

**TOPCO SCIENTIFIC CO., LTD.**  
**Financial Statements**  
**December 31, 2011 and 2010**  
**(With Independent Auditors' Report Thereon)**

## **Independent Auditors' Report**

The Board of Directors  
Topco Scientific Co., Ltd.:

We have audited the accompanying balance sheets of Topco Scientific Co., Ltd. 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 did not audit the financial statements for certain long-term equity investments accounted for under the equity method, which amounted to \$878,795,000 and \$713,378,000, constituting 11.81% and 9.84% of the total assets, as of December 31, 2011 and 2010, respectively, and for which the related net investment income amounted to \$152,837,000 and \$159,994,000, constituting 13.18% and 20.78% of net income before tax, for 2011 and 2010, respectively. These financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts of long-term equity investments and investment income included for these investees, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the aforementioned, reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Topco Scientific 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.

March 19, 2012

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.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

**TOPCO SCIENTIFIC CO., LTD.**

**Statements of Income**

**For the years ended December 31, 2011 and 2010**  
(expressed in thousands of New Taiwan dollars, except net income per share amounts)

	<b>2011</b>		<b>2010</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating revenues (note 17):</b>				
Sales	\$ 12,048,529	90	10,680,783	91
Less: sales returns and allowances	<u>15,290</u>	<u>-</u>	<u>143,500</u>	<u>1</u>
	12,033,239	90	10,537,283	90
Construction revenue	937,578	7	764,625	6
Service revenue	307,059	2	319,824	3
Other operating revenue	<u>118,193</u>	<u>1</u>	<u>92,469</u>	<u>1</u>
	<u>13,396,069</u>	<u>100</u>	<u>11,714,201</u>	<u>100</u>
<b>Operating costs (notes 7, 17 and 20):</b>				
Cost of goods sold	10,755,058	80	9,560,407	82
Construction costs	891,108	7	799,329	7
Other operating costs	<u>79,739</u>	<u>-</u>	<u>59,497</u>	<u>-</u>
	<u>11,725,905</u>	<u>87</u>	<u>10,419,233</u>	<u>89</u>
	1,670,164	13	1,294,968	11
<b>Realized profit on intercompany sales (note 17)</b>	<u>4,036</u>	<u>-</u>	<u>3,026</u>	<u>-</u>
<b>Gross profit</b>	<u>1,674,200</u>	<u>13</u>	<u>1,297,994</u>	<u>11</u>
<b>Operating expenses (notes 17 and 20):</b>				
Selling expenses	422,910	3	408,907	3
General and administrative expenses	<u>348,341</u>	<u>3</u>	<u>308,809</u>	<u>3</u>
	<u>771,251</u>	<u>6</u>	<u>717,716</u>	<u>6</u>
<b>Operating income</b>	<u>902,949</u>	<u>7</u>	<u>580,278</u>	<u>5</u>
<b>Non-operating income:</b>				
Interest income (note 17)	3,779	-	2,299	-
Investment income recognized under the equity method, net (notes 9 and 17)	145,348	1	160,043	2
Dividend income (note 5)	43,232	-	12,634	-
Gain on valuation of financial assets (notes 5 and 16)	5,993	-	5,494	-
Other income (notes 5, 7, 10, 17 and 20)	<u>127,565</u>	<u>1</u>	<u>31,401</u>	<u>-</u>
	<u>325,917</u>	<u>2</u>	<u>211,871</u>	<u>2</u>
<b>Non-operating expenses and losses:</b>				
Interest expense	248	-	639	-
Foreign currency exchange loss, net	27,272	-	-	-
Asset impairment losses (note 5)	9,000	-	1,600	-
Loss on valuation of financial liabilities (notes 5 and 16)	4,533	-	2,165	-
Other losses (note 20)	<u>27,779</u>	<u>-</u>	<u>17,902</u>	<u>-</u>
	<u>68,832</u>	<u>-</u>	<u>22,306</u>	<u>-</u>
<b>Income before income tax</b>	1,160,034	9	769,843	7
<b>Income tax expense (note 14)</b>	<u>207,581</u>	<u>2</u>	<u>109,849</u>	<u>1</u>
<b>Net income</b>	<u>\$ 952,453</u>	<u>7</u>	<u>659,994</u>	<u>6</u>
			<b>Before</b>	<b>After</b>
			<b>income tax</b>	<b>income tax</b>
<b>Basic net income per share (note 15)</b>	<u>\$ 7.80</u>	<u>6.40</u>	<u>5.28</u>	<u>4.53</u>
<b>Basic net income per share calculated by adjusting dividends declared retroactively</b>			<u>\$ 5.18</u>	<u>4.44</u>
<b>Diluted net income per share</b>	<u>\$ 7.71</u>	<u>6.33</u>	<u>5.24</u>	<u>4.49</u>
<b>Diluted net income per share calculated by adjusting dividends declared retroactively</b>			<u>\$ 5.14</u>	<u>4.40</u>

See accompanying notes to financial statements.

# TOPCO SCIENTIFIC CO., LTD.

## Notes to Financial Statements

December 31, 2011 and 2010

(expressed in thousands of New Taiwan dollars unless otherwise specified)

### (1) Organization

Topco Scientific Co., Ltd. (the Company) was incorporated on February 17, 1990, under the provisions of the Company Act of the Republic of China (R.O.C.). The Company engages in the trading of electronics products, high technology products and related materials and components, pollution prevention equipment, the design and installation of water purification and recycling systems, as well as solar energy materials and providing solar energy system integration services.

As of December 31, 2011 and 2010, the Company had approximately 424 and 379 employees, 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 the Republic of China. The financial statements of the Company have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail. The significant accounting policies and measurement basis adopted in preparing the accompanying financial statements are summarized as follows:

#### (a) Accounting estimates

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's 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 using the exchange rates on that date. The resulting unrealized exchange income (loss) from such translations is 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 rates at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rate at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

loss, the resulting unrealized exchange income (loss) from such translations is 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 income (loss) from such translations is recorded as a separate component of stockholders' equity.

Foreign investees, which are accounted for by the equity method, record their books in the local currency. All non-functional-currency transactions are translated into the functional currency at the rate prevailing on the transaction date, and the resulting unrealized gains or losses are taken directly to the income statement. Translation adjustments resulting from the translation of functional-currency financial statements into the Company's reporting currency are accounted for as translation adjustment, which is a separate component of stockholders' equity.

(c) Distinction between current and non-current assets and liabilities

Current assets are unrestricted cash and cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as non-current.

When the construction period exceeds one year, the construction in progress, advance contract receipts, accounts receivable (payable), and restricted deposits for construction are recognized currently based on the operating cycle.

(d) Impairment of assets

The Company adopted SFAS No. 35 "Impairment of Assets". In accordance with SFAS No. 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes 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 prior periods.

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

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements****(e) Cash equivalents**

Cash equivalents are short-term investments including bonds purchased under resale agreements with a maturity of three months or less from the date of investment. Cash equivalents are readily convertible to known amount of cash and present insignificant risk of change in value due to changes in interest rates.

**(f) Financial assets measured at fair value through profit or loss**

These financial instruments include financial assets held for trading and financial assets designated as at fair value through profit or loss. The main purposes of financial assets held for trading are selling or repurchasing in the short term. All derivatives other than those that the Company holds for hedging purposes and are considered to be effective should be classified into the above account.

At initial recognition, financial instruments are measured at fair value, and the cost of acquisition or issuance is recognized as current expense. Subsequent to initial recognition, the Company measures these financial instruments at fair value through profit or loss. A regular way purchase or sale of financial assets is recognized using trade-date accounting.

**(g) Available-for-sale financial assets**

The financial instruments that the Company designates as available-for-sale financial assets upon initial recognition are measured at fair value and include the cost of acquisition. Subsequent to initial recognition, the Company measures these financial instruments at fair value. A gain or loss on an available-for-sale financial asset is recognized in equity, except for impairment losses and foreign exchange gains and losses of monetary financial assets until the financial asset is derecognized. When the financial asset is derecognized, those cumulative gains or losses are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized using trade-date accounting.

If there is any objective evidence that an impairment loss has been incurred, the impairment loss is recognized as profit or loss. If the impairment loss decreases subsequently, the impairment losses are recognized as profit or loss for an investment in an equity instrument classified as available-for-sale and will be reversed through equity rather than through profit or loss; while for debt securities, if the reversal of impairment loss is apparently related to events occurring after the impairment loss, then the amount will be reversed through profit or loss.

**(h) Financial assets carried at cost**

Investments in equity instruments are measured at initial cost if their fair value cannot be reliably measured and if the Company does not have significant influence on the investments. If there is any objective evidence that an impairment loss has been incurred, the impairment loss is recognized in profit or loss. Such impairment loss should not be reversed.

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

## (i) Accounts receivable and other receivables

Effective January 1, 2011, the Company adopted the ROC Statement of Financial Accounting Standards (SFAS) No.34 "Financial Instruments: Reorganization and Measurement". According to the ROC company act, the accounts receivable and other receivables are measured at amortized cost. The Company considers evidence of impairment for accounts receivable and other receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Accounts receivable and other receivables that are not individually significant are collectively assessed for impairment by grouping together notes and accounts receivable, and other receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against notes and accounts receivable, and other receivables. When determining the amount of impairment loss, the estimated future cash flow will include any collateral involved and related insurance recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

For the year ended December 31, 2010, the allowance for doubtful accounts is generally based on management's evaluation of the likelihood of collection of the Company's accounts receivable balances. The management's evaluation considers past experience in the collection of the Company's accounts receivable balances, which are the credit rating of the customers, aging analysis of outstanding accounts receivable, and the credit policy of the Company.

