

Wah Lee Industrial Corporation

**Financial Statements for the
Years Ended December 31, 2011 and 2010 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Wah Lee Industrial Corporation

We have audited the accompanying balance sheets of Wah Lee Industrial Corporation (the "Corporation") 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 Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit certain investee companies' financial statements which were the bases for the reported investments under equity method. Such financial statements were audited by other auditors whose reports have been furnished to us. Accordingly, our opinion insofar as it relates to the financial data of those investee companies as included in the accompanying financial statements is solely based on the other auditors' reports. The carrying value of those investments as of December 31, 2011 and 2010 amounted to NT\$823,958 thousand and NT\$1,236,926 thousand, representing 5% and 9% of the Corporation's total assets, respectively. The investment income recognized under equity method amounted to NT\$127,000 thousand and NT\$197,148 thousand representing 11% and 12% of the Corporation's income before income tax for the years ended December 31, 2011 and 2010, respectively.

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

In our opinion, based on our audits and the other auditors' reports, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation 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, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

March 21, 2012

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

WAH LEE INDUSTRIAL CORPORATION

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 726,739	5	\$ 694,155	5	Short-term loans (Notes 13 and 24)	\$ 1,374,670	9	\$ 1,309,880	9
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	10,055	-	11,100	-	Short-term bills payable (Note 14)	50,000	-	-	-
Available-for-sale financial assets (Notes 2 and 6)	348,591	2	476,371	3	Notes payable	585,112	4	466,181	3
Notes receivable, net (Notes 2 and 3)	348,670	2	366,608	3	Notes payable - related parties (Note 23)	200,396	1	199,207	1
Notes receivable - related parties (Notes 2, 3 and 23)	164	-	340	-	Accounts payable	2,348,706	16	2,479,600	17
Accounts receivable, net (Notes 2, 3 and 7)	4,528,394	30	4,201,435	29	Accounts payable - related parties (Note 23)	156,746	1	193,698	1
Accounts receivable - related parties, net (Notes 2, 3, 7 and 23)	501,212	3	732,434	5	Income tax payable	93,720	1	120,022	1
Other receivables	26,331	-	22,293	-	Accrued expenses (Note 15)	420,135	3	497,994	4
Other receivables - related parties (Note 23)	135,034	1	49,133	-	Other payables	8,815	-	2,170	-
Inventories (Notes 2 and 8)	1,280,214	9	1,420,508	10	Current portion of long-term debt (Notes 16 and 24)	9,034	-	9,034	-
Prepayments and others	139,717	1	199,402	1	Others (Note 23)	118,969	1	91,021	1
Deferred income tax assets (Notes 2 and 19)	62,705	-	62,533	1					
Total current assets	8,107,826	53	8,236,312	57	Total current liabilities	5,366,303	36	5,368,807	37
LONG-TERM INVESTMENTS (Notes 2, 5, 6, 9 and 10)					LONG-TERM DEBT (Notes 16 and 24)	1,569,207	10	1,041,292	7
Financial assets at fair value through profit or loss - noncurrent	91,350	1	106,200	1	RESERVE FOR LAND VALUE INCREMENT TAX (Note 11)	8,894	-	4,259	-
Available-for-sale financial assets	76,423	-	103,309	1	OTHER LIABILITIES				
Financial assets carried at cost	114,981	1	120,481	1	Accrued pension cost (Notes 2 and 17)	231,850	1	205,397	2
Investments accounted for by the equity method	5,764,629	38	4,795,135	33	Guarantee deposits received (Note 22)	1,453	-	1,373	-
Total long-term investments	6,047,383	40	5,125,125	36	Deferred income tax liabilities (Notes 2 and 19)	384,139	3	302,380	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 24)					Total other liabilities	617,442	4	509,150	4
Land	383,045	3	378,537	3	Total liabilities	7,561,846	50	6,923,508	48
Buildings	269,640	2	269,640	2	COMMON STOCK - \$10 par value; authorized - 300,000 thousand shares; issued-231,390 thousand shares (Note 18)	2,313,901	15	2,313,901	16
Machinery and equipment	365	-	365	-	CAPITAL SURPLUS (Note 18)				
Transportation equipment	65,070	-	68,675	1	Additional paid -in capital	1,160,519	8	1,160,519	8
Miscellaneous equipment	178,528	1	165,444	1	Donations	11,867	-	11,867	-
Leasehold improvements	53,102	-	53,102	-	Long-term investments	95,817	-	146,950	1
Total cost	949,750	6	935,763	7	Total capital surplus	1,268,203	8	1,319,336	9
Land revaluation increment	27,352	-	12,029	-	RETAINED EARNINGS (Note 18)				
Cost and revaluation increment	977,102	6	947,792	7	Legal reserve	1,154,916	8	1,013,952	7
Less: Accumulated depreciation	312,136	2	279,855	2	Unappropriated earnings	2,767,012	18	2,765,609	20
	664,966	4	667,937	5	Total retained earnings	3,921,928	26	3,779,561	27
Prepayments for equipment	239	-	1,368	-	OTHER EQUITY ITEMS (Notes 2, 11, 17 and 18)				
Net property, plant and equipment	665,205	4	669,305	5	Cumulative translation adjustments	189,980	1	(70,222)	(1)
INTANGIBLE ASSETS					Net loss not recognized as pension cost	(60,452)	-	(37,892)	-
Deferred pension cost (Notes 2 and 17)	80,332	1	87,323	1	Unrealized gains (loss) on financial instruments	(38,828)	-	107,053	1
OTHER ASSETS					Unrealized revaluation increment	13,649	-	2,961	-
Rental assets (Notes 2, 12 and 24)	30,449	-	35,231	-	Total other equity	104,349	1	1,900	-
Refundable deposits (Note 25)	74,357	1	60,908	-	Total stockholders' equity	7,608,381	50	7,414,698	52
Deferred charges (Note 2)	164,355	1	123,682	1	TOTAL	\$ 15,170,227	100	\$ 14,338,206	100
Restricted assets - pledged time deposits (Note 24)	320	-	320	-					
Total other assets	269,481	2	220,141	1					
TOTAL	\$ 15,170,227	100	\$ 14,338,206	100					

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

(With Deloitte & Touche audit report dated March 21, 2012)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 23)				
Net sales	\$ 22,246,388	99	\$ 18,370,377	97
Commission revenue	215,115	1	376,425	2
Other operating revenue	<u>43,168</u>	<u>-</u>	<u>181,671</u>	<u>1</u>
Total operating revenue	<u>22,504,671</u>	<u>100</u>	<u>18,928,473</u>	<u>100</u>
OPERATING COSTS (Notes 8 and 23)				
Cost of goods sold	20,741,059	92	16,766,874	89
Other operating cost	<u>40,285</u>	<u>-</u>	<u>165,225</u>	<u>1</u>
Total operating costs	<u>20,781,344</u>	<u>92</u>	<u>16,932,099</u>	<u>90</u>
GROSS PROFIT	1,723,327	8	1,996,374	10
ADD (LESS): REALIZED (UNREALIZED) INTERCOMPANY GAIN	<u>6,470</u>	<u>-</u>	<u>(21,040)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>1,729,797</u>	<u>8</u>	<u>1,975,334</u>	<u>10</u>
OPERATING EXPENSES (Notes 20 and 23)				
Selling	954,316	4	1,111,801	6
General and administrative	<u>279,592</u>	<u>2</u>	<u>299,959</u>	<u>1</u>
Total operating expenses	<u>1,233,908</u>	<u>6</u>	<u>1,411,760</u>	<u>7</u>
OPERATING INCOME	<u>495,889</u>	<u>2</u>	<u>563,574</u>	<u>3</u>
NONOPERATING INCOME AND GAINS				
Interest income	982	-	2,589	-
Investment income recognized under equity method (Note 10)	490,600	2	860,091	4
Gain on disposal of property, plant and equipment	363	-	40,051	-
Gain on sale of investments (Note 18)	34,035	-	35,596	-
Exchange gains, net	51,996	-	16,697	-
Gain on reversal of bad debts (Note 7)	16,642	-	1,950	-
Valuation gain on financial assets, net (Notes 2 and 5)	-	-	8,770	-
Others (Notes 12 and 23)	<u>141,480</u>	<u>1</u>	<u>129,906</u>	<u>1</u>
Total nonoperating income and gains	<u>736,098</u>	<u>3</u>	<u>1,095,650</u>	<u>5</u>
NONOPERATING EXPENSES AND LOSSES				

