments	2,535	USD 2,131	100.00%	USD 2,131	-
Eclat Cayman	Stock – Eclat Vietnam	Subsidiary of Eclat Cayman	Equity method investments	10,000	USD 2,310	100.00%	USD 2,310	-
Eclat Cayman	Stock – Fabrics	Subsidiary of Eclat Cayman	Equity method investments	30,000	USD 25,348	100.00%	USD 25,348	-
Eclat Cayman	Stock – E-Top (VN)	Subsidiary of Eclat Cayman	Equity method investments	4,000	USD 2,913	100.00%	USD 2,913	-
Eclat Cayman	Stock – Colltex	Subsidiary of Eclat Cayman	Equity method investments	3,300	USD 439	100.00%	USD 439	-
E-Top	Stock – E-TOP (Wuxi)	Subsidiary of E-Top	Equity method investments	2,500	USD 2,115	100.00%	USD 2,115	-
Best Information	Stock – United Fortune	Subsidiary of Best Information	Equity method investments	144	USD 22	100.00%	USD 22	-
Best Information	Walsin Technology	None	Financial assets at fair value through profit or loss	0.59	9	-	5	-
Best Information	HON HAI	None	Financial assets at fair value through profit or loss	2.46	295	-	204	-
Best Information	Yageo	None	Financial assets at fair value through profit or loss	1.40	11	-	11	-
Best Information	UMC	None	Financial assets at fair value through profit or loss	15.63	264	-	198	-
Best Information	China Steel	None	Financial assets at fair value through profit or loss	6.79	221	-	195	-
Best Information	Chunghwa Picture Tubes	None	Financial assets at fair value through profit or loss	0.85	-	-	1	-
Best Information	Taishin Holdings	None	Financial assets at fair value through profit or loss	1.50	13	-	16	-
Best Information	Asus	None	Financial assets at fair value through profit or loss	0.55	45	-	119	-
Best Information	AMTRAN	None	Financial assets at fair value through profit or loss	5.38	142	-	85	-

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## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

Name of company which holds securities	Category of security and issuer	Relationship between the issuer and the company which holds securities	Account name	December 31, 2011				Notes
				Shares/units (in thousands)	Carrying value (in thousands)	Percentage of shares	Market value or net asset value (in thousands)	
Best Information	Pegatron	None	Financial assets at fair value through profit or loss	1.22	37	-	40	-
Best Information	Hsin Kuang Steel	None	Financial assets at fair value through profit or loss	0.02	1	-	-	-
United Fortune	Shanghai Jiguan	Subsidiary of United Fortune	Equity method investments	140	USD (71)	100.00%	USD (71)	-

(v) Information regarding purchase or sale of securities for the period which exceeded \$100 million or 20% of the Company's paid-in capital: None.

(vi) Information on acquisition of real estate for which the purchase amount exceeded \$100 million or 20% of the Company's paid-in capital: None.

(vii) Information regarding the amount from disposal of real estate exceeding NT\$100 million or 20% of the paid-in capital: None

(viii) Information regarding related-party purchase and sale transactions for which the amount exceeded \$100 million or 20% of the Company's paid-in capital:

Name of company which purchased or sold	Name of counter-party	Relationship	Transaction details				Reasons why and description of how the transaction conditions differ from general transactions		Accounts/notes receivable (payable)		Notes
			Purchase/Sale	Amount	Percentage of total purchases/sales	Credit terms	Amount	Credit terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Being Long	The Company	Parent company	Sale and outsourcing	(899,203)	(94.24)%	3 months	(Note)	(Note)	(146,743)	(94.15)%	-
Unison	The Company	Ultimate holding company	outsourcing	(228,879)	(94.02)%	30 days	(Note)	(Note)	(10,203)	(95.91)%	-
Eclat Vietnam	The Company	Ultimate holding company	Sale and outsourcing	(426,855)	(100.00)%	30 days	(Note)	(Note)	(12,956)	(100.00)%	-
Fabrics	The Company	Ultimate holding company	Sale and outsourcing	(979,666)	(98.81)%	30 days	(Note)	(Note)	(43,680)	(99.45)%	-
Fabrics	The Company	Ultimate holding company	Purchase	207,252	23.67%	30 days	(Note)	(Note)	5,032	8.42%	-

Note: The terms of sales to related parties are not significantly differ from those to non-related parties. Sales prices and outsourcing revenue prices for related parties do not significantly differ from those for non-related parties.

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## ECLAT TEXTILE CO., LTD.

## Notes to Financial Statements

(ix) Information regarding receivables from related parties for which the amount exceeded \$100 million or 20% of the Company's paid-in capital:

Name of company which has accounts receivable	Counterparty	Relationship	Ending balance of accounts receivable (in thousands)	Turnover	Past-due receivables from related party		Received subsequently (in thousands)	Allowance for bad debt
					Amount	method		
Being Long	The Company	Parent company	146,743	5.60	-	-	124,680	-
Eclat Cayman	Colltex	Subsidiary	USD 4,800	Note	-	-	USD -	-
Eclat Cayman	E-TOP(VN)	Subsidiary	USD 4,400	Note	-	-	USD -	-
Eclat Cayman	Fabrics	Subsidiary	USD 7,400	Note	-	-	USD -	-
Aegis	Eclat Vietnam	Investee company	USD 1,000	Note	-	-	USD -	-
GRAND ELITE	Fabrics	Investee company	USD 1,700	Note	-	-	USD -	-

Note: The ending balance primarily consisted of other receivables, which is not applicable for the calculation of turnover.

(x) Information regarding trading in derivative financial instruments: None.

(c) Information regarding investments in Mainland China (PRC)

Name of PRC investee company	Major operations	Amount of paid-in capital (in thousands)	Method of investment	Investment transferred from Taiwan, beginning of period (in thousands)	Year ended December 31, 2010		Investment transferred from Taiwan, end of period (in thousands)	Direct and indirect shareholding percentage by the Company	Current gain or loss on investment recognized (in thousands) (note)	Carrying value of investment, end of period (in thousands) (note)	Repatriated gain on investment, end of period
					Remittance	Repatriation					
Unison	Design, manufacture, processing and sale of clothing	USD 3,125	Indirect investment	USD 1,776	-	-	USD 1,776	100.00%	USD 1,097	USD 3,157	-
Antares	Design clothing	USD 300	Indirect investment	USD 300	-	-	USD 300	100.00%	USD 53	USD 215	-
E-TOP (WUXI)	Design, manufacture, processing and sale of clothing	USD 2,500	Indirect investment	USD 2,500	-	-	USD 2,500	100.00%	USD (144)	USD 2,115	-

Note: The above information is based on audited financial statements.

Cumulative remittance from Taiwan, end of the period	Amount of investment approved by the Investment Commission, Ministry of Economic Affairs	Limit on the amount of investment in Mainland China
138,538 (USD 4,576 thousand)	138,538 (USD 4,576 thousand)	2,675,078

As of December 31, 2011, the NTD to USD exchange rate was 30.275.

## 27 Segment Information

The financial information of operating department could be referred to the consolidated financial statements which were audited by the independent auditor.