

# **Wah Lee Industrial Corporation**

**Financial Statements for the  
Six Months Ended June 30, 2012 and 2011 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 June 30, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the six months 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.

Except as stated in the following paragraph, 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 provide a reasonable basis for our opinion.

The carrying value of investments accounted for using equity method of NT\$5,253,503 thousand and NT\$4,505,259 thousand as of June 30, 2012 and 2011, and the investment income recognized under equity method of NT\$213,810 thousand and NT\$289,196 thousand for the six months ended June 30, 2012 and 2011 as stated in Note 10 to the financial statements and other related information were based on unaudited financial statements of the investee companies.

In our opinion, based on our audits except for the effect of such adjustments, if any, as might have been determined had we been engaged to audit the financial statements of those investees as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the six months 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.

August 23, 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

JUNE 30, 2012 AND 2011

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

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 853,139	5	\$ 452,694	3	Short-term loans (Notes 13 and 23)	\$ 1,626,294	10	\$ 2,169,034	14
Financial asset at fair value through profit or loss (Notes 2 and 5)	10,260	-	10,890	-	Notes payable	442,121	3	556,978	4
Available-for-sale financial assets (Notes 2 and 6)	468,576	3	735,192	5	Notes payable - related parties (Note 22)	180,792	1	211,857	1
Notes receivable (Notes 2 and 3)	410,683	3	472,561	3	Accounts payable	3,037,152	19	2,305,429	14
Notes receivable - related parties (Notes 2, 3 and 22)	597	-	268	-	Accounts payable - related parties (Note 22)	161,707	1	173,773	1
Accounts receivable, net (Notes 2, 3 and 7)	5,135,066	32	5,071,216	32	Income tax payable	82,561	-	137,051	1
Accounts receivable - related parties (Notes 2, 3, 7 and 22)	783,360	5	873,676	5	Accrued expenses (Notes 14 and 22)	468,996	3	663,220	4
Other receivables	26,608	-	17,431	-	Dividend payable (Note 17)	533,846	3	811,514	5
Other receivables - related parties (Note 22)	166,358	1	85,021	1	Other payables	15,022	-	3,444	-
Inventories (Notes 2 and 8)	1,049,162	6	1,681,089	10	Current portion of long-term debt (Notes 15 and 22)	9,034	-	9,034	-
Prepayments and others	197,449	1	150,525	1	Others (Note 22)	62,823	-	132,180	1
Deferred income tax assets (Notes 2 and 18)	55,332	-	69,015	-					
<b>Total current assets</b>	<b>9,156,590</b>	<b>56</b>	<b>9,619,578</b>	<b>60</b>	<b>Total current liabilities</b>	<b>6,620,348</b>	<b>40</b>	<b>7,173,514</b>	<b>45</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 5, 6, 9 and 10)</b>					<b>LONG-TERM DEBT (Notes 15 and 23)</b>	<b>1,565,290</b>	<b>10</b>	<b>1,033,124</b>	<b>7</b>