(Continued)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
Interest expense	\$ 41,885	-	\$ 29,085	-
Loss on disposal of property, plant and equipment	2	-	5,302	-
Impairment loss (Notes 2 and 9)	5,500	-	-	-
Valuation loss on financial liabilities, net (Notes 2 and 5)	15,895	-	-	-
Others	1,795	-	2,764	-
Total nonoperating expenses and losses	65,077	-	37,151	-
INCOME BEFORE INCOME TAX	1,166,910	5	1,622,073	8
INCOME TAX (Notes 2 and 19)	214,678	1	212,434	1
NET INCOME	\$ 952,232	4	\$ 1,409,639	7
	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 21)				
Basic	\$ 5.04	\$ 4.12	\$ 7.01	\$ 6.09
Diluted	\$ 4.90	\$ 4.00	\$ 6.88	\$ 5.98

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

(With Deloitte & Touche audit report dated March 21, 2012)

(Concluded)

WAH LEE INDUSTRIAL CORPORATION

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010**

(In Thousands of New Taiwan Dollars)

	Common Stock	Capital Surplus	Retained Earnings		Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Other Items		Treasury Stock	Total Stockholders' Equity
			Legal Reserve	Unappropriated			Unrealized Gain (Loss) on Financial Instruments	Unrealized Asset Revaluation Increment		
BALANCE, JANUARY 1, 2010	\$ 2,344,091	\$ 1,299,649	\$ 932,960	\$ 2,126,487	\$ 207,207	\$ (51,001)	\$ 219,985	\$ 9,338	\$ (202,660)	\$ 6,886,056
Appropriations of 2009 earnings (Note 18)										
Legal reserve	-	-	80,992	(80,992)	-	-	-	-	-	-
Dividends on common stock										
Cash - 23%	-	-	-	(532,197)	-	-	-	-	-	(532,197)
Adjustment from changes in percentage of ownership in investees	-	34,829	-	-	-	(332)	(92,880)	-	-	(58,383)
Change in translation adjustments	-	-	-	-	(277,429)	-	-	-	-	(277,429)
Change in net loss not recognized as pension cost	-	-	-	-	-	13,441	-	-	-	13,441
Change in unrealized gains on available-for-sale financial assets (Note 18)	-	-	-	-	-	-	(20,052)	-	-	(20,052)
Retirement of treasury stock - 3,019 thousand shares (Note 18)	(30,190)	(15,142)	-	(157,328)	-	-	-	-	202,660	-
Revaluation increment on land sold	-	-	-	-	-	-	-	(6,377)	-	(6,377)
Net income for the year ended December 31, 2010	-	-	-	1,409,639	-	-	-	-	-	1,409,639
BALANCE, DECEMBER 31, 2010	2,313,901	1,319,336	1,013,952	2,765,609	(70,222)	(37,892)	107,053	2,961	-	7,414,698
Appropriations of 2010 earnings (Note 18)										
Legal reserve	-	-	140,964	(140,964)	-	-	-	-	-	-
Dividends on common stock										
Cash - 35%	-	-	-	(809,865)	-	-	-	-	-	(809,865)
Adjustment from changes in percentage of ownership in investees (Note 18)	-	(51,133)	-	-	-	(3,152)	(51,631)	-	-	(105,916)
Change in translation adjustments	-	-	-	-	260,202	-	-	-	-	260,202
Change in net loss not recognized as pension cost	-	-	-	-	-	(19,408)	-	-	-	(19,408)
Change in unrealized gains on available-for-sale financial assets (Note 18)	-	-	-	-	-	-	(94,250)	-	-	(94,250)
Unrealized revaluation increment (Note 11)	-	-	-	-	-	-	-	10,688	-	10,688
Net income for the year ended December 31, 2011	-	-	-	952,232	-	-	-	-	-	952,232
BALANCE, DECEMBER 31, 2011	<u>\$ 2,313,901</u>	<u>\$ 1,268,203</u>	<u>\$ 1,154,916</u>	<u>\$ 2,767,012</u>	<u>\$ 189,980</u>	<u>\$ (60,452)</u>	<u>\$ (38,828)</u>	<u>\$ 13,649</u>	<u>\$ -</u>	<u>\$ 7,608,381</u>

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

(With Deloitte & Touche audit report dated March 21, 2012)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 952,232	\$ 1,409,639
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Reversal of provision for doubtful accounts	(16,642)	(1,950)
Depreciation	37,855	43,520
Amortization	37,313	35,456
Provision for loss on inventories	95,016	37,777
Unrealized (realized) gross profit	(6,470)	21,040
Deferred income tax expense	47,907	59,547
Valuation loss (gain) on financial assets	15,895	(8,770)
Impairment loss on financial asset	5,500	-
Cash dividends received from equity - method investees	280,623	155,342
Investment income recognized under equity method	(490,600)	(860,091)
Pension	14,036	55,701
Gain on disposal of property, plant and equipment	(361)	(34,749)
Gain on sale of investments	(34,035)	(35,596)
Others	2,950	1,400
Changes in operating assets and liabilities:		
Notes receivable	17,938	29,286
Notes receivable - related parties	176	(340)
Accounts receivable	(310,317)	(1,175,925)
Account receivable - related parties	231,222	(285,961)
Other receivables	(4,038)	(2,389)
Other receivable - related parties	(85,901)	(2,283)
Inventories	45,278	(235,217)
Prepayments and other current assets	59,685	(29,339)
Notes payable	118,931	16,572
Note payable - related parties	1,189	25,843
Accounts payable	(130,894)	591,502
Accounts payable - related parties	(36,952)	36,975
Income tax payable	(26,302)	3,297
Accrued expenses	(77,859)	125,410
Other payables	6,735	(18,906)
Other current liabilities	<u>34,418</u>	<u>(5,841)</u>
Net cash provided by (used in) operating activities	<u>784,528</u>	<u>(49,050)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	-	(108,530)
Acquisition of available-for-sale financial assets	(682,900)	(620,647)
Proceeds from disposal of available-for-sale financial assets	777,351	656,928
Acquisition of financial assets carried at cost	-	(896)
Acquisition of investments accounted for by equity method	(571,551)	(10,457)
Acquisitions of property, plant and equipment	(13,742)	(10,955)

(Continued)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
Proceeds from disposal of property, plant, and equipment	\$ 363	\$ 53,283
Increase in refundable deposits	(13,449)	(8,587)
Increase in deferred charges	(77,986)	(8,849)
Decrease in restricted assets	<u>-</u>	<u>11,864</u>
Net cash used in investing activities	<u>(581,914)</u>	<u>(46,846)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	64,790	309,464
Increase in short-term bills payable	50,000	-
Increase in long-term debt	1,434,000	-
Repayment of long-term debt	(909,035)	(9,034)
Increase (decrease) in guarantee deposits received	80	(829)
Cash dividends	<u>(809,865)</u>	<u>(532,197)</u>
Net cash used in financing activities	<u>(170,030)</u>	<u>(232,596)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,584	(328,492)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>694,155</u>	<u>1,022,647</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 726,739</u>	<u>\$ 694,155</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	\$ 37,167	\$ 27,590
Income tax paid	193,073	149,590
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term debt	\$ 9,034	\$ 9,034
Rental assets transferred to property, plant and equipment	4,508	86,010
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisitions of property, plant and equipment	\$ 13,652	\$ 9,436
Decrease in payable for equipment purchased	<u>90</u>	<u>1,519</u>
Cash paid	<u>\$ 13,742</u>	<u>\$ 10,955</u>

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

(With Deloitte & Touche audit report dated March 21, 2012)

(Concluded)

WAH LEE INDUSTRIAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

1. ORGANIZATION AND OPERATIONS

Wah Lee Industrial Corporation (the “Corporation”) was incorporated in October 1968, and is mainly engaged in the import/export and agency business of composite materials, engineering plastic, printed circuit board, semiconductor, computer related manufacturing materials and equipment.

The Corporation’s stock has been listed and traded on the Taiwan Stock Exchange since July 22, 2002.

As of December 31, 2011 and 2010, the Corporation’s number of employees was 477 and 474, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China (“ROC”).