## (j) Derivative financial instruments and hedging

The derivative financial instruments held by the Company are for hedging the risk of changes in foreign currency exchange rates resulting from operating, financing and investing activities. Under the Company's policy, the purpose of the derivative financial instruments is hedging. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements****(k) 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, and is calculated based on the weighted-average cost. Inventories are measured at the lower of cost or net realizable value on an item-by-item basis. Net realizable value is the estimated selling price in the ordinary course of business, less the selling expenses at the end of the period.

**(l) Non-current assets held for sale**

The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, and its sale must be highly probable within one year. Assets classified as held for sale shall be measured at the lower of carrying amount or fair value less costs to sell, and depreciation, depletion, or amortization on shall assets to cease. Assets held for sale should be presented separately on the balance sheet. An entity shall recognize impairment losses on the fair value less costs to sell of the non-current asset to in the income statement. If the asset has been revalued in accordance with the laws, it shall follow SFAS No. 35 "Impairment of Assets".

**(m) Construction in progress and advance contract receipts**

Contract costs include direct material and labor costs and related construction expenses categorized by project. Costs of uncompleted contracts in excess of related billings are classified under current assets, whereas billings on uncompleted contracts in excess of related costs are classified under current liabilities.

The completed-contract method of accounting for long-term construction projects is adopted when the construction period is within one year. The percentage-of-completion method of accounting for long-term construction projects is adopted when the construction period exceeds one year and the contract price, the completion cost, and the extent of construction progress can be reasonably estimated. The construction costs incurred are recorded as "construction in progress". Advance receipts on construction contracts are recorded as "advance contract receipts". At each year-end, the percentage-of-completion method is used for estimating aggregate contract gain less aggregate contract gain recognized in prior period, and the resulting difference is recognized currently. When a loss is estimated on construction contracts, the entire estimated loss should be recognized immediately.

Changes in contract price or estimated total cost are treated as changes in accounting estimate.

**(n) Long-term equity investments**

Long-term investments are accounted for under the equity method when the percentage of ownership held by the Company and its subsidiaries exceeds 20%.

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

The difference between the cost of the investment and the amount of underlying equity in net assets of an investee attributed to depreciable, depletable, or amortizable assets is amortized over the estimated remaining economic years. The difference attributed to the carrying amount in excess of or lower than the fair value of assets is written off entirely when the difference disappears. The cost of investment in excess of the fair value of identifiable net assets is recognized as goodwill and is no longer amortized. The difference attributed to the fair value of identifiable net assets in excess of the cost of investment causes a proportional decrease in the carrying amount of non-current assets. When the carrying amount of non-current assets is decreased to zero, the remaining difference is through extraordinary gain or loss.

The difference between the disposal price and carrying amount of long-term equity investment under the equity method on the disposal date is recognized as gain or loss from disposal of long-term equity investment. The associated capital surplus resulting from long-term equity investment is reclassified into current gain or loss in proportion to disposal of long-term equity investment. If an investee company accounted for under the equity method issues new shares and the Company does not purchase new shares proportionately, then the investment percentage, and therefore the equity in net assets for the investment, will be changed. Such difference shall be used to adjust capital surplus or retained earnings and long-term equity investments.

When the unrealized gain or loss on financial instruments, accumulated currency translation adjustments, and unrecognized net pension cost of investee companies accounted under the equity method, including are changed, the change is reflected in those accounts of those companies and in long-term investment under the equity method based on the percentage of ownership.

Unrealized inter-company profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted for under the equity method are deferred until realized, or are amortized based on the useful lives of the assets that give rise to such unrealized profits or losses.

The investees over which the Company has control are consolidated into the Company's consolidated financial statements. The Company prepares consolidated financial statements quarterly.

(o) Property, plant and equipment, leased assets, and depreciation

Property and equipment are stated at cost and can be revalued at government-declared values or indexes. Major renewals and improvements are capitalized and depreciated accordingly; repairs and maintenance are charged to expenses as incurred. Gains or losses on disposal of property, plant and equipment are recorded as nonoperating gains or losses.

Excluding land, depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets. The useful lives of respective assets are summarized as follows:

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

1. Buildings: 50 years.
2. Office and other equipment: 2~20 years.

Property, plant and equipment leased to other parties under operating leases are classified as leased assets. Rental income received by the Company is recorded as non-operating income. The related depreciation is accounted for as a reduction of rental income. Related taxation, utility expenses, and maintenance expenses are recorded as current administrative expenses, unless the contract calls for the lessee to pay these expenses.

(p) Intangible assets

The Company adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of an intangible asset is determined by the original cost less its residual value. Amortization is provided for by using the straight-line method over the estimated useful lives of intangible assets from the date that they are available for use. The cost of computer software for internal use is amortized by using the straight-line method over three 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. Any changes shall be accounted for as changes in accounting estimates.

(q) Deferred charges

Deferred charges including network installation expense are stated at cost and amortized using the straight-line method over 3~5 years.

(r) Retirement plan

The Company has established an employee noncontributory defined benefit retirement plan covering all regular employees. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of employee retirement benefits are based on the years of service and the average salary for the six months before the employee's retirement. Each employee who qualifies for retirement is entitled to receive retirement benefits equal to two months' salary for the first 15 years of service and one month's salary for each service year after the sixteenth year. The maximum benefit is 45 months of salary.

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

The Labor Pension Act became effective on July 1, 2005, and prescribes a defined contribution pension plan for all new employees and for any employees employed before that date who opted to adopt it.

The Company contributes an amount equal to 2% of salaries and wages to the pension fund maintained with Bank of Taiwan. The employee retirement benefits are initially paid out of the pension fund and then by the Company if the fund is insufficient.

Under this defined benefit pension plan, the pension liabilities are actuarially calculated at the year-end date, and the Company recognizes net periodic pension costs, including service cost, interest cost, expected return on plan assets, and amortization of net unrecognized transaction assets over the average remaining service period of the employees of 18 years.

Under this defined contribution pension plan, the Company contributes monthly an amount equal to 6% of salaries and wages to employees' individual pension fund accounts with the Bureau of Labor Insurance, and the contribution is recorded as pension expenses in the accompanying statements of income.

(s) Share-based payment

The employee stock options granted before January 1, 2008, are accounted for by Interpretations (92) 070, 071, and 072 issued by the Accounting Research and Development Foundation (ARDF). The Company adopts the intrinsic value method for the employee stock options. Compensation costs are the excess, if any, of the fair value of the stock at the measurement date over the amount employees must pay to acquire the stock. Meanwhile, the compensation costs mentioned above are recorded as current expense and a separate component of stockholders' equity during the service period of the employees specified in the employee stock option plan. According to SFAS No. 39 "Share-based Payment", the Company need not apply SFAS No. 39 retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

(t) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors' and supervisors' remuneration based on the ROC Company Act and the Company's articles of incorporation and appropriated after January 1, 2008, are accounted for by Interpretation (96) 052 issued by the ARDF. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and that recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

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**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements****(u) Income taxes**

Income tax is calculated based on accounting income. The amount of deferred tax liabilities and assets is calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effects of taxable temporary differences are recorded as deferred tax liabilities. The tax effects of deductible temporary differences, net operating losses, and income tax credits are recognized as deferred income tax assets. An allowance is provided for deferred tax assets that may not be realized in the future.

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability that resulted in the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

The 10% surtax on unappropriated earnings is recorded as current income tax expense in the following year when the shareholders resolve not to distribute the earnings.

**(v) Revenue recognition**

Revenues on construction contracts are recognized in accordance with SFAS No. 11 "Construction Contracts". Revenue derived from product sales is recognized when products are shipped and the significant risks and rewards are transferred to the buyer. Costs and expenses are recognized when revenue is earned. An allowance for sales discounts is estimated during the year in which the sales occur. The allowance for sales discounts is evaluated based on past experience.

Service revenue that generates from agency of business is recognized when the sales occur, the related costs are recognized when they are incurred.

**(w) Net income per share**

Net income per share of common stock is computed based on the weighted-average number of common shares outstanding during the period. Net income per share for the prior period is retroactively adjusted to reflect the effects of new shares issued by transferring capital surplus, retained earnings, and employee bonuses.

The employee stock options issued by the Company and employee stock bonuses which could be declared in the form of stock dividends and have not yet been approved by the stockholders' meeting are potential common shares. Basic net income per share will be disclosed if there is no dilution effect. Otherwise, both basic and diluted net income per share shall be disclosed. For the purpose of calculating diluted net income per share, the potential common shares should be deemed to have been converted into common stock at the beginning of the period, and the effect on net income of the additional common shares outstanding should be considered accordingly.

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**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

(x) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of resources to the segment and to assess its performance for which discrete financial information is available. The operating segment information is disclosed within the consolidated financial statements but not in the stand-alone financial statements.