Financial assets at fair value through profit or loss - noncurrent	92,700	1	102,870	1	<b>RESERVE FOR LAND VALUE INCREMENT TAX (Note 11)</b>	<b>8,894</b>	<b>-</b>	<b>4,259</b>	<b>-</b>
Available-for-sale financial assets	77,766	-	101,912	-					
Financial assets carried at cost	108,981	1	120,481	1	<b>OTHER LIABILITIES</b>				
Investments accounted for by the equity method	5,928,198	36	5,099,404	32	Accrued pension liabilities	239,263	2	212,472	1
<b>Total long-term investments</b>	<b>6,207,645</b>	<b>38</b>	<b>5,424,667</b>	<b>34</b>	Deferred tax liabilities (Notes 2 and 18)	394,110	2	334,894	2
					Guarantee deposits received	683	-	1,228	-
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 23)</b>					<b>Total other liabilities</b>	<b>634,056</b>	<b>4</b>	<b>548,594</b>	<b>3</b>
Land	383,045	2	383,045	2	<b>Total liabilities</b>	<b>8,828,588</b>	<b>54</b>	<b>8,759,491</b>	<b>55</b>
Buildings	270,022	2	269,640	2	<b>COMMON STOCK -\$10 par value authorized - 300,000 thousand shares; issued - 231,390 thousand shares</b>	<b>2,313,901</b>	<b>14</b>	<b>2,313,901</b>	<b>14</b>
Machinery and equipment	365	-	365	-	<b>CAPITAL SURPLUS (Note 17)</b>				
Transportation equipment	65,070	1	68,320	1	Additional paid-in capital	1,160,519	7	1,160,519	7
Miscellaneous equipment	179,116	1	168,658	1	Donations	11,867	-	11,867	-
Leasehold improvements	53,102	-	53,102	-	Long-term investments	95,759	1	144,315	1
Total cost	950,720	6	943,130	6	<b>Total capital surplus</b>	<b>1,268,145</b>	<b>8</b>	<b>1,316,701</b>	<b>8</b>
Land revaluation increment	27,352	-	12,029	-	<b>RETAINED EARNINGS (Note 17)</b>				
Cost and revaluation increment	978,072	6	955,159	6	Legal reserve	1,250,139	8	1,154,916	7
Less: Accumulated depreciation	328,131	2	298,352	2	Unappropriated earnings	2,601,451	16	2,513,329	16
Prepayments for equipment	3,686	-	239	-	<b>Total retained earnings</b>	<b>3,851,590</b>	<b>24</b>	<b>3,668,245</b>	<b>23</b>
<b>Net property, plant and equipment</b>	<b>653,627</b>	<b>4</b>	<b>657,046</b>	<b>4</b>	<b>OTHER EQUITY (Notes 2, 11 and 17)</b>				
<b>INTANGIBLE ASSETS</b>					Cumulative translation adjustments	133,250	1	(75,717)	-
Deferred pension cost (Note 2)	80,332	1	87,323	1	Net loss not recognized as pension cost	(60,452)	(1)	(37,892)	-
<b>OTHER ASSETS</b>					Unrealized gain (loss) on financial instruments	(15,095)	-	52,252	-
Rental assets (Notes 2, 12 and 23)	30,275	-	30,574	-	Unrealized revaluation increment	13,649	-	2,961	-
Refundable deposits (Note 24)	60,896	-	70,419	-	<b>Total other equity</b>	<b>71,352</b>	<b>-</b>	<b>(58,396)</b>	<b>-</b>
Deferred charges (Note 2)	143,891	1	110,015	1	<b>Total stockholders' equity</b>	<b>7,504,988</b>	<b>46</b>	<b>7,240,451</b>	<b>45</b>
Restricted assets - pledged time deposits (Note 23)	320	-	320	-	<b>TOTAL</b>	<b>\$ 16,333,576</b>	<b>100</b>	<b>\$ 15,999,942</b>	<b>100</b>
<b>Total other assets</b>	<b>235,382</b>	<b>1</b>	<b>211,328</b>	<b>1</b>					
<b>TOTAL</b>	<b>\$ 16,333,576</b>	<b>100</b>	<b>\$ 15,999,942</b>	<b>100</b>					