For readers’ convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. However, the Corporation’s financial statements do not include the English translation of additional disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

Significant accounting policies are summarized as follows:

a. Foreign Currencies

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

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

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

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

b. Accounting Estimates

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

c. Current and Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within 12 months from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within 12 months from the balance sheet date. All other liabilities are classified as noncurrent.

d. Cash Equivalents

Cash equivalents are commercial papers with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

e. Financial Assets at Fair Value through Profit or Loss

Financial instruments classified as financial assets at fair value through profit or loss (“FVTPL”) include those designated as at FVTPL on initial recognition. The Corporation recognizes a financial asset on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Fair values of financial assets at the balance sheet date are determined as follows: Publicly traded convertible bonds - at prices quoted by the Taiwan GreTai Securities Market.

f. Available-for-sale Financial Assets

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

The Corporation recognizes a financial asset on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset.

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

Fair values of financial assets at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values.

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

g. Financial Assets Carried at Cost

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

h. Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Corporation assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- 1) Significant financial difficulty of the debtor;
- 2) Accounts receivable becoming overdue;
- 3) It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience in the collection of payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

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

i. Factoring of Accounts Receivable

The following conditions must be met to recognize factoring of accounts receivable:

- 1) The transferred assets have been isolated from the transferor - put presumptively beyond the reach of the transferor and its creditors.
- 2) Each transferee has the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- 3) The Corporation does not maintain effective control over the transferred assets through either (1) an agreement that makes the transferor have both the rights and obligations to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets.

The difference between the proceeds and the carrying value of accounts receivable is recognized as a loss and recorded as nonoperating expenses.

j. Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, rental assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For long term equity investments in which the Corporation has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

k. Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item. Net realizable value is the estimated selling price of inventories less all expenses necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

l. Investments Accounted for by the Equity Method

Investments in which the Corporation holds 20% or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

The cost of investment is allocated to the assets and liabilities of the investee on the basis of their fair values at the date of investment, and the investment cost in excess of the fair value of the identifiable net assets of the investee is recognized as goodwill. Goodwill is not amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee (except for financial assets other than investments accounted for by the equity method, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee; however, if the Corporation has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee.

When the Corporation subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Corporation records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus from long-term investments is insufficient, the shortage is debited to retained earnings.

m. Property, Plant and Equipment

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

Depreciation is provided on a straight-line basis over estimated useful lives as follows: buildings, 4 to 60 years; machinery and equipment, 3 to 10 years; transportation equipment, 4 to 9 years; miscellaneous equipment, 1 to 15 years; leasehold improvements, 1 to 10 years. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

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

n. Rental Assets

Rental assets are stated at the lower of cost less accumulated depreciation or recoverable amount. Depreciation of buildings is calculated by the straight-line method over the estimated useful life of 50 years.

Operating lease rentals are reported as nonoperating income.

o. Deferred Charges

Deferred charges, including the costs of steel cylinders, building service and computer software, are amortized over 1 to 9 years.

p. Pension Cost

Pension cost under a defined benefit plan is determined by actuarial valuations. The difference between the actuarial pension cost and the amount appropriated to a special fund is recognized as accrued pension liability. Unamortized net transition assets and actuarial gains or loss are amortized over 15 years and the average remaining service life of existing employees, respectively. Curtailment or settlement gains or losses are recognized as part of the net pension cost for the year.

At the balance sheet date, accumulated benefit obligation in excess of the fair value of pension fund is recognized as minimum pension liability. If accrued pension cost is lower than the minimum amount, the balance should be supplemented. When the amount to be supplemented is less than the unamortized net transition assets, the supplementary amount is recorded as deferred pension cost that is classified as intangible assets. When the supplemented amount exceeded the balance of unamortized net transition assets, the excess should be charged to unrecognized net loss on pension costs and presented as reduction of stockholders' equity.

Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

q. Income Tax

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

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

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

r. Revenue Recognition

Revenue from sales of goods is recognized when the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. Commission revenues are recognized when products are shipped to customers, according to the contracted percentage.

Allowance for sales discounts are generally recorded in the year the related revenue is recognized on the basis of past experience, management's judgment, and relevant factors.

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

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Corporation are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change resulted in an increase of NT\$17,539 thousand in net income and an increase of NT\$0.08 in after income tax basic earnings per share for the year ended December 31, 2011.

Operating Segments

On January 1, 2011, the Corporation adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Corporation that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." This accounting change did not have significant effect on the segment information disclosure of the Corporation.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2011	2010
Cash on hand	\$ 719	\$ 756
Checking accounts	2,277	1,941
Demand deposits	468,790	414,863
Foreign-currency account	254,953	176,667
Cash equivalents - commercial papers maturing within three months	-	99,928
	<u>\$ 726,739</u>	<u>\$ 694,155</u>

5. FINANCIAL INSTRUMENT AT FVTPL

	December 31	
	2011	2010
<u>Financial assets designated as at FVTPL</u>		
Convertible bonds	\$ 101,405	\$ 117,300
Less: Current portion	<u>10,055</u>	<u>11,100</u>
Noncurrent portion	<u>\$ 91,350</u>	<u>\$ 106,200</u>

The amount of financial assets designated as at FVTPL for the years ended December 31, 2011 and 2010 was net loss NT\$15,895 thousand and net gain NT\$8,770 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2011	2010
Stock listed on the Taiwan Stock Exchange	\$ 67,825	\$ 20,121
Mutual funds	336,741	444,861
Overseas quoted stocks	<u>49,599</u>	<u>49,599</u>
	454,165	514,581
Valuation adjustments	<u>(29,151)</u>	<u>65,099</u>
	425,014	579,680
Less: Current portion	<u>348,591</u>	<u>476,371</u>
Noncurrent portion	<u>\$ 76,423</u>	<u>\$ 103,309</u>

7. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2011	2010
Accounts receivable - unrelated parties	\$ 4,538,633	\$ 4,233,106
Less: Allowance for doubtful accounts	1,594	18,836
Allowance for sales discounts	<u>8,645</u>	<u>12,835</u>
	<u>\$ 4,528,394</u>	<u>\$ 4,201,435</u>
Accounts receivable - related parties	\$ 501,534	\$ 732,867
Less: Allowance for doubtful accounts	<u>322</u>	<u>433</u>
	<u>\$ 501,212</u>	<u>\$ 732,434</u>

Movements of allowance for doubtful accounts were as follows:

	<u>Year Ended December 31</u>	
	2011	2010
Balance, beginning of year	\$ 19,269	\$ 23,873
Deduct: Reversal of provision for doubtful accounts	16,642	1,950
Amounts written off	<u>711</u>	<u>2,654</u>
Balance, end of year	<u>\$ 1,916</u>	<u>\$ 19,269</u>

As of December 31, 2011, the Corporation had no factored accounts receivable.

As of December 31, 2010, the factored accounts receivable was as follows:

Counterparties	Subject	Receivable Sold at Year-end	Derecognized at Year-end	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line (Hundred Million)
Year ended December 31, <u>2010</u>						
Bank SinoPac	Largan Precision	\$ 80,850	\$ 80,850	-	-	\$1.5

The above credit line may be used on a revolving basis.

As of December 31, 2010, the factored accounts receivable (without recourse) of NT\$80,850 thousand was covered by a promissory note for the same amount. Under the contracts, the banks paid the Corporation for the factored accounts receivable less related expenses. The Corporation does not bear the risk of uncollectible accounts.

8. INVENTORIES

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Merchandise	\$ 1,275,924	\$ 1,387,028
Merchandise in transit	<u>4,290</u>	<u>33,480</u>
	<u>\$ 1,280,214</u>	<u>\$ 1,420,508</u>

As of December 31, 2011 and 2010, the allowance for inventory devaluation was NT\$215,708 thousand and NT\$130,074 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2011 and 2010 was NT\$20,741,059 thousand and NT\$16,766,874 thousand, respectively, which included the following:

	<u>Year Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Provision for loss on inventories	\$ 85,634	\$ 37,241
Loss (gain) on physical inventories	(340)	534
Loss on disposal of inventories	9,710	-
Others	<u>12</u>	<u>2</u>
	<u>\$ 95,016</u>	<u>\$ 37,777</u>

9. FINANCIAL ASSETS CARRIED AT COST

	<u>December 31</u>			
	<u>2011</u>		<u>2010</u>	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Yuen Technology Holding Limited (Wah Yuen)	\$ 66,104	0.75	\$ 71,604	1.24
Tetrahedron Technology Corp.	14,778	16.95	14,778	16.95
Onano Industrial Corp.	12,631	0.40	12,631	0.40
Asahi Kasei Wahlee Hi-Tech Corp.	11,468	19.38	11,468	19.38
High Power Opto. Inc.	<u>10,000</u>	6.27	<u>10,000</u>	6.27
	<u>\$ 114,981</u>		<u>\$ 120,481</u>	

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

During the year ended December 31, 2011, the Corporation assessed the investment value of Wah Yuen and recognized an impairment loss of NT\$5,500 thousand because of objective evidence which indicated the financial assets were permanently impaired.