**(3) Changes in Accounting Policy and Their Influence**

- (a) Effective January 1, 2011, the Company adopted the amended ROC SFAS No. 34 "Financial Instruments: Recognition and Measurement". The Company recognizes, measures, and assesses the impairment of receivables in accordance with the ROC SFAS No. 34. The change had no significant effect on the Company's financial statements for the year ended December 31, 2011.
- (b) Effective January 1, 2011, the Company adopted the ROC SFAS No. 41 "Operating Segments." In accordance with ROC SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and the financial effects of the business activities in which it engages and the economic environments in which it operates. The operating segment information is disclosed within the consolidated financial statements but not disclosed in the stand-alone financial statements. This Standard supersedes the ROC SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have any effect for the year ended December 31, 2011.

**(4) Cash and Cash Equivalents**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Cash on hand	\$ 2,137	2,303
Checking accounts and demand deposits	243,778	287,851
Time deposits	220,606	390,244
Bonds purchased under repurchase agreements	<u>100,000</u>	<u>83,000</u>
	<b>\$ <u>566,521</u></b>	<b><u>763,398</u></b>

**(5) Financial Assets**

(a) Non-derivative financial instruments

The non-derivative financial instruments held by the Company as of December 31, 2011 and 2010, were as follows:

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## TOPCO SCIENTIFIC CO., LTD.

## Notes to Financial Statements

December 31, 2011 December 31, 2010

Financial assets at fair value through profit or loss – current:		
Mutual funds – open-end funds	\$ <u>783,422</u>	<u>395,647</u>
Available-for-sale financial assets-current:		
Publicly listed securities – Neo Solar Power Corporation (Neo Solar)	\$ <u>6,350</u>	<u>22,575</u>
Financial assets carried at cost – non-current:		
Shin-Etsu Handotal Taiwan Co., Ltd. (Shin-Etsu)	\$ 120,000	120,000
Top Taiwan V Venture Capital Co., Ltd.	50,000	50,000
Taiwan Solar Energy Corporation (TSEC)	17,100	-
Ultra Chip Inc. (Ultra)	13,678	13,678
Others	<u>51,100</u>	<u>47,500</u>
	\$ <u>251,878</u>	<u>231,178</u>

1. The gain on valuation of financial assets measured at fair value held by the Company as of December 31, 2011 and 2010, amounted to \$4,192 and \$1,049, respectively.
  2. As of December 31, 2011 and 2010, the unrealized gain and loss on available-for-sale financial assets amounted to a loss of \$2,834 and a gain of \$13,391, respectively.
  3. The Company's investments in Shin-Etsu and others had no publicly traded price, and their fair values were difficult to determine. Therefore, the investments were stated at cost.
  4. In 2010, the Company disposed of part of its equity in Ultra with a selling price amounting to \$6,744. The related gains were \$1,529 and recognized as other income. For transactions with related parties, please see note 17.
  5. The Company invested in TSEC and Eversol Corporation for \$29,700 in 2011.
  6. The value of financial assets carried at cost declined materially and permanently. The Company recognized impairment losses thereon for the years ended December 31, 2011 and 2010, amounting to \$9,000 and \$1,600, respectively.
  7. The dividend revenue from available-for-sale financial assets and financial assets carried at cost was \$43,232 and \$12,634 for the years ended December 31, 2011 and 2010, respectively.
- (b) Derivative financial instruments

As of December 31, 2011 and 2010, the derivative financial instruments held by the Company were as follows:

(Continued)

## TOPCO SCIENTIFIC CO., LTD.

## Notes to Financial Statements

	December 31, 2011		December 31, 2010	
	Book value	Nominal amount	Book value	Nominal amount
Derivative financial assets:				
USD forward foreign currency exchange contracts bought (USD/NTD)	\$ <u>-</u>	<u>-</u>	\$ <u>69</u>	USD <u>250,000</u>
JPY forward foreign currency exchange contracts bought (JPY/NTD)	\$ <u>-</u>	<u>-</u>	\$ <u>2,285</u>	JPY <u>176,904,000</u>

The above derivative financial instruments were recorded as financial assets at fair value through profit or loss as of December 31, 2010.

The Company entered into forward foreign currency exchange contracts with several banks in the years ended December 31, 2011 and 2010. The main purpose of the contracts was to hedge foreign currency risk. For the years ended December 31, 2011 and 2010, the net gain or loss resulting from changes in fair value of the foreign currency exchange contracts was recorded as gain on valuation of financial instruments and loss on valuation of financial instruments as follows:

	2011	2010
Gain on valuation of financial assets	\$ 1,801	4,445
Loss on valuation of financial liabilities	(4,533)	(2,165)

**(6) Notes and Accounts Receivable – Third Parties**

	December 31, 2011	December 31, 2010
Notes receivable	\$ 23,942	37,997
Accounts receivable	<u>1,721,369</u>	<u>1,636,725</u>
	1,745,311	1,674,722
Less: allowance for doubtful accounts	(45,146)	(23,717)
allowance for sales discount	<u>(101,140)</u>	<u>(53,407)</u>
	\$ <u><b>1,599,025</b></u>	<u><b>1,597,598</b></u>

**(7) Inventories**

	December 31, 2011	December 31, 2010
Merchandise inventories	\$ 1,366,897	1,743,591
Goods in transit	<u>43,224</u>	<u>-</u>
	1,410,121	1,743,591
Less: allowance for inventory valuation and obsolescence loss	<u>(202,937)</u>	<u>(295,435)</u>
	\$ <u><b>1,207,184</b></u>	<u><b>1,448,156</b></u>

(Continued)

## TOPCO SCIENTIFIC CO., LTD.

## Notes to Financial Statements

Inventory-related expenses for the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Provision (recovery) for inventory valuation loss and obsolescence	\$ (92,498)	60,895
Loss on inventory compensation and others	<u>844</u>	<u>1,413</u>
	<u>\$ (91,654)</u>	<u>62,308</u>

In 2011, the Company reversed allowance for inventory valuation loss and obsolescence amounting to \$92,498 and recorded it as a deduction from cost of sales because the net realizable value was no longer lower than cost after the disposal of obsolete inventories. In 2010, write-downs of inventories to net realizable value amounting to \$60,895 were recorded as cost of sales. As of December 31, 2011 and 2010, the Company did not provide inventories as collateral for its loans.

**(8) Construction in Progress and Advance Construction Receipts**

	December 31, 2011	December 31, 2010
Cost of construction in progress	\$ 959,176	1,905,146
Net accumulated contract losses	<u>32,709</u>	<u>(58,828)</u>
	991,885	1,846,318
Advance construction receipts	<u>(833,156)</u>	<u>(1,691,424)</u>
	<u>\$ 158,729</u>	<u>154,894</u>
Construction in progress in excess of advance construction receipts	\$ 167,048	215,032
Advance construction receipts in excess of construction in progress	<u>(8,319)</u>	<u>(60,138)</u>
	<u>\$ 158,729</u>	<u>154,894</u>

The material construction in progress as of December 31, 2011 and 2010 is summarized below (contract price in excess of \$150,000):

2011.12.31					
Construction item	Estimated construction revenue	Estimated construction cost	% of completion	Estimated year of completion	Accumulated gain (loss)
W08016	\$ 350,375	325,524	Note	Note	476
W09004	269,746	262,185	88.06	2012	6,658
PW10015	204,706	198,041	92.99	2012	5,742
W08012	157,956	157,206	93.67	2012	702

(Continued)



**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

Note: As of December 31, 2011, the construction in progress was \$6,712. The construction had been suspended due to the customer's request.

<b>2010.12.31</b>					
<b>Construction item</b>	<b>Estimated construction revenue</b>	<b>Estimated construction cost</b>	<b>% of completion</b>	<b>Estimated year of completion</b>	<b>Accumulated gain (loss)</b>
W06021	\$ 583,600	571,020	97.92	2011	12,318
W03007	439,857	556,376	90.75	2011	(116,519)
W08016	350,375	325,524	Note	Note	476
PW10015	225,391	215,321	0.92	2011	93
W09004	269,746	262,185	48.19	2012	3,643
W08012	157,956	157,206	91.47	2011	686

Note: As of December 31, 2010, the construction in progress was \$6,712. The construction had been suspended due to the customer's request.

**(9) Long-term Equity Investments**

	<b>December 31, 2011</b>		<b>December 31, 2010</b>	
	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>
Topco Quartz Products Co., Ltd. (Topco Quartz)	40	\$ 487,632	40	406,304
Topco Group Ltd. (Topco Group)	100	493,451	100	359,444
Taiwan E&M Systems, Inc. (Taiwan E&M)	100	327,640	100	310,484
Fortune Energy Corporation (Fortune Energy)	25	239,370	25	224,499
Topco International Investment Co., Ltd. (Topco International)	100	211,371	100	173,766
Chien Yueh Technology Engineering Co., Ltd. (Chien Yueh)	100	89,958	100	98,393
Chang Tai Energy Co., Ltd. (Chang Tai)	51	48,361	51	20,834
Topco Investment Co., Ltd. (Topco Investment)	100	7,176	100	9,351
		<b>\$ 1,904,959</b>		<b>1,603,075</b>

(a) The investment income on long-term equity investments recognized under the equity method for the years ended December 31, 2011 and 2010 amounted to \$145,348 and \$160,043, respectively.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

- (b) For the solar energy market and related business needs, the Company invested \$25,500 and formed Chang Tai in 2010 with another entity for an ownership interest of 51%. Chang Tai holds a 100% ownership interest in US Topco Energy Inc. The major business activity of US Topco Energy Inc. is the sale and engineering of solar energy systems. Further, the Company invested in US PCM CO., LTD. (US PCM) through increasing investments in Chang Tai with another entity with the amount of \$51,000 and for an ownership interest of 49%. The major business activities of (US PCM) is the wholesale of solar energy systems and power converters.
- (c) For the solar energy business in the U.S., the Company invested in Topco Lancaster Investment Inc. (Topco Lancaster) through increasing investments in Topco Group with the amount of \$83,535 (US\$2,808,000) in 2011.
- (d) The Company invested in DIO Energy GmbH and Menergy Technology Inc. (Menergy) through increasing investments in Topco International with the amount of \$60,000 in 2011, the major business activity of those companies is solar energy business.
- (e) The unrealized gain and loss on financial instruments resulting from long-term equity investments was a loss of \$5,287 and a gain of \$6,646 as of December 31, 2011 and 2010, respectively.
- (f) The cash dividend received from investees was \$54,912 and \$43,430 for the years ended December 31, 2011 and 2010, respectively.

**(10) Property, Plant and Equipment, and Rental Assets**

The Company entered into a sales agreement in March 2010 to sell the rental assets upon the expiry of the lease contract for \$52,401 (tax included). The related disposal gain amounted to \$3,398, recorded as non-operating income for the year ended December 31, 2010. The registration procedure related to the sale has been completed. As of December 31, 2010, the receivable sales agreement had been fully collected.

The Company does not provide property, plant and equipment as collateral for its loans as of December 31, 2011 and 2010.

**(11) Long-term Accounts Receivable**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Long-term accounts receivable	\$ 30,854	306,770
Less: allowance for doubtful accounts	<u>(30,854)</u>	<u>(301,176)</u>
	<u>\$ -</u>	<u>5,594</u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

The Company reclassified accounts receivable resulting from sales to long-term accounts receivable according to the settlement agreement. The customers had provided machinery (original cost amounting to \$550,711) and 64,283 thousand shares of another company's securities as collateral in 2009 and 2007, respectively. Following the prudence principle, as certain customers did not make payment in accordance with the settlement agreements and the estimated value of collateral securities declined materially and permanently, the Company recorded a full allowance for those accounts receivable, and the remaining balance was evaluated based on the likelihood of collection. In 2011, since the Company assessed that a part of the receivable will not be recovered, the Company wrote off long-term accounts receivable and allowance for doubtful accounts in the same amount of \$251,026.

**(12) Pension**

- (a) The Company had an actuarial valuation of its pension plan as of December 31, 2011 and 2010. According to the actuarial reports, the funded status was reconciled with accrued pension liabilities as follows:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Benefit obligation:		
Vested benefit obligation	\$ (13,458)	(31,012)
Non-vested benefit obligation	<u>(70,468)</u>	<u>(50,565)</u>
Accumulated benefit obligation	(83,926)	(81,577)
Projected future employee compensation increases	<u>(85,367)</u>	<u>(75,750)</u>
Projected benefit obligation	(169,293)	(157,327)
Fair value of plan assets	<u>36,609</u>	<u>33,598</u>
Funded status	(132,684)	(123,729)
Net unrecognized transition obligation	458	983
Unrecognized pension loss	<u>78,340</u>	<u>68,279</u>
Accrued pension liabilities	<u>\$ (53,886)</u>	<u>(54,467)</u>

As of December 31, 2011 and 2010, the vested benefits of the Company were approximately \$16,281 and \$40,745, respectively.

- (b) The net pension costs in 2011 and 2010 consisted of the following:

	<b>2011</b>	<b>2010</b>
Net pension expense of defined benefit pension plan:		
Service cost	\$ 3,218	3,244
Interest cost	2,741	2,879
Actual return on plan assets	(414)	(497)
Amortization	3,072	2,108
Curtailment gain	<u>(6,600)</u>	<u>-</u>
	<u>\$ 2,017</u>	<u>7,734</u>
Net pension expense of defined contribution pension plan	<u>\$ 17,911</u>	<u>15,989</u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

(c) Actuarial assumptions were as follows:

	<b>2011</b>	<b>2010</b>
Discount rate	2.00%	1.75%
Future salary increase rate	5.00%	5.00%
Expected long-term rate of return on plan assets	2.00%	1.75%

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

Based on a resolution of the annual stockholders' meeting held on June 15, 2011, the Company increased its authorized common stock to \$1,900,000 and declared a 2.8 New Taiwan dollar cash dividend per share, which amounted to \$408,241, and increased its common stock through the issuance of stock dividends by transferring retained earnings amounting to \$29,160. New share issuance of 2,916 thousand shares was authorized on June 29, 2011. Except for the authorized common stock, the registration procedures related to the issuance mentioned above had been completed.

Based on a resolution of the annual stockholders' meeting held on June 15, 2010, the Company increased its authorized common stock to \$1,800,000 and declared a 1.5 New Taiwan dollar cash dividend per share, which amounted to \$214,412, and increased its common stock through the issuance of stock dividends by transferring retained earnings amounting to \$28,588. New share issuance of 2,859 thousand shares was authorized. Except for the authorized common stock, the registration procedures related to the issuance mentioned above had been completed.

As of December 31, 2011 and 2010, the authorized common stock was \$1,600,000 (including \$100,000 for the issuance of employee stock options), with a par value of \$10 (dollars) per share.

**(b) Capital surplus**

Pursuant to the ROC Company Act, the capital surplus should be used to offset a deficit first and then converted the realized capital surplus into capital or distributed as cash dividends. The aforementioned realized capital surplus was generated from the excess of the issuance which priced over the par value of capital stock and donations. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases through the capitalization of the paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases through the capitalization of the paid-in capital in excess of par value can only commence in the year following the initial year.

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**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

(c) Legal reserve

The ROC Corporation Act stipulates that companies must retain 10% of their annual net earnings as defined in the Act until such retention equals the amount of the issued share capital. When a company incurs no loss, it may, in pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares or cash. Only the portion of the legal reserve which exceeds 25% of the paid-in capital may be distributed.

(d) Employee stock options

In the meeting of the board of directors held on October 26, 2007, the board decided to issue 4,500 units of stock options, with an exercisable right of one thousand shares of the Company's common stock per unit. The information on total options issued was as follows:

	<b>2011</b>		<b>2010</b>	
	<b>Units</b>	<b>Weighted- average exercise price</b>	<b>Units</b>	<b>Weighted- average exercise price</b>
	<b>(in thousands)</b>	<b>(NT dollars)</b>	<b>(in thousands)</b>	<b>(NT dollars)</b>
Outstanding units on January 1	3,795	\$ 53.79	3,977	54.87
Current units granted	-	-	-	-
Current units abandoned	(224)	52.51	(182)	54.41
Current units exercised	-	-	-	-
Current units expired	-	-	-	-
Outstanding units on December 31	<u>3,571</u>	49.45	<u>3,795</u>	53.79
Exercisable units on December 31	<u>3,571</u>	49.45	<u>2,657</u>	53.79

As of December 31, 2011 and 2010, the weighted-average remaining contractual life of the outstanding options was 2 years and 3 years, respectively.

The issuance terms of the stock options are as follows.

- (i) Exercise price: After the adjustment for stock dividends over the years, the exercise price was \$49.45 (dollars).
- (ii) Exercisable duration: After two years, the employees who received stock options can exercise a specific percentage in each period as below. The exercisable duration of the options is six years. No transfer, pledge, donation or other methods of disposal are allowed except for inheritance.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

<u>Period to exercise options</u>	<u>Exercisable percentage (cumulative)</u>
2 years after options received	40%
3 years after options received	70%
4 years after options received	100%

(iii) Exercise method: The Company would issue new shares as the options are exercised.

(iv) Exercise procedure: In accordance with the Company's issuance and exercise rules, the entitlement certification of stock options exercised is registered as common stock four times a year.

The compensation cost of the stock options issued before December 31, 2007, was computed by the intrinsic value method. Because the fair value of the Company's common stock on the measurement date was not in excess of the exercise price of the stock options, the Company did not need to recognize compensation cost. If the compensation cost of the issued stock options were computed by the fair value method, the pro forma information would be as follows:

A. The compensation cost for the years ended December 31, 2011 and 2010, would be \$4,800 and \$11,294, respectively, if the Company used the fair value method instead. The Company adopted the Black-Scholes model to compute the fair value on the grant date, and the assumptions are summarized as follows:

Original exercise price (dollars)	\$58.7
Fair price of the Company's stock at the measurement date (dollars)	\$58.7
Expected cash dividend yield rate	3%
Expected volatility	36.20%
Risk-free interest rate	2.765%
Expected life of the option	4 years

B. The pro forma information on compensation cost by using the fair value method on net income and earnings per share would be as follows:

		<b>2011</b>	<b>2010</b>
Net income	Actual	\$ 952,453	659,994
	Pro forma	947,653	648,700
Basic net income per share	Actual (dollars)	6.40	4.53
	Pro forma (dollars)	6.37	4.45
Diluted net income per share	Actual (dollars)	6.33	4.49
	Pro forma (dollars)	6.30	4.41

(Continued)

**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

## (e) Limitation on distribution of retained earnings

In accordance with the Company's articles of incorporation, 10% of the Company's annual net income after paying all taxes and deducting losses from the prior years, if any, should be set aside as legal reserve (based on a resolution of the stockholders' meeting held in 2011, it should also set aside or reversed the special reserve based on regulations or laws). The unappropriated earnings after legal reserve shall be allocated as follows:

- a. At least 5% of the balance as employee bonuses;
- b. No more than 3% of the balance as remuneration to directors and supervisors; and
- c. The remaining portion shall be distributed as dividends to all stockholders in proportion to their individual holding as proposed by the board of directors and approved at the stockholders' meeting. No less than 10% of total stockholders dividends may be distributed in the form of cash dividends.