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2011		2010	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Lee Holding Ltd.	\$ 1,775,844	100.00	\$ 1,489,919	100.00
Raycong Industrial (H.K.) Ltd.	1,313,676	53.69	1,100,236	100.00
Chang Wah Electromaterials Inc.	835,791	30.07	914,152	28.33
Nagase Wahlee Plastics Corp.	659,773	40.00	597,564	40.00
Wah Hong Industrial Corp.	989,787	24.32	508,184	16.99
Orc Technology Corp.	172,503	35.00	167,536	35.00
Wah Lee Japan Corp.	14,893	83.33	15,499	83.33
Wah Lee Korea Co., Ltd.	<u>2,362</u>	96.10	<u>2,045</u>	92.50
	<u>\$ 5,764,629</u>		<u>\$ 4,795,135</u>	

Fair values of listed equity-method investments calculated at their closing prices as of December 31, 2011 and 2010 were as follows:

	December 31	
	2011	2010
Chang Wah Electromaterials Inc.	\$ 1,108,711	\$ 2,907,563
Wah Hong Industrial Corp.	<u>785,428</u>	<u>878,026</u>
	<u>\$ 1,894,139</u>	<u>\$ 3,785,589</u>

Movements of the aforementioned difference allocated to goodwill for the years ended December 31, 2011 and 2010 were as follows:

	Year Ended December 31	
	2011	2010
Balance, beginning of year	\$ 43,865	\$ 46,799
Amount recognized on business acquisition	84,211	-
Translation adjustments	<u>1,184</u>	<u>(2,934)</u>
Balance, end of year	<u>\$ 129,260</u>	<u>\$ 43,865</u>

Investment income (loss) under equity method based on the audited financial statements of investee companies for the years ended December 31, 2011 and 2010 was as follows:

	Year Ended December 31	
	2011	2010
Wah Lee Holding Ltd.	\$ 170,443	\$ 242,524
Raycong Industrial (H.K.) Ltd.	132,752	226,805
Chang Wah Electromaterials Inc.	5,364	242,328

(Continued)

	<u>Year Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Nagase Wahlee Plastics Corp.	\$ 99,962	\$ 81,998
Wah Hong Industrial Corp.	80,243	74,899
Orc Technology Corp.	8,182	6,431
Wah Lee Japan Corp.	(1,896)	(11,959)
Wah Lee Korea Co., Ltd.	<u>(4,450)</u>	<u>(2,935)</u>
	<u>\$ 490,600</u>	<u>\$ 860,091</u> (Concluded)

Brief discussions on long-term investments are summarized as follows:

- a. In April 2001, the Corporation invested in Wah Lee Japan Corp., which is mainly engaged in the trade of glass fiber, electronic equipment, optical machinery and so on, and increased the investment by NT\$5,423 thousand (JPY15,000 thousand) in February 2010, and reduced capital by JPY40,000 thousand to make up for loss, the percentage of capital reduction was 34.78%, and made equity offerings for JPY15,000 thousand at the same time. The Corporation did not participate in the share subscription so the percentage of holdings decreased to 83.33%. The Corporation's cumulative investments in Wah Lee Japan Corp. amounted to NT\$21,490 thousand (JPY75,000 thousand) for 83.33% equity as of December 31, 2011.
- b. In August 2010, the Corporation invested in Wah Lee Korea Co., Ltd. which is mainly engaged in the trade of glass fiber, electronic equipment, optical machinery and so on and increased the investment by NT\$5,041 thousand (KRW185,000 thousand) in June 2011; the percentage of ownership increased to 96.1%. The Corporation's cumulative investments in Wah Lee Korea Co., Ltd. amounted to NT\$10,075 thousand (KRW370,000 thousand) as of December 31, 2011.
- c. In May 1989, the Corporation invested in Chang Wah Electromaterials Inc., which is engaged in the agency of materials and equipment for IC packaging and increased the investment by NT\$111,442 thousand in February to August 2011; the percentage of ownership increased to 30.07%. The Corporation's cumulative investments in Chang Wah Electromaterials Inc. amounted to NT\$323,416 thousand as of December 31, 2011.
- d. In July 2001, the Corporation invested in Raycong Industrial (H.K.) Ltd. (100% shareholding), which is engaged in the trade of engineering plastic, composite materials and equipment.

In December 2003, the Corporation invested in Wah Lee Holding Ltd. (100% shareholding) which is mainly engaged in investment in related business in British Virgin Islands. Wah Lee Holding invested in Global SYK Holding Ltd. (SYK, 100% shareholding) in Mauritius and SYK invested in Shanghai Yikang Co., Ltd., which is engaged in the trade of industrial materials.

In January 2011, the Corporation adjusted the investment structure to promote the management results. SYK transferred its ownership of Shanghai Yikang Co., Ltd. to Raycong Industrial (H.K.) Ltd. At the same time Raycong Industrial (H.K.) Ltd. made equity offerings for HK\$251,645 thousand; the whole amount was subscribed by Wah Lee Holding Ltd. (46.31% shareholding). The Corporation did not participate in the share subscription so the percentage of holdings decreased to 53.69%. The Corporation and Wah Lee Holding Ltd. had joint cumulative investments in Raycong Industrial (H.K.) Ltd. which amounted to NT\$1,247,277 thousand (HK\$307,645 thousand) as of December 31, 2011.

- e. In June 1990, the Corporation invested in Wah Hong Industrial Corp. which is engaged in the manufacture of LCD, BMC materials and finished goods and increased the investment by NT\$455,068 thousand in July to December 2011; the percentage of ownership increased to 24.32%. The Corporation's cumulative investments in Wah Hong Industrial Corp. amounted to NT\$728,390

thousand as of December 31, 2011.

- f. According to the amended SFAS No. 7 and the regulations issued by the government authority, the Corporation prepared its consolidated financial statements including Wah Lee Holding Ltd., Raycong Industrial (H.K.) Ltd., Wah Lee Japan Corp. and Wah Lee Korea Co., Ltd.

11. PROPERTY, PLANT AND EQUIPMENT

- a. In December 2011 and September 1997, the Corporation revalued its land as follows:

	<u>December 31</u>	
	2011	2010
Revaluation increment	\$ 27,352	\$ 12,029
Less: Reserve for land value increment tax	<u>8,894</u>	<u>4,259</u>
Net increment accounted for as unrealized revaluation increment	18,458	7,770
Less: Unrealized revaluation increment transferred to capital	<u>4,809</u>	<u>4,809</u>
Unrealized revaluation increment reported in stockholders' equity	<u>\$ 13,649</u>	<u>\$ 2,961</u>

The Corporation revalued its land in December 2011, which resulted in total revaluation increment of NT\$15,323 thousand. The net revaluation amount of NT\$10,688 thousand after deducting the reserve for land value increment tax of NT\$4,635 thousand was credited to equity as unrealized revaluation increment.

- b. Accumulated depreciation

	<u>December 31</u>	
	2011	2010
Buildings	\$ 73,931	\$ 66,235
Machinery and equipment	365	349
Transportation equipment	51,216	49,935
Miscellaneous equipment	137,653	119,834
Leasehold improvements	<u>48,971</u>	<u>43,502</u>
	<u>\$ 312,136</u>	<u>\$ 279,855</u>

12. RENTAL ASSETS

	<u>December 31</u>	
	2011	2010
Land	\$ 18,966	\$ 23,475
Buildings	<u>15,229</u>	<u>15,229</u>
	34,195	38,704
Less: Accumulated depreciation	<u>3,746</u>	<u>3,473</u>
	<u>\$ 30,449</u>	<u>\$ 35,231</u>

The Corporation had rented out part of land and buildings under a lease agreement until December 2013. The rent was decided by market demand and supply.

For the years ended December 31, 2011 and 2010, the rental income amounted to NT\$6,728 thousand and NT\$9,083 thousand, respectively, and was recognized as nonoperating income.

13. SHORT-TERM BANK LOANS

	<u>December 31</u>	
	2011	2010
Letters of credit, interest rate at 1.04% as of December 31, 2010	\$ -	\$ 28,188
Loans for procurement of materials, interest rate at 1.45% and 1.41% as of December 31, 2011 and 2010, respectively	14,263	54,867
Foreign-currency loans, interest rate at 0.87%-1.83% and 0.62%-1.05% as of December 31, 2011 and 2010, respectively	<u>1,360,407</u>	<u>1,226,825</u>
	<u>\$ 1,374,670</u>	<u>\$ 1,309,880</u>

14. SHORT-TERM BILLS PAYABLE - ONLY AS OF DECEMBER 31, 2011

Commercial bills payable were due to China Bills Finance Corporation and interest rate was 0.88%.