In the case of employee stock bonuses, the employees of the subsidiaries meeting certain terms set by the board of directors are included.

- (f) Based on the resolution approved by the stockholders during their annual stockholders' meetings on June 15, 2011, and 2010, the employee bonuses and directors' and supervisors' remuneration were appropriated from the distributable retained earnings of 2010 and 2009 as follows:

	<b>2010</b>	<b>2009</b>
Employee bonuses – cash	\$ 35,650	18,000
Directors' and supervisors' remuneration	<u>8,900</u>	<u>5,200</u>
	<b><u>\$ 44,550</u></b>	<b><u>23,200</u></b>

The employee bonuses and directors' and supervisors' remuneration had no difference from the estimated distribution in the financial report for 2010 and 2009.

The related information about the distribution of employee bonuses and directors' and supervisors' remuneration determined by a meeting of the board of directors and approved in a stockholders' meeting can be accessed from the Market Observation Post System after the holding of these meetings.

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**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

(g) The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation for the financial statements. The Company recognized employee bonuses and directors' and supervisors' remuneration of \$64,304 and \$44,550 for the years ended December 31, 2011 and 2010, respectively, which were a specific percentage, approved by the Company's management, of net income after deducting the legal reserve. The number of shares of the dividend distribution is based on the closing price of the day before the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and that recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

**(14) Income Taxes**

(a) The Company's income is subject to an income tax rate of 17% in 2011 and 2010. Also, the Company has applied the "Income Basic Tax Act" to compute basic tax. The components of income tax expense of the Company for the years ended December 31, 2011 and 2010, were as follows:

	<b>2011</b>	<b>2010</b>
Current income tax expense	\$ 166,938	102,416
10% surtax on unappropriated earnings	<u>15,659</u>	<u>6,666</u>
	<u>182,597</u>	<u>109,082</u>
Deferred income tax expense (benefit)		
Decrease (increase) in loss on inventory valuation and obsolescence	15,725	(10,023)
Investment gain (loss) under equity method for foreign investment, net	4,100	(6,311)
Deferred income tax effect resulting from change in income tax rate	-	11,182
Increase in unrealized foreign currency exchange gain (loss), net	(3,988)	(6,833)
Increase in allowance for doubtful accounts	(377)	(588)
Change in valuation allowance	13,663	4,717
Decrease in unrealized construction loss	1,833	560
Others	<u>(5,972)</u>	<u>8,063</u>
	<u>24,984</u>	<u>767</u>
Total income tax expense	<b>\$ <u>207,581</u></b>	<b><u>109,849</u></b>

(Continued)



**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

- (b) The income tax computed at the statutory rate and reconciled with the actual income tax expense for the years ended December 31, 2011 and 2010 was as follows:

	<b>2011</b>	<b>2010</b>
Income tax calculated on pre-tax financial income	\$ 197,206	130,873
10% surtax on unappropriated earnings	15,659	6,666
Domestic investment income, net	(20,610)	(22,444)
Increase in valuation allowance	13,663	4,936
Domestic dividend income	(7,349)	(2,148)
Prior year's tax assessment difference adjustment	(1,572)	(4,544)
Tax effect resulting from change in income tax rate – at the date of amendment of Income Tax Act	-	8,882
Others	<u>10,584</u>	<u>(12,372)</u>
Income tax expense	<u>\$ <b>207,581</b></u>	<u><b>109,849</b></u>

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

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Deferred income tax assets:		
Loss on inventory valuation and obsolescence	\$ 34,499	50,224
Unrealized gross profit	9,328	9,328
Provision for sales allowance	17,194	9,079
Allowance for doubtful accounts	10,006	52,303
Unrealized pension expense	9,161	9,259
Others	<u>6,543</u>	<u>10,421</u>
	86,731	140,614
Less: valuation allowance	<u>(30,474)</u>	<u>(59,485)</u>
Net deferred income tax assets	<u>56,257</u>	<u>81,129</u>
Deferred income tax liabilities:		
Foreign currency translation adjustments	(6,009)	(1,393)
Foreign investment income under equity method	(9,237)	(5,137)
Reserve for loss on outward investment	(4,391)	(4,391)
Others	<u>(906)</u>	<u>(4,894)</u>
	<u>(20,543)</u>	<u>(15,815)</u>
Net deferred income tax assets	<u><b>35,714</b></u>	<u><b>65,314</b></u>
Net deferred income tax assets – current	35,433	30,192
Net deferred income tax assets – non-current	<u>281</u>	<u>35,122</u>
Net deferred income tax assets	<u>\$ <b>35,714</b></u>	<u><b>65,314</b></u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

- (d) The ROC tax authorities have been examining the Company's income tax returns through 2009.
- (e) Imputation credit account and creditable ratio

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Unappropriated earnings retained prior to January 1, 1997	\$ 10,333	10,333
Unappropriated earnings retained after January 1, 1998	<u>1,312,588</u>	<u>863,535</u>
Total	<u>\$ 1,322,921</u>	<u>873,868</u>
ICA balance	<u>\$ 160,416</u>	<u>114,356</u>
	<b>2011</b>	<b>2010</b>
Creditable ratio for earnings distribution	<b><u>20.86%</u> (expected)</b>	<b><u>27.00%</u> (actual)</b>

**(15) Net Income per Share**

Net income per share for the years ended December 31, 2011 and 2010, was computed as follows. All net income per share amounts are expressed in dollars.

	2011		2010	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
<b>Basic net income per share:</b>				
Net income	<u>\$ 1,160,034</u>	<u>952,453</u>	<u>769,843</u>	<u>659,994</u>
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	<u>148,716</u>	<u>148,716</u>	<u>145,800</u>	<u>145,800</u>
Net income per share before retroactive adjustments	<u>\$ 7.80</u>	<u>6.40</u>	<u>5.28</u>	<u>4.53</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u>148,716</u>	<u>148,716</u>
Net income per share after retroactive adjustments			<u>\$ 5.18</u>	<u>4.44</u>
<b>Diluted net income per share:</b>				
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	148,716	148,716	145,800	145,800
Effects of dilutive potential common stock:				
Employee bonuses	<u>1,688</u>	<u>1,688</u>	<u>1,196</u>	<u>1,196</u>
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	<u>150,404</u>	<u>150,404</u>	<u>146,996</u>	<u>146,996</u>
Net income per share before retroactive adjustments	<u>\$ 7.71</u>	<u>6.33</u>	<u>5.24</u>	<u>4.49</u>

(Continued)

## TOPCO SCIENTIFIC CO., LTD.

## Notes to Financial Statements

	2011		2010	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Effects of dilutive potential common stock:				
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			148,716	148,716
Effects of dilutive potential common stock:				
Employee bonuses			<u>1,196</u>	<u>1,196</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u><u>149,912</u></u>	<u><u>149,912</u></u>
Diluted net income per share after retroactive adjustments			\$ <u><u>5.14</u></u>	<u><u>4.40</u></u>

The employee stock options issued by the Company in December 2007 were potential common shares. However, the employee stock options had no dilution effect for the years ended December 31, 2011 and 2010. Therefore, when the Company calculated the diluted net income per share for 2011 and 2010, the employee stock options were not considered.

**(16) Related Information about Financial Instruments**

## (a) Fair value of financial instruments

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

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Financial assets:</b>				
Financial assets held for trading	\$ 783,422	783,422	395,647	395,647
Available-for-sale financial assets – current	6,350	6,350	22,575	22,575
Financial assets carried at cost – non- current	251,878	-	231,178	-
Forward foreign currency exchange contracts	-	-	2,354	2,354
Long-term accounts receivable	-	-	5,594	5,594
<b>Off-balance sheet financial liabilities:</b>				
Guarantees	-	1,096,802	-	843,699

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

(b) The following methods and assumptions were used in estimating fair values:

1. The book value of short-term financial instruments is considered to be the fair value due to the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. Such method is applicable to cash and cash equivalents, notes and accounts receivable/payable, other current financial assets, and accrued expenses and other current liabilities.
2. If public quoting of financial assets and liabilities is available, then the quoted price will be the fair value.
3. None of the Company's financial assets carried at cost are publicly listed. No publicly quoted prices are available for these investments.
4. The fair value of the long-term accounts receivable was based on the credit rating of the debtor, the payment of principal, and the currency.

(c) The fair value of financial assets and financial liabilities evaluated by the Company under public quoting or an assessment method was as follows:

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Public</u>	<u>Assessment</u>	<u>Public</u>	<u>Assessment</u>
	<u>quote value</u>	<u>value</u>	<u>quote value</u>	<u>value</u>
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 566,521	-	763,398	-
Mutual funds	783,422	-	395,647	-
Available-for-sale financial assets – current	6,350	-	22,575	-
Forward foreign currency exchange contracts	-	-	-	2,354
Notes and accounts receivable (including related parties)	-	1,636,336	-	1,644,959
Other current financial assets – current	-	112,748	-	120,674
Long-term accounts receivable, net	-	-	-	5,594
<b>Financial liabilities:</b>				
Notes and accounts payable (including related parties)	-	2,023,355	-	2,132,195
Accrued expense and other payables	-	422,858	-	454,283

(Continued)

**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

The net gain or loss resulting from an assessment method were a loss of \$2,732 and a gain of \$2,280 for the years ended December 31, 2011 and 2010, respectively.

(d) Information about financial risk

1. Market risk

The equity securities held by the Company are classified as financial assets measured at fair value through profit or loss. As the assets are measured at fair value, the Company has risk exposure related to changes in fair value in an equity securities market.

The purpose of the derivative financial instruments is to hedge. Therefore, the gains or losses resulting from the changes in exchange rates will be offset from those of the hedged item. Management believes that the related market risk is not significant.

2. Credit risk

The credit risk is the potential loss of the Company if the counterpart involved in that transaction defaults. Since the Company's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, the management does not expect any significant credit risk from these transactions.

The primary potential credit risk is from financial instruments like cash, cash equivalents, equity securities, and accounts receivable. The Company deposits cash in different financial institutions. Cash equivalents represent investments in bonds purchased under repurchase agreements with a maturity of three months or less from the date of investment. Equity securities were funds issued by a company with good credit ratings. The Company manages credit risk exposure related to each financial institution and believes that there is no significant credit risk of cash.

The aggregation of sales to the Company's major customers exceeding 10% of the Company total sales accounted for 33% and 22% of the total net sales for the years ended December 31, 2011 and 2010, respectively. In order to reduce credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables in order to estimate an adequate allowance for doubtful accounts on a regular basis. The customers have a good credit and profit record. The Company has never been exposed to significant credit risk.

3. Liquidity risk

The Company will have cash inflows and outflows within the periods shown below. There are no significant financing risks due to expected sufficient capital. Management believes that the cash flow risk is not significant because the contracted foreign currency exchange rates are fixed.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

<b>December 31, 2010</b>			
<b>Financial instruments</b>	<b>Date</b>	<b>Cash outflow</b>	<b>Cash inflow</b>
Forward foreign currency exchange contracts bought – (USD/NTD)	January 13, 2011	NTD 7,522,000	USD 250,000
Forward foreign currency exchange contracts bought – (JPY/NTD)	January 7~ February 1, 2011	NTD63,753,000	JPY 176,904,000

The Company is exposed to a liquidity risk since a portion of equity investments, recorded as financial assets carried at cost – non-current, have no active market.

**(17) Related-party Transactions**

(a) Name of the related parties and relationship

<b>Related Party</b>	<b>Relationship with the Company</b>
Topco Quartz	Investee company accounted for under the equity method
Fortune Energy	"
Shin-Etsu	The Company's chairman is a director
Shin-Etsu Opto Electronic Co., Ltd. (Shin-Etsu Opto)	"
Taiwan E&M	Subsidiary of the Company
Chien Yueh	"
Cai Yan International Co., Ltd.	Subsidiary of Topco International
Topco Scientific Co., Ltd. (Japan) (Topco Japan)	"
Kuan Yueh Technology Engineering Co., Ltd. (Kuan Yueh)	"
Jia Yi Energy Co., Ltd. (Jia Yi)	"
Access Medical Co., Ltd. (Access)	"
Menergy	"
Asia IC Mic-process, Inc. (Asia IC)	Investee company of Topco International accounted for under the equity method
Asia Topco Investment Ltd. (Asia Topco)	Subsidiary of Topco Group
Topscience (s) Pte. Ltd. (Topscience (s))	"
Topco Scientific (Ningbo) Co., Ltd. (Topco Nigpo)	Subsidiary of Asia Topco Investment Ltd.
Topco Scientific (Shanghai) Co., Ltd. (Topco Shanghai)	"
Suzhou Topco construction Co., Ltd. (Topco Suzhou)	"
The board of directors, supervisors, chief executive officer, and executive vice president	The Company's main management

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

(b) Summary of significant transactions with related parties

1. Sales

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

	2011		2010	
	Amount	% of net sales	Amount	% of net sales
Topco Ningbo	\$ 35,328	-	-	-
Shin-Etsu	29,209	-	33,014	-
Topco Shanghai	4,436	-	1,753	-
Jia Yi	8,157	-	6,233	-
Others	4,045	-	1,682	-
	<b>\$ 81,175</b>	<b>-</b>	<b>42,682</b>	<b>-</b>

Selling prices for related parties were similar to those for other customers. The terms of collection for related parties were within 60 to 90 days after monthly closing, and within 30 to 90 days after monthly closing for third parties.

The sales to Topco Ningbo generated unrealized gross profit recorded as deferred credit amounted to \$412 in 2011.

(ii) Service revenue – commission and other

	2011		2010	
	Amount	%	Amount	%
Shin-Etsu	\$ 125,059	1	142,653	1
Topco Quartz	99,671	1	79,620	1
Others	3,301	-	3,240	-
	<b>\$ 228,031</b>	<b>2</b>	<b>225,513</b>	<b>2</b>

The prices and collection terms in the contracts were similar to those for other customers.

(iii) Construction revenue

The Company signed a construction contract with Topco Quartz to build its new factory, and the price and collection terms were negotiated by the two parties. The construction was finished in 2007, and the construction profit was \$37,983. The expansion construction of the new factory was finished in 2011, the construction profit was \$8,323.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

In accordance with accounting principles, the Company deferred the related profit of \$15,129 and \$3,315 calculated on the basis of the percentage of ownership and are recognizing the deferred profit over a certain period. The profit recognized amounted to \$4,447 and \$3,026 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, the deferred profit recorded as deferred credits amounted to \$4,919 and \$6,051, respectively.

2. Purchases

- (i) Purchases from related parties for the years ended December 31, 2011 and 2010, were as follows:

	2011		2010	
	Amount	% of net purchases	Amount	% of net purchases
Shin-Etsu Opto	\$ 16,678	-	56,320	1
Topco Quartz	44,760	1	20,043	-
Taiwan E&M	-	-	5,326	-
Topsience (s)	-	-	3,480	-
Others	<u>1,815</u>	<u>-</u>	<u>2,079</u>	<u>-</u>
	<b>\$ <u>63,253</u></b>	<b><u>1</u></b>	<b><u>87,248</u></b>	<b><u>1</u></b>

Purchase prices from related parties were similar to those from third-party suppliers. The payment periods were within 45 to 60 days after monthly closing for related parties, and within 30 to 60 days after monthly closing for third parties.

- (ii) Construction cost

The related parties provided construction-related services for the Company. The construction cost for the years ended December 31, 2011 and 2010, was as follows:

	2011	2010
Asia IC	\$ 42,148	-
Chien Yueh	23,502	32,612
Kuan Yueh	707	3,933
Topco Suzhou	<u>2,025</u>	<u>-</u>
	<b>\$ <u>68,382</u></b>	<b><u>36,545</u></b>

(Continued)





## TOPCO SCIENTIFIC CO., LTD.

## Notes to Financial Statements

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Accrued expense and other current liabilities:				
Topco Ningbo	\$ -	-	145,650	32
Jia Yi	8,148	-	-	-
Chien Yueh	3,868	-	2,991	1
Topco Shanghai	17	-	2,427	-
Others	47	-	295	-
	<u>\$ 12,080</u>	<u>-</u>	<u>151,363</u>	<u>33</u>

The accrued expense payable to Topco Ningbo as of December 31, 2010, amounted to \$145,650. Because Topco Ningbo terminated its contract with its ultimate customer, the Company also terminated its contract with Topco Ningbo. As a result, the Company is required to refund the advance receipt amount. As of December 31, 2011, the payable was fully paid.

## 6. Loss on inventory contract

The Company signed an inventory indemnification contract with Topco Quartz on July 1, 2002, to cover any excess customized inventory ordered. In 2011 and 2010, the estimated loss on claims under the inventory contract was \$168 and \$600, respectively, recorded as cost of goods sold. As of December 31, 2011 and 2010, the claims payable were \$600, recorded under accrued expenses and other current liabilities.

## 7. Stock transaction

The Company sold part of its shares of Ultra to Topco International for \$5,565, based on the market price. The Company recognized gain on sale of financial assets amounting to \$1,244, recorded as other income.

## 8. Financing

		2011				
	Maximum balance	Ending balance	Interest rate	Contract period	Interest income	Interest receivable
Asia Topco	\$ 55,347	-	2.2%	March 1, 2010~ February 28, 2011	112	-
Menergy	115,000	96,700	1.5%	October 28, 2011~ October 27, 2012	191	191
		<u>\$ 96,700</u>			<u>\$ 303</u>	<u>\$ 191</u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

2010						
	<u>Maximum balance</u>	<u>Ending balance</u>	<u>Interest rate</u>	<u>Contract period</u>	<u>Interest income</u>	<u>Interest receivable</u>
Asia Topco	\$ <u>57,922</u>	<u>55,347</u>	<u>2.2%</u>	March 1, 2010~ February 28, 2011	<u>1,082</u>	<u>1,436</u>

To meet Asia Topco's and Menegy operational demands, the Company provided financing to Asia Topco and Menegy, recorded as other current financial assets.

9. Guarantees

	December 31, 2011	December 31, 2010	Subject
Fortune Energy	\$ 281,900	321,500	Guarantees for secured loans
Topco Ningbo	-	84,594	"
Topco Shanghai	400,166	123,803	"(note 1)
Topco Suzhou	167,125	123,802	"(note 1)
Chien Yueh	192,611	190,000	"
Access	35,000	-	"
Jia Yi	20,000	-	"
	<b>\$ <u>1,096,802</u></b>	<b><u>843,699</u></b>	

Note 1: As of December 31, 2011 and 2010, Topco Shanghai and Topco Suzhou jointly shared credit lines of loans and credit lines for trading of financial instruments of \$136,238 and \$131,085, respectively.