15. ACCRUED EXPENSES

	<u>December 31</u>	
	2011	2010
Salary and bonus	\$ 159,129	\$ 176,298
Bonus to employees, directors and supervisors	167,112	261,495
Deferred charges	27,851	-
Commission	23,826	12,268
Others	<u>42,217</u>	<u>47,933</u>
	<u>\$ 420,135</u>	<u>\$ 497,994</u>

16. LONG-TERM DEBT

	<u>December 31</u>	
	2011	2010
Syndicated bank loans (led by Bank SinoPac), already paid off in January 2011	\$ -	\$ 900,000
Syndicated bank loans (led by Hua Nan Bank)	1,440,000	-
Less: Syndicated loan fee	<u>4,800</u>	<u>1,750</u>
	<u>1,435,200</u>	<u>898,250</u>
Hua Nan Bank		
Mortgage loan repayable in 214 installments from December 2009 to October 2027, NT\$753 thousand per installment, interest rate at 1.67% and 1.65% as of December 31, 2011 and 2010, respectively	143,041	152,076
Less: Current portion	<u>9,034</u>	<u>9,034</u>
	<u>134,007</u>	<u>143,042</u>
	<u>\$ 1,569,207</u>	<u>\$ 1,041,292</u>

The Corporation signed a syndicated loan agreement with seven banks led by Bank SinoPac in April 2009. The contents of the syndicated loan agreement were as follows:

- a. The loan is a 3-year mid-term revolving credit line up to NT\$1.4 billion that commences from the initial drawdown date. From the beginning of third year, the maximum credit line should be reduced in 3 consecutive installments by NT\$0.5 billion each for the first two installments and by NT\$0.4 billion or the remaining balance, if higher, for the third installment. Under the borrowing limit, the Corporation could exercise revolving credit facility and choose borrowing terms of 90 days or 180 days. Each drawdown shall be repaid at the end of each interest period, but shall be available for redrawing on a revolving basis not less than 5 business days from original loan's maturity date subject to no occurrence of default. As of December 31, 2010, the interest rate was 1.3911%.
- b. Pursuant to the above loan agreement, the Corporation should maintain certain financial ratios as follows:
 - 1) Current ratio should not be less than 100%.
 - 2) Debt ratio should not be more than 175%.
 - 3) Interest coverage ratio should not be less than 800%.
 - 4) Tangible net worth, the balance after deducting intangible assets from stockholders' equity, should not be less than NT\$5.75 billion.

Pursuant to the above loan agreement, the Corporation should maintain aforementioned financial ratios. Such financial ratios should be calculated based on annual audited consolidated financial statements and semi-annual reviewed consolidated financial statements. If the Corporation is not in compliance with aforementioned financial ratios or other terms of the loan agreement, the syndicated banks have the right to suspend or cancel all or portion of credit line, declare the entire unpaid principal amount of the advances, all accrued and unpaid interest, fee and all other sums payable to be due immediately, and/or declare the commitment amount to be cancelled and reduced to zero.

- c. The Corporation has paid off the 2009 syndicated bank loan with new syndicated bank loan in January 2011.

The Corporation signed a syndicated loan agreement with seventeen banks led by Hua Nan Bank in January 2011. The contents of the syndicated loan agreement were as follows:

- a. The loan is a 5-year mid-term revolving credit line up to NT\$2.4 billion that commences from the initial drawdown date. From the beginning of fourth year, the maximum credit line should be reduced in 5 consecutive installments of NT\$3.6 billion each for the first four installments and NT\$9.6 billion for the fifth installment. Under the borrowing limit, the Corporation could exercise revolving credit facility and choose borrowing terms of 90 days or 180 days. Each drawdown shall be repaid at the end of each interest period, but shall be available for redrawing on a revolving basis not less than 3 business days from original loan's maturity date subject to no occurrence of default. As of December 31, 2011, the interest rate was 1.5328%.
- b. Pursuant to the above loan agreement, the Corporation should maintain certain financial ratios as follows:
 - 1) Current ratio should not be less than 100%.
 - 2) Debt ratio should not be more than 150%.
 - 3) Interest coverage ratio should not be less than 800%.

- 4) Tangible net worth, the balance after deducting intangible assets from stockholders' equity, should not be less than NT\$6 billion.

Pursuant to the above loan agreement, the Corporation should maintain aforementioned financial ratios. Such financial ratios should be calculated based on annual audited consolidated financial statements and semi-annual reviewed consolidated financial statements. If the Corporation is not in compliance with aforementioned financial ratios or other terms of the loan agreement, the syndicated banks have the right to suspend or cancel all or portion of credit line, declare the entire unpaid principal amount of the advances, all accrued and unpaid interest, fee and all other sums payable to be due immediately, and/or declare the commitment amount to be cancelled and reduced to zero.

- c. As of December 31, 2011 and 2010, the Corporation had met the conditions of the loan agreement based on the annual audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010.

17. PENSION PLANS

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$14,848 thousand and NT\$13,554 thousand for the years ended December 31, 2011 and 2010, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 8% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited with the Bank of Taiwan in the committee's name. The Corporation recognized pension costs of NT\$30,017 thousand and NT\$77,308 thousand for the years ended December 31, 2011 and 2010, respectively.

Information about the defined benefit plan was as follows:

- a. Components of net periodic pension cost

	<u>Year Ended December 31</u>	
	2011	2010
Service cost	\$ 12,588	\$ 11,098
Interest cost	9,720	7,967
Projected return on plan assets	(3,105)	(3,429)
Amortization of net transition obligation	1,755	1,840
Amortization of prior service cost	5,236	43,540
Amortization of pension loss	3,823	6,607
Loss on reduction or refund	<u>-</u>	<u>9,685</u>
	<u>\$ 30,017</u>	<u>\$ 77,308</u>

In 2010, the Corporation amended the defined benefit plan to recognize prior service cost of NT\$122,088 thousand, and vested amount of NT\$5,236 thousand and NT\$43,540 thousand was included in net pension cost for the years ended December 31, 2011 and 2010.

- b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2011 and 2010.

	<u>December 31</u>	
	2011	2010
Benefit obligation		
Vested	\$ 141,372	\$ 132,839
Nonvested	250,508	227,582
Accumulated	391,880	360,421
Additional benefits based on future salaries	90,587	83,602
Projected	482,467	444,023
Fair value of plan assets	<u>(160,030)</u>	<u>(155,024)</u>
Funded status	322,437	288,999
Unamortized prior service cost	(73,312)	(78,548)
Unrecognized transition obligation	(7,020)	(8,775)
Unamortized net loss	(147,258)	(120,865)
Deferred pension cost	80,332	87,323
Net loss not recognized as pension cost	<u>56,671</u>	<u>37,263</u>
Accrued pension cost	<u>\$ 231,850</u>	<u>\$ 205,397</u>
Vested benefit	<u>\$ 159,982</u>	<u>\$ 151,546</u>

- c. Actuarial assumptions

	<u>December 31</u>	
	2011	2010
Discount rate used in determining present values	2.00%	2.25%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

	<u>Year Ended December 31</u>	
	2011	2010
d. Contributions to the fund	\$ 15,980	\$ 16,536
e. Payments from the fund	12,872	33,294

18. STOCKHOLDERS' EQUITY

Capital Stock

On June 8, 2010, the Corporation's board of directors proposed to reduce capital by retirement of 3,019 thousand shares of treasury stock. The Corporation has completed the registration formalities for the reduction of capital. The Corporation also made adjustments to decrease capital surplus by NT\$15,142 thousand and unappropriated earnings by NT\$157,328 thousand. As of December 31, 2011 and 2010, the Corporation's paid-in capital was both NT\$2,313,901 thousand.

Capital Surplus

Under the Company Law, capital surplus from premium on issued stock and donations may be transferred to capital once a year and up to a certain limit if the Corporation has no deficit. Under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus also may be distributed in cash. Capital surplus from long-term investments and assets received as donation may not be used for any

purpose.

Other Equity Items

Unrealized revaluation increment may not be used for any purpose.

Appropriation of Retained Earnings and Dividend Policy

The Corporation's Articles of Incorporation provide that the annual net income, less any deficit, shall be appropriated as follows:

- a. 10% as legal reserve, until its balance equals to the Corporation's paid-in capital.
- b. The remainder will be appropriated by resolution of the Corporation's stockholders in their meeting with not more than 3% shall be bonus to directors and supervisors, and not less than 1% shall be bonus to employees.

The Corporation shall undertake aggressive business plan to keep the Corporation operating as a going concern and in stable prosperity in view of the economic environment and the trend of industry growth. Dividend policy is mainly based on a residual dividend concept, i.e. the Corporation shall measure its annual cash requirement in accordance with its capital budget and regular operational cash requirement to determine the amounts of dividends either in cash and/or in stock, but cash dividend shall not be less than 50% of the total amount of dividends.

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

Under the Company Law, legal reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash, if the Corporation has no deficit.

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

For the years ended December 31, 2011 and 2010, the bonus to employees was NT\$152,356 thousand and NT\$239,634 thousand, representing 16% and 17%, respectively, of net income (net of the bonus to employees and remuneration to directors' and supervisors); the remuneration to directors and supervisors was NT\$14,756 thousand and NT\$21,861 thousand both representing 1.55% of net income (net of the bonus to employees and remuneration to directors' and supervisors). Material differences between estimated amounts and the amounts proposed by the board of directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the stockholders' meeting.

The appropriations of earnings for 2010 and 2009 had been approved in the stockholders' meetings in June 2011 and June 2010, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share	
	For Year 2010	For Year 2009	For Year 2010	For Year 2009
Legal reserve	\$ 140,964	\$ 80,992	\$ -	\$ -
Dividends on common stock	<u>809,865</u>	<u>532,197</u>	<u>3.5</u>	<u>2.3</u>
	<u>\$ 950,829</u>	<u>\$ 613,189</u>	<u>\$ 3.5</u>	<u>\$ 2.3</u>

The Corporation's board of directors approved the appropriations of the 2009 earnings to distribute dividend of NT\$2.20 per share, but the Corporation's stockholders meeting revised the amount to NT\$2.30 per share.

The bonus to employees and the remuneration to directors and supervisors for 2010 and 2009 approved in the stockholders' meetings in June 2011 and 2010, respectively, were as follows:

	Year Ended December 31			
	2010		2009	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in board of directors or shareholders' meetings	\$ 239,634	\$ 21,861	\$ 126,971	\$ 13,128
Amounts recognized in respective financial statements	<u>(239,634)</u>	<u>(21,861)</u>	<u>(126,971)</u>	<u>(13,128)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The appropriations of earnings for 2011 had been proposed in the board of directors' meeting on March 21, 2012. The proposed appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 95,223	\$ -
Cash dividends	532,197	2.3

The 2011 appropriations of earnings for legal reserve, cash dividends, bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled for June 5, 2012.

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

Unrealized Gain or Loss on Financial Instruments

For the years ended December 31, 2011 and 2010, movements of unrealized gain or loss on financial instruments were as follows:

	Available-for- sale Financial Assets	Equity-method Investment	Total
<u>Year ended December 31, 2011</u>			
Balance, beginning of year	\$ 65,099	\$ 41,954	\$ 107,053
Recognized in stockholders' equity	(60,215)	(51,631)	(111,846)
Transferred to profit or loss	<u>(34,035)</u>	<u>-</u>	<u>(34,035)</u>
Balance, end of year	<u>\$ (29,151)</u>	<u>\$ (9,677)</u>	<u>\$ (38,828)</u>
<u>Year ended December 31, 2010</u>			
Balance, beginning of year	\$ 85,151	\$ 134,834	\$ 219,985
Recognized in stockholders' equity	15,544	(92,880)	(77,336)
Transferred to profit or loss	<u>(35,596)</u>	<u>-</u>	<u>(35,596)</u>
Balance, end of year	<u>\$ 65,099</u>	<u>\$ 41,954</u>	<u>\$ 107,053</u>

19. INCOME TAX

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

	<u>Year Ended December 31</u>	
	2011	2010
Income tax expense at the statutory rate	<u>\$ 198,375</u>	<u>\$ 275,753</u>
Permanent differences:		
Domestic investment income under equity method	(32,938)	(68,961)
Gain on disposal of land	-	(6,602)
Gain on disposal of domestic investments	(5,786)	(6,051)
Impairment loss	935	-
Others	<u>609</u>	<u>(1,837)</u>
	<u>(37,180)</u>	<u>(83,451)</u>
Temporary differences:		
Provision for loss on inventories	14,558	4,565
Foreign investment income under equity method	(50,464)	(79,203)
Bonuses paid	(3,019)	(1,788)
Unrealized exchange losses (gains)	(9,554)	5,858
Unrealized (realized) sales gross profit	(1,100)	3,577
Unpaid pension	2,386	10,331
Others	<u>(714)</u>	<u>(2,363)</u>
	<u>(47,907)</u>	<u>(59,023)</u>
Income tax under the Income Tax Law	113,288	133,279
Additional 10% income tax on unappropriated earnings	45,881	19,672
Others	<u>18</u>	<u>37</u>
Current income tax expense	<u>159,187</u>	<u>152,988</u>
Deferred income tax expense (benefit)		
Temporary differences	47,907	59,023
Effect of tax law changes on deferred income tax	-	(27,045)

(Continued)

	Year Ended December 31	
	2011	2010
Adjustments for other evaluation	\$ <u>-</u>	\$ <u>27,569</u>
	47,907	59,547
Adjustments of prior years' tax	<u>7,584</u>	<u>(101)</u>
	<u>\$ 214,678</u>	<u>\$ 212,434</u>
		(Concluded)

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended article and recorded the resulting difference as a deferred income tax adjustment.

- b. Deferred income tax assets (liabilities) were as follows:

	December 31	
	2011	2010
Deferred income tax assets - current		
Unrealized allowance for loss on inventories	\$ 36,670	\$ 22,113
Allowance for sales discounts	1,470	2,182
Accrued bonuses	22,604	25,623
Intercompany unrealized gains	7,398	8,498
Unrealized exchange losses	-	3,985
Others	<u>132</u>	<u>132</u>
	<u>68,274</u>	<u>62,533</u>
Deferred income tax liabilities - current		
Unrealized exchange gains	<u>(5,569)</u>	<u>-</u>
Net deferred income tax assets - current	<u>62,705</u>	<u>62,533</u>
Deferred income tax assets - noncurrent		
Permanent decline in value of foreign long-term investments	27,569	27,569
Pension cost	13,688	11,301
Others	<u>193</u>	<u>195</u>
	41,450	39,065
Less: Valuation allowance	<u>(27,569)</u>	<u>(27,569)</u>
	<u>13,881</u>	<u>11,496</u>
Deferred income tax liabilities - noncurrent		
Investment income recognized on overseas equity - method investment	(364,340)	(313,876)
Translation adjustments recognized on overseas equity - method investment	<u>(33,680)</u>	<u>-</u>
	<u>(398,020)</u>	<u>(313,876)</u>
Net deferred income tax liabilities - noncurrent	<u>(384,139)</u>	<u>(302,380)</u>
Total deferred income tax liabilities - net	<u>\$ (321,434)</u>	<u>\$ (239,847)</u>

- c. The tax returns through 2010 (except 2008 which was not yet assessed) have been assessed by the tax authorities.

d. Information about integrated income tax was as follows:

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Unappropriated earnings generated on and after January 1, 1998	\$ <u>2,767,012</u>	\$ <u>2,765,609</u>

As of December 31, 2011 and 2010, the balance of the imputation credits which can be allocated to the stockholders amounted to NT\$507,763 thousand and NT\$443,735 thousand, respectively.

The creditable ratio for distribution of earnings of 2011 and 2010 was 21.74% (estimate) and 21.07%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<u>Operating Expenses</u>	
	<u>Year Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Personnel		
Salary	\$ 646,821	\$ 833,244
Labor and health insurance	30,621	27,658
Pension	44,865	90,862
Others	<u>22,679</u>	<u>20,259</u>
	<u>\$ 744,986</u>	<u>\$ 972,023</u>
Depreciation	\$ 37,582	\$ 42,964
Amortization	37,313	35,456

The difference between the amount of depreciation above and the depreciation in the statement of cash flows is the depreciation of the rental assets recognized as nonoperating expenses and losses.