As of December 31, 2011 and 2010, for the Company's construction contracts requirements, Chien Yueh provided guarantees for the Company amounting to \$38,748 and \$19,248, respectively.

(c) Salaries and remuneration of main management

The Company paid salaries and remuneration to the directors, supervisors, chief executive officer, and executive vice president in 2011 and 2010 as follows:

	2011	2010
Salaries	\$ 62,302	46,234
Incentives	35,180	19,151
Special compensation	63	45
Employee bonus	13,922	8,137

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

Note: The directors' and supervisors' remuneration and employee bonus were an estimate as stated in note 1 "stockholders' equity".

**(18) Pledged Assets**

The book value of assets pledged as collateral as of December 31, 2011 and 2010, is summarized as follows:

Assets	Subject	December 31, 2011	December 31, 2010
Other current financial assets – time deposits	Guarantees for construction contracts	\$ 11,135	9,039
Restricted assets –time deposits	Guarantees for lawsuit deposits	<u>64,600</u>	<u>64,600</u>
		<u>\$ 75,735</u>	<u>73,639</u>

**(19) Commitments and Contingencies**

(a) As of December 31, 2011, the details of commitments and contingencies other than guarantees for related parties mentioned in note 17 and the contract dispute mentioned in note 20 were as follows:

- (i) The Company had unused and outstanding letters of credit of approximately \$487,346.
- (ii) The Company had outstanding commitments for construction contracts amounting to \$237,097, net of the payment made and accrued payment.
- (iii) The Company had entered into line of credit agreements with several banks to guarantee payments under various construction contracts. As of December 31, 2011, the total amount was \$130,137.

(b) Due to the dispute about the different cognition on the construction period stated in the construction contract with a customer, the Company applied for mediation of the contract dispute with the Public Construction Commission of the Executive Yuan. Parts of the contract dispute were not settled in the mediation process and the Company therefore was going to undergo an arbitration process. The other parts of the contract dispute were already settled on February 2011 and the related losses were recognized in 2010's financial statements. Beside it, the Company assessed that there is no other significant loss, which should be reflected at book.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

**(20) Others**

- (a) Employee expenses, depreciation expenses, and amortization expenses for the years ended December 31, 2011 and 2010, were as follows:

	<b>Cost of sales</b>	<b>2011 Operating expenses</b>	<b>Total</b>	<b>Cost of sales</b>	<b>2010 Operating expenses</b>	<b>Total</b>
Employee expenses						
Salaries and wages	48,385	467,620	516,005	44,412	410,254	454,666
Labor and health insurance	-	25,299	25,299	-	22,416	22,416
Pension expense	1,670	18,258	19,928	1,198	22,525	23,723
Other	-	22,486	22,486	-	21,230	21,230
Depreciation expenses (note)	768	13,343	14,111	260	12,480	12,740
Amortization expenses	-	2,978	2,978	-	4,461	4,461

Note: Depreciation expenses excluded the depreciation of rental assets amounting to \$307 in 2010 recorded as a reduction of rental income.

(b) Dispute on contract performance

1. In November 2005, the Company entered into a “Turnkey Engineering Procurement and Construction Contract” (the Construction Contract) amounting to US\$14,000,000 and an “Agreement for Purchase and Installation of Equipment” (the Equipment Contract) amounting to US\$27,000,000 with a certain customer (the Customer). The Company performed its obligations pursuant to the contracts and the Customer’s purchase orders, and recorded the related revenue and cost starting from December 2005. However, due to different understandings of the contract details, the contracts performance was suspended. On December 21, 2006, the Customer’s attorney informed the Company that the contracts were terminated and the related purchase orders were cancelled due to the Company’s failure to perform certain terms of the contracts. In 2007, the Customer also filed an application for provisional attachment of the Company’s property amounting to US\$1,935,000, with the Taiwan Shihlin District Court. In April 2007, the Company submitted pledged deposits of US\$1,935,000 as counter-security to the Court for revocation of the provisional attachment.
2. The Company’s attorney issued an opinion on February 13, 2008, stating that the above contracts are governed by Hong Kong laws and that his analysis is solely based on the terms of the contracts. According to the attorney’s analysis, the Company is entitled to terminate the contracts since the Customer failed to perform its contractual obligations under the contracts. As of December 31, 2011, the inventories purchased for the contracts amounted to \$42,125; the Company recorded a provision for inventory valuation loss amounting to \$39,461 based on net realizable value.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

3. Concerning the aforementioned contractual dispute, the Customer filed an application for arbitration against the Company with the International Chamber of Commerce (ICC) on February 8, 2008, in accordance with the arbitration provisions under the relevant contracts. The Customer alleged that the Company is obligated to return the amount paid and claimed compensation for the business loss. The arbitration court held hearings from March 2 to 11 and March 30 to April 1, 2009, at the ICC. On January 27, 2010, the Company received a partial award regarding the aforementioned dispute. In the partial award, the arbitrators held that the Company was not in default nor liable for the dispute in issue. In relation to the indemnity claimed by the Company against the Customer under the counterclaim, the arbitrators held hearings to review it on October 28 and 29, 2010. On October 12, 2011, the Company received the outcome of arbitration, and therein, the arbitrators decided to award the sum the Customer shall pay to the Company as below:
- (i) Damage indemnification: about US\$1,716,000 and the interest thereof from the date of the final award until the date such sum has been paid in full;
  - (ii) Fees of the Arbitral Tribunal and administrative fees of ICC: about US\$390,000;
  - (iii) Reimbursement for the Company's legal fees and costs: about HKD 5,160,000.

Due to the recovery of uncertainty, none of above indemnification and reimbursement will be recognized as revenue until such amount actually collected by the Company.

Under the outcome of arbitration the Customer's claim for requiring the Company to return the prepayment and compensate its damages was rejected, the partial prepayment of \$197,057 under the contracts paid by the customer after deducting possible loss (including loss resulting from equipment and materials which had been delivered to the Customer) was recognized as non-overawing income of \$119,779 in 2011.

4. Furthermore, an application to recognize the final outcome of attribution was filed in the Taiwan Taipei District Court on November 11, 2011. The application was received and reviewed by the Court. After the order of recognition is granted by the Court, the Company plans to further file an application requiring the US\$1,935,000 counter-security being returned to the Company.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.****Notes to Financial Statements**

## (c) Reserve for loss on outward investment

The Company has provided a loss reserve on outward investment, in accordance with the “Statute for Upgrading Industries”. The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the “Statute for Upgrading Industries”. The statute also stipulates that if there are no actual losses in the five years after the initial provision for the reserve, the loss reserve should be reversed and recognized as revenue in the fifth year. However, as such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust the books. Accordingly, the retained earnings on the Company’s books were decreased by the following amounts:

	<b>2011</b>	<b>2010</b>
Retained earnings	\$ 25,827	25,827

## (d) Other

Some of the Company’s high-ranking managers were prosecuted by the Shihlin District Prosecutors Office for violating the Securities and Exchange Act on May 8, 2009. Since the prosecutors concluded that the Company had the ability to control Best Tec Co., Limited and other companies directly and indirectly and that the aforementioned managers were the persons substantially in charge of the companies above that the, the prosecutors therefore concluded that those managers had violated the law, the restatement of financial statements resulting from the business dispute with the Singaporean customers mentioned in Note (20)(b) was invalid.

However, many of the prosecutors’ accusations do not agree with the facts, and those managers will make a detailed pleading to the court in the process of investigation. According to the legal opinions of the Company’s attorneys issued on December 30, 2011, January 3, January 6 and January 18, 2012, this case is still in process, and it is impossible to assess the outcome of litigation. The Company has already drawn up appropriate procedures to deal with the emergency, and the litigation should have no material effect on the Company’s financing and operations.

(Continued)

**TOPCO SCIENTIFIC CO., LTD.**

**Notes to Financial Statements**

- (e) Information of significant foreign currency assets and liabilities was as follows (expressed in thousand dollars):

	<u>December 31, 2011</u>			<u>December 31, 2010</u>		
	<u>Foreign</u>	<u>Exchange</u>	<u>NTD</u>	<u>Foreign</u>	<u>Exchange</u>	<u>NTD</u>
	<u>Currency</u>	<u>Rate</u>		<u>Currency</u>	<u>Rate</u>	
Financial assets:						
Monetary items						
USD	25,575	30.275	774,283	25,933	29.13	755,428
JPY	1,808,816	0.3906	706,524	1,930,228	0.3582	691,408
Long-term investments under equity method						
USD	16,299	30.275	493,452	12,339	29.13	359,444
Financial liabilities:						
Monetary items						
USD	28,632	30.275	866,834	33,105	29.13	964,349
JPY	1,912,408	0.3906	746,987	2,308,861	0.3582	827,034

- (f) Reclassification

Certain accounts in the financial statements for the year ended December 31, 2010 have been reclassified to conform with the 2011 financial statement presentation. Such reclassifications do not have any significant impact on the accompanying financial statement.

**(21) Operating Segment Information**

Please see the consolidated financial statement for the year ended December 31, 2011.