21. EARNINGS PER SHARE (“EPS”)

The numerator and denominator for calculating basic EPS were as follows:

a. Numerator - current net income

	<u>Year Ended December 31</u>			
	<u>2011</u>		<u>2010</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
Basic EPS (NT\$)				
Income for the year attributable to common stockholders	<u>\$ 1,166,910</u>	<u>\$ 952,232</u>	<u>\$ 1,622,073</u>	<u>\$ 1,409,639</u>

b. Denominator - shares in thousand

	<u>Year Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Weighted average issued common stock	231,390	231,390
Add: Dilutive potential common stock - bonus to employees	<u>6,575</u>	<u>4,279</u>
	<u>237,965</u>	<u>235,669</u>

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

22. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments:

Nonderivative Financial Instruments	<u>December 31</u>			
	<u>2011</u>		<u>2010</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Financial assets at fair value				
through profit or loss	\$ 101,405	\$ 101,405	\$ 117,300	\$ 117,300
Available-for-sale financial assets	425,014	425,014	579,680	579,680
Financial assets carried at cost	114,981	-	120,481	-
Refundable deposits	74,357	74,357	60,908	60,908
<u>Financial liabilities</u>				
Long-term debt (including current portion)	1,578,241	1,578,241	1,050,326	1,050,326
Guarantee deposits	1,453	1,453	1,373	1,373

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

- 1) Cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including related parties), restricted assets, short-term loan, short-term bills payable, notes and accounts payable (including related parties), accrued expenses and other payables are excluded from those financial instruments mentioned in the above table. The carrying amounts of these financial instruments approximate their fair values because of their short maturities.
- 2) Fair values of financial instruments designated as at FVTPL and available-for-sale are based on their quoted prices in an active market.
- 3) Financial assets carried at cost are investments in unquoted shares, which have no quoted price in an active market and will entail an unreasonably high cost to obtain verifiable fair values. Therefore,

no fair value is presented.

- 4) The fair value of refundable (guarantee) deposits is determined at the carrying value.
 - 5) Fair value of long-term debt is estimated using the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar loans (e.g. similar maturities). The long-term debt has floating interest rate and its carrying amount approximates its fair value.
- c. As of December 31, 2011 and 2010, financial assets exposed to cash flow interest rate risk amounted to NT\$724,063 thousand and NT\$591,850 thousand, respectively; financial liabilities exposed to cash flow interest rate risk amounted to NT\$1,894,068 thousand and NT\$1,437,729 thousand, respectively.
- d. As of December 31, 2011 and 2010, the interest income and expense associated with financial assets (liabilities) other than those at fair value through profit or loss were as follows:

	Year Ended December 31	
	2011	2010
Total interest income	\$ 982	\$ 2,589
Total interest expense	41,885	29,085

e. Information about financial risks

1) Market risk

The Corporation invested in domestic and overseas listed stocks, mutual funds and convertible bonds. A change of 1% in market price will make the risk of price variation of financial instrument amount to NT\$5,264 thousand.

The Corporation's foreign-currency financial instruments (Note 28) are affected by changes in exchange rates. When the foreign exchange rate decreases by one percent, the Corporation's net assets will decrease by NT\$5,200 thousand.

There are no significant risks on market interest rate of the Corporation's financial instruments.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counterparties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counterparties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Corporation's exposure to default by those parties to be material. The maximum credit risk (the fair value of guarantees excluded) was as follows:

	December 31			
	2011		2010	
	Book Value	Maximum Credit Risk	Book Value	Maximum Credit Risk
Off-balance-sheet commitments and guarantees	\$ -	\$ 2,710,188	\$ -	\$ 1,937,434

3) Liquidity risk

The Corporation's operation funds are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

The Corporation's investments in domestic and overseas listed stocks, mutual funds and convertible bonds are traded in active market and can be disposed of quickly at close to their fair values. The Corporation's investments in unlisted equity instruments have no active market; therefore, the liquidity risk is expected to be high.

4) Cash flow interest rate change risk

The Corporation's long-term loan and part of short-term loans are floating rate loans. Changes in market interest rates accompany changes in effective rate and affect future cash flows. When the market interest rates increase by one percent, the Corporation's cash outflow will increase by NT\$18,941 thousand a year.

23. SIGNIFICANT RELATED PARTY TRANSACTIONS

a. Related parties and their relationship with the Corporation

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
Chang Wah Electromaterials Inc. (Chang Wah)	Equity-method investee
Chang Wah Technology Co., Ltd.	Chang Wah's subsidiary
Nagase Wahlee Plastics Corp. (Nagase Wahlee)	Equity-method investee
Wah Hong Industrial Corp. (Wah Hong)	Equity-method investee
SIP Chang Hong Optoelectronics Ltd. (SIP Chang Hong)	Wah Hong's subsidiary
SIP Chang Jun International Trading Co., Ltd.	Wah Hong's subsidiary
Sun Hong Optronics Ltd. (Sun Hong)	Wah Hong's subsidiary
Ningbo Chang Hong Optoelectronics Ltd.	Wah Hong's subsidiary
Xiamen Guang Hong Optronics Co., Ltd. (Xiamen Guang Hong)	Wah Hong's subsidiary
Qingdao Chang Hong Optoelectronics Ltd.	Wah Hong's subsidiary
Orc Technology Corp. (Orc)	Equity-method investee
Raycong Industrial (H.K.) Ltd. (Raycong)	Subsidiary
Dong Guan Hua Gang International Trading Co., Ltd. (Dong Guan Hua Gang)	Subsidiary
Wah Lee Japan Corp. (Wah Lee Japan)	Subsidiary
Wah Lee Korea Co., Ltd. (Wah Lee Korea)	Subsidiary
Wah Lee Holding Ltd. (Wah Lee Holding)	Subsidiary
SHC Holding Ltd. (SHC)	Subsidiary
Shanghai Hua Chang Trading Co., Ltd. (Shanghai Hua Chang)	SHC's equity-method investee
Wah Lee Machinery Trading Ltd. (Wah Lee Machinery)	Subsidiary
Wah Lee Tech (Singapore) Pte. Ltd. (Wah Lee Tech)	Subsidiary
Global SYK Holding Ltd. (SYK)	Subsidiary
Shanghai Yikang Chemicals and Industries Co., Ltd. (Shanghai Yikang)	Subsidiary
Daily Polymer Corp. (Daily)	Chairman's relative
Raycon Industrial Inc. (Raycon)	Chairman's relative
Hsin Hao Corp.	Vice chairman's relative

(Continued)

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
Asahi Kasei Wahlee Hi-Tech Corp. (Asahi Kasei Wahlee)	A director
Tetrahedron Technology Corp.	A director
Forcera Materials Co., Ltd. (Forcera Materials)	A director
Bau-Guang Investment Ltd.	A director
Chang Tsuen-Hsien	Chairman's relative

(Concluded)

b. Significant transactions with related parties:

- 1) For the years ended December 31, 2011 and 2010, purchases from related parties were NT\$1,260,722 thousand (6%) and NT\$1,414,140 thousand (8%), respectively, and individual transaction amount was less than 10% of the amount of purchases of the Corporation.

Purchases from related parties were made under arm's length terms and did not have similar transactions in the market for comparison. Terms of payment to related parties were similar to those with third parties.

- 2) For the years ended December 31, 2011 and 2010, sales to related parties were NT\$3,428,639 thousand (15%) and NT\$3,184,208 thousand (17%), respectively, and individual transaction amount was less than 10% of the amount of total net sales of the Corporation.

The selling prices and collection terms for products sold to related parties were similar to those for products sold to third parties, except for Raycong which pays on the 30th - 120th day after the month of shipment.