**TOPCO SCIENTIFIC CO., LTD.**

**Balance Sheets**

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

Assets	2011 Amount	%	2010 Amount	%	Liabilities and Stockholders' Equity	2011 Amount	%	2010 Amount	%
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 4)	\$ 566,521	8	763,398	11	Notes and accounts payable	\$ 1,984,861	27	2,110,026	29
Financial assets at fair value through profit or loss – current (note 5)	783,422	11	398,001	5	Notes and accounts payable – related parties (note 17)	38,494	1	22,169	-
Available-for-sale financial assets – current (note 5)	6,350	-	22,575	-	Accrued expenses and other current liabilities (note 17)	427,021	5	458,065	6
Notes and accounts receivable, net (note 6)	1,599,025	21	1,597,598	22	Advance collections (note 20)	257,688	3	409,265	6
Notes and accounts receivable, net – related parties (note 17)	37,311	1	47,361	1	Advance construction receipts in excess of construction in progress (note 8)	<u>8,319</u>	-	<u>60,138</u>	<u>1</u>
Other current financial assets (notes 17 and 18)	119,434	2	129,713	2		<u>2,716,383</u>	<u>36</u>	<u>3,059,663</u>	<u>42</u>
Inventories, net (note 7)	1,207,184	16	1,448,156	20	<b>Long-term and other liabilities:</b>				
Construction in progress in excess of advance construction receipts (notes 8 and 17)	167,048	2	215,032	3	Accrued pension liabilities (note 12)	53,886	1	54,467	1
Prepayments and other current assets (notes 14 and 17)	<u>93,301</u>	<u>1</u>	<u>81,988</u>	<u>1</u>	Deferred credits (note 17)	<u>5,331</u>	-	<u>6,051</u>	-
	<u>4,579,596</u>	<u>62</u>	<u>4,703,822</u>	<u>65</u>		<u>59,217</u>	<u>1</u>	<u>60,518</u>	<u>1</u>
<b>Funds and investments:</b>					<b>Total liabilities</b>	<u>2,775,600</u>	<u>37</u>	<u>3,120,181</u>	<u>43</u>
Long-term investment under equity method (note 9)	1,904,959	26	1,603,075	22	<b>Stockholders' equity (note 13):</b>				
Financial assets carried at cost – non-current (note 5)	<u>251,878</u>	<u>3</u>	<u>231,178</u>	<u>3</u>	Common stock	<u>1,487,164</u>	<u>20</u>	<u>1,458,004</u>	<u>20</u>
	<u>2,156,837</u>	<u>29</u>	<u>1,834,253</u>	<u>25</u>	Capital surplus:				
<b>Property, plant and equipment (notes 10 and 17):</b>					Paid-in capital in excess of par value	1,358,598	19	1,358,598	19
Land	237,895	3	237,895	3	Others	<u>9,882</u>	-	<u>9,657</u>	-
Buildings	346,511	5	346,511	5		<u>1,368,480</u>	<u>19</u>	<u>1,368,255</u>	<u>19</u>
Other equipment	<u>91,811</u>	<u>1</u>	<u>70,919</u>	<u>1</u>	Retained earnings:				
	676,217	9	655,325	9	Legal reserve	470,500	6	404,501	6
Less: accumulated depreciation	(61,110)	(1)	(78,004)	(1)	Unappropriated retained earnings	<u>1,322,921</u>	<u>18</u>	<u>873,868</u>	<u>12</u>
Prepayment for purchase of equipment	<u>110</u>	-	<u>1,349</u>	-		<u>1,793,421</u>	<u>24</u>	<u>1,278,369</u>	<u>18</u>
	<u>615,217</u>	<u>8</u>	<u>578,670</u>	<u>8</u>	Equity adjustment:				
<b>Intangible assets and other assets:</b>					Foreign currency translation adjustment	25,381	-	3,549	-
Long-term accounts receivable, net (note 11)	-	-	5,594	-	Unrealized gain (loss) on financial instruments (notes 5 and 9)	<u>(8,121)</u>	-	<u>20,037</u>	-
Refundable deposits and others (notes 14 and 17)	25,675	-	61,456	1		<u>17,260</u>	-	<u>23,586</u>	-
Restricted assets (note 18)	<u>64,600</u>	<u>1</u>	<u>64,600</u>	<u>1</u>	<b>Total stockholders' equity</b>	4,666,325	63	4,128,214	57
	90,275	1	131,650	2	<b>Commitments and contingencies (note 19)</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>90,275</u>	<u>1</u>	<u>131,650</u>	<u>2</u>					
<b>Total assets</b>	<b>\$ <u>7,441,925</u></b>	<b><u>100</u></b>	<b><u>7,248,395</u></b>	<b><u>100</u></b>	<b>Total liabilities and stockholders' equity</b>	<b>\$ <u>7,441,925</u></b>	<b><u>100</u></b>	<b><u>7,248,395</u></b>	<b><u>100</u></b>

See accompanying notes to financial statements.

# TOPCO SCIENTIFIC 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	\$ 952,453	659,994
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	17,089	17,508
Investment income recognized under the equity method, net	(145,348)	(160,043)
Allowance for doubtful accounts and sales allowance	49,867	53,407
Provision (reversal) on inventory scrapping, valuation and obsolescence loss	(92,498)	60,895
Cash dividends received from long-term equity investments	54,912	43,430
Asset impairment losses	9,000	1,600
Increase in financial assets measured at fair value through profit or loss – current	(385,421)	(247,971)
Increase in notes and accounts receivable (including receivable from related parties and long-term accounts receivable)	(35,650)	(263,057)
Decrease (increase) in inventories	333,470	(272,453)
Decrease (increase) in construction in progress in excess of advance construction receipts	(3,835)	221,204
Increase in prepayments and other current assets	(6,072)	(8,047)
Decrease (increase) in other current financial assets	52,483	(54,610)
Decrease in deferred tax assets, net	24,984	765
Increase (decrease) in notes and accounts payable	(108,840)	225,670
Increase (decrease) in accrued expenses and other current liabilities	(31,044)	95,623
Increase (decrease) in advance collections	(151,577)	142,435
Others	(1,295)	(3,875)
<b>Net cash provided by operating activities</b>	<u>532,678</u>	<u>512,475</u>
<b>Cash flows from investing activities:</b>		
Acquisition of long-term investments and financial instruments carried at costs	(226,408)	(29,892)
Additions to property, plant and equipment	(50,664)	(15,977)
Proceeds from sale of property, plant, equipment and rental assets	-	52,611
Increase in other receivable	(40,108)	(4,163)
Decrease (increase) in restricted assets	(2,096)	8,175
Others	(2,038)	1,238
<b>Net cash provided by (used in) investing activities</b>	<u>(321,314)</u>	<u>11,992</u>
<b>Cash flows from financing activities:</b>		
Decrease in short-term loans	-	(12,000)
Cash dividends	(408,241)	(214,412)
<b>Net cash used in financing activities</b>	<u>(408,241)</u>	<u>(226,412)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(196,877)	298,055
<b>Cash and cash equivalents at beginning of year</b>	<u>763,398</u>	<u>465,343</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 566,521</u>	<u>763,398</u>
<b>Supplementary disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ <u>248</u>	<u>782</u>
Income taxes	\$ <u>156,314</u>	<u>50,494</u>

See accompanying notes to financial statements.

**TOPCO SCIENTIFIC 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		Foreign currency translation adjustment	Unrealized gain (loss) on financial instruments	Total
			Legal reserve	Unappropriated			
<b>Balance on January 1, 2010</b>	\$ 1,429,416	1,368,192	370,094	491,281	19,023	30,504	3,708,510
Appropriation of 2009 net income (note 1):							
Legal reserve	-	-	34,407	(34,407)	-	-	-
Dividends (cash and stock)	28,588	-	-	(243,000)	-	-	(214,412)
Adjustment for changes in investee company's stockholders' equity	-	63	-	-	-	(8,327)	(8,264)
Foreign currency translation adjustment	-	-	-	-	(15,474)	-	(15,474)
Adjustment for unrealized gain (loss) on financial instruments	-	-	-	-	-	(2,140)	(2,140)
Net income for the year ended December 31, 2010	-	-	-	659,994	-	-	659,994
<b>Balance on December 31, 2010</b>	1,458,004	1,368,255	404,501	873,868	3,549	20,037	4,128,214
Appropriation of 2010 net income (note 2):							
Legal reserve	-	-	65,999	(65,999)	-	-	-
Dividends (cash and stock)	29,160	-	-	(437,401)	-	-	(408,241)
Adjustment for changes in investee company's stockholders' equity	-	225	-	-	-	(11,932)	(11,707)
Foreign currency translation adjustment	-	-	-	-	21,832	-	21,832
Adjustment for unrealized gain (loss) on financial instruments	-	-	-	-	-	(16,226)	(16,226)
Net income for the year ended December 31, 2011	-	-	-	952,453	-	-	952,453
<b>Balance on December 31, 2011</b>	\$ <u>1,487,164</u>	<u>1,368,480</u>	<u>470,500</u>	<u>1,322,921</u>	<u>25,381</u>	<u>(8,121)</u>	<u>4,666,325</u>

Note 1: Directors' and supervisors' remuneration amounting to \$5,200 and employee bonuses amounting to \$18,000 were recognized in the 2009 statement of income.

Note 2: Directors' and supervisors' remuneration amounting to \$8,900 and employee bonuses amounting to \$35,650 were recognized in the 2010 statement of income.

See accompanying notes to financial statements.