3) Commission Income and Expense

	<u>Commission Income</u>		<u>Commission Expense</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Year ended December 31, 2011</u>				
Shanghai Yikang	\$ 1,280	1	\$ 26,847	50
Wah Hong	1,093	-	-	-
Raycong	19	-	3,638	6
Raycon	7	-	2,663	5
Others	<u>80</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,479</u>	<u>1</u>	<u>\$ 33,148</u>	<u>61</u>
<u>Year ended December 31, 2010</u>				
Wah Lee Machinery	\$ 11,774	3	\$ -	-
Raycon	9,695	3	-	-
Shanghai Yikang	7,181	2	25,622	72
Raycong	3,730	1	1,543	4
Others	<u>1,620</u>	<u>-</u>	<u>109</u>	<u>-</u>
	<u>\$ 34,000</u>	<u>9</u>	<u>\$ 27,274</u>	<u>76</u>

- 4) The management services agreements, industry consulting and SAP-use contracts were signed by the Corporation and related parties, and the contract period is until December 31, 2014. According to the agreements and contracts, the Corporation will provide certain management services to

related parties. Consulting and service fee earned for the years ended December 31, 2011 and 2010 recognized as nonoperating income was as follows:

	Year Ended December 31	
	2011	2010
Shanghai YiKang	\$ 47,734	\$ 46,572
Raycong	30,713	29,673
Wah Hong	2,311	3,567
Wah Lee Tech	1,252	2,418
Others	<u>1,565</u>	<u>-</u>
	<u>\$ 83,575</u>	<u>\$ 82,230</u>

- 5) The Corporation rented parts of buildings and computer software to related parties. The leases on the buildings will expire on April 1, 2012 and December 31, 2012, and the lease on computer software will expire on December 31, 2012. The rental income for the years ended December 31, 2011 and 2010 recognized as nonoperating income was as follows:

	Year Ended December 31	
	2011	2010
Orc	\$ 2,040	\$ 2,040
Wah Hong	1,923	1,361
Others	<u>24</u>	<u>24</u>
	<u>\$ 3,987</u>	<u>\$ 3,425</u>

- 6) The Corporation offered guarantees to investee companies as follows:

	December 31	
	2011	2010
Nagase Wahlee	\$ 500,000	\$ 320,000
Asahi Kasei Wahlee	9,690	9,690
Wah Lee Japan	15,624	14,328
	(JPY 40,000 thousand)	(JPY 40,000 thousand)
Raycong	326,970	314,604
	(US\$ 10,800 thousand)	(US\$ 10,800 thousand)
Shanghai Yikang	554,930	255,956
	(US\$ 18,330 thousand)	(US\$ 8,787 thousand)
Raycong/Shanghai Yikang (Co-guarantees)	90,000	90,000
Shanghai Hua Chang	170,000	-
Shanghai Hua Chang	272,475	262,170
	(US\$ 9,000 thousand)	(US\$ 9,000 thousand)
Dong Guan Hua Gang	454,125	291,300
	(US\$ 15,000 thousand)	(US\$ 10,000 thousand)
Dong Guan Hua Gang	-	24,000

(Continued)

	December 31	
	2011	2010
Wah Lee Machinery	\$ -	\$ 58,260 (US\$ 2,000 thousand)
Wah Lee Tech	316,374 (US\$ 10,450 thousand)	297,126 (US\$ 10,200 thousand)
	<u>\$ 2,710,188</u>	<u>\$ 1,937,434</u> (Concluded)

The guarantee income from aforementioned related parties was NT\$6,512 thousand and NT\$241 thousand for the years ended December 31, 2011 and 2010, respectively.

- 7) Payments received by the Corporation on behalf of Raycong for goods sold amounted to NT\$2,106 thousand and NT\$8,549 thousand as of December 31, 2011 and 2010, respectively, and were booked as other current liabilities.

End of the year

	December 31			
	2011		2010	
	Amount	%	Amount	%
Notes receivable – related parties				
Wah Hong	\$ 84	-	\$ -	-
Nagase Wahlee	<u>80</u>	<u>-</u>	<u>340</u>	<u>-</u>
	<u>\$ 164</u>	<u>-</u>	<u>\$ 340</u>	<u>-</u>
Accounts receivable - related parties				
Shanghai Yikang	\$ 228,614	5	\$ 470,859	9
Raycong	135,109	3	194,671	4
Dong Guan Hua Gang	93,919	2	19,856	-
Wah Hong	17,546	-	27,446	1
Others	<u>26,346</u>	<u>-</u>	<u>20,035</u>	<u>-</u>
	501,534	10	732,867	14
Less: Allowance for doubtful accounts	<u>322</u>	<u>-</u>	<u>433</u>	<u>-</u>
	<u>\$ 501,212</u>	<u>10</u>	<u>\$ 732,434</u>	<u>14</u>
Other receivable - related parties				
Shanghai Yikang	\$ 95,270	59	\$ 44,786	63
Raycong	30,699	19	61	-
Others	<u>9,065</u>	<u>6</u>	<u>4,286</u>	<u>6</u>
	<u>\$ 135,034</u>	<u>84</u>	<u>\$ 49,133</u>	<u>69</u>
Notes payable - related parties				
Asahi Kasei Wahlee	\$ 199,807	26	\$ 199,138	30
Nagase Wahlee	<u>589</u>	<u>-</u>	<u>69</u>	<u>-</u>
	<u>\$ 200,396</u>	<u>26</u>	<u>\$ 199,207</u>	<u>30</u>

(Continued)

	December 31			
	2011		2010	
	Amount	%	Amount	%
Accounts payable - related parties				
Asahi Kasei Wahlee	\$ 62,785	3	\$ 71,528	3
Wah Hong	51,090	2	63,355	2
Daily	34,767	1	29,640	1
Forcera Materials	5,764	-	14,036	1
Others	<u>2,340</u>	<u>-</u>	<u>15,139</u>	<u>-</u>
	<u>\$ 156,746</u>	<u>6</u>	<u>\$ 193,698</u>	<u>7</u>
Accrued expense-related parties				
Shanghai Yikang	\$ 5,640	1	\$ 6,886	1
Raycong	1,063	-	149	-
Others	<u>1,059</u>	<u>-</u>	<u>837</u>	<u>-</u>
	<u>\$ 7,762</u>	<u>1</u>	<u>\$ 7,872</u>	<u>1</u>
Receipts under custody (included in other current liabilities)				
Raycong	<u>\$ 2,106</u>	<u>26</u>	<u>\$ 8,549</u>	<u>58</u>

(Concluded)

c. Compensation of directors, supervisors and management personnel:

	Year Ended December 31	
	2011	2010
Salaries and incentives	\$ 34,957	\$ 35,347
Special compensation	450	410
Bonus	<u>41,936</u>	<u>68,934</u>
	<u>\$ 77,343</u>	<u>\$ 104,691</u>

24. PLEDGED OR MORTGAGED ASSETS

The carrying values of assets have been provided as collaterals for bank loans and commitments for vendors were as follows:

	December 31	
	2011	2010
Property, plant and equipment		
Land	\$ 232,817	\$ 232,817
Buildings	<u>184,001</u>	<u>191,382</u>
	<u>416,818</u>	<u>424,199</u>
Rental assets		
Land	16,020	16,020
Buildings	<u>11,458</u>	<u>11,757</u>
	<u>27,478</u>	<u>27,777</u>
Restricted assets		
Pledged time deposits	<u>320</u>	<u>320</u>
	<u>\$ 444,616</u>	<u>\$ 452,296</u>

25. COMMITMENTS AND CONTINGENCIES AT DECEMBER 31, 2011

a. Operating lease:

Lessor	Leased Asset	Lease Period and Rental Rate	Rental Payment for the Year Ended December 31, 2011
Hong Siang	Warehouse	From December 1, 2005 to March 31, 2015, NT\$1,322 thousand per month (tax included); Rent free in December 2010 and March 2015.	<u>\$ 15,000</u>

As of December 31, 2011, future lease payments are as follows and the Corporation has paid guarantee deposits of NT\$3,500 thousand.

	Amount
2012	\$ 15,860
2013	15,860
2014	15,860
2015	<u>2,644</u>
	<u>\$ 50,224</u>

b. As of December 31, 2011, the Corporation has outstanding letters of credit aggregating US\$10,086 thousand and NT\$88,651 thousand.

c. The Corporation offered guarantees for investee companies as stated in Note 23.

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

The foreign-currency financial assets and liabilities that significantly impacted the Corporation were as follows:

(In Thousands of Foreign Currencies and New Taiwan Dollars Except Exchange Rate)

	December 31					
	2011			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 109,390	30.275	\$ 3,311,794	\$ 103,481	29.13	\$ 3,014,467
JPY	378,409	0.3906	147,807	941,606	0.3582	336,122
CNY	38,333	4.805	184,189	-	-	-

(Continued)

December 31

	2011			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Investments accounted for by the equity method</u>						
USD	\$ 58,657	30.275	\$ 1,775,844	\$ 51,147	29.13	\$ 1,489,919
JPY	38,129	0.3906	14,893	43,268	0.3582	15,499
HKD	337,099	3.897	1,313,676	293,195	3.748	1,100,236
KRW	89,772	0.02631	2,362	78,131	0.02618	2,045
<u>Financial liabilities</u>						
Monetary items						
USD	95,176	30.275	2,881,468	98,314	29.13	2,863,877
JPY	620,398	0.3906	242,328	706,661	0.3582	253,126
CNY	4	4.805	17	-	-	-
						(Concluded)