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

(With Deloitte & Touche audit report dated August 23, 2012)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 22)				
Net sales	\$ 11,757,748	99	\$ 12,322,911	99
Commission revenue	72,958	1	149,806	1
Other operating revenue	<u>3,756</u>	<u>-</u>	<u>37,952</u>	<u>-</u>
Total operating revenues	<u>11,834,462</u>	<u>100</u>	<u>12,510,669</u>	<u>100</u>
OPERATING COSTS (Notes 8 and 22)				
Cost of goods sold	10,971,769	93	11,338,867	91
Other operating costs	<u>1,991</u>	<u>-</u>	<u>38,283</u>	<u>-</u>
Total operating costs	<u>10,973,760</u>	<u>93</u>	<u>11,377,150</u>	<u>91</u>
GROSS PROFIT	860,702	7	1,133,519	9
ADD (LESS): REALIZED (UNREALIZED) INTERCOMPANY GAIN	<u>12,910</u>	<u>-</u>	<u>(13,365)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>873,612</u>	<u>7</u>	<u>1,120,154</u>	<u>9</u>
OPERATING EXPENSES (Notes 19 and 22)				
Selling	489,812	4	560,234	5
General and administrative	<u>132,458</u>	<u>1</u>	<u>142,922</u>	<u>1</u>
Total operating expenses	<u>622,270</u>	<u>5</u>	<u>703,156</u>	<u>6</u>
OPERATING INCOME	<u>251,342</u>	<u>2</u>	<u>416,998</u>	<u>3</u>
NONOPERATING INCOME AND GAINS				
Interest income	789	-	518	-
Investment income recognized under equity method (Note 10)	287,416	2	350,053	3
Valuation gain on financial assets, net (Notes 2 and 5)	1,555	-	-	-
Exchange gain, net	-	-	24,605	-
Gain on reversal of bad debts (Note 7)	-	-	17,597	-
Gain on sale of investments (Note 17)	4,004	-	22,788	-
Others (Notes 12 and 22)	<u>61,522</u>	<u>1</u>	<u>53,051</u>	<u>1</u>
Total nonoperating income and gains	<u>355,286</u>	<u>3</u>	<u>468,612</u>	<u>4</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	22,708	-	18,217	-

(Continued)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
Exchange loss, net	\$ 4,503	-	\$ -	-
Impairment loss (Notes 2 and 9)	6,000	-	-	-
Valuation loss on financial assets, net (Notes 2 and 5)	-	-	3,540	-
Others	636	-	1,126	-
Total nonoperating expenses and losses	33,847	-	22,883	-
INCOME BEFORE INCOME TAX	572,781	5	862,727	7
INCOME TAX (Notes 2 and 18)	110,922	1	164,178	1
NET INCOME	\$ 461,859	4	\$ 698,549	6
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 20)				
Basic	\$ 2.48	\$ 2.00	\$ 3.73	\$ 3.02
Diluted	2.41	1.95	3.63	2.94

(Concluded)

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

(With Deloitte & Touche audit report dated August 23, 2012)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	Common Stock	Capital Surplus	Retained Earnings		Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Other Items		Total Stockholders' Equity
			Legal Reserve	Unappropriated			Unrealized Gain (Loss) on Financial Instruments	Unrealized Asset Revaluation Increment	
BALANCE, JANUARY 1, 2012	\$ 2,313,901	\$ 1,268,203	\$ 1,154,916	\$ 2,767,012	\$ 189,980	\$ (60,452)	\$ (38,828)	\$ 13,649	\$ 7,608,381
Appropriation of 2011 earnings (Note 17)									
Legal reserve	-	-	95,223	(95,223)	-	-	-	-	-
Dividends to common stock									
Cash - 23%	-	-	-	(532,197)	-	-	-	-	(532,197)
Adjustment from changes in percentage of ownership in investees	-	(58)	-	-	-	-	17,409	-	17,351
Change in cumulative translation adjustments	-	-	-	-	(56,730)	-	-	-	(56,730)
Changes in unrealized gain on available-for-sale financial assets (Note 17)	-	-	-	-	-	-	6,324	-	6,324
Net income for the six months ended June 30, 2012	-	-	-	461,859	-	-	-	-	461,859
BALANCE, JUNE 30, 2012	<u>\$ 2,313,901</u>	<u>\$ 1,268,145</u>	<u>\$ 1,250,139</u>	<u>\$ 2,601,451</u>	<u>\$ 133,250</u>	<u>\$ (60,452)</u>	<u>\$ (15,095)</u>	<u>\$ 13,649</u>	<u>\$ 7,504,988</u>
BALANCE, JANUARY 1, 2011	\$ 2,313,901	\$ 1,319,336	\$ 1,013,952	\$ 2,765,609	\$ (70,222)	\$ (37,892)	\$ 107,053	\$ 2,961	\$ 7,414,698
Appropriation of 2010 earnings (Note 17)									
Legal reserve	-	-	140,964	(140,964)	-	-	-	-	-
Dividends to common stock									
Cash - 35%	-	-	-	(809,865)	-	-	-	-	(809,865)
Adjustment from changes in percentage of ownership in investees	-	(2,635)	-	-	-	-	(32,431)	-	(35,066)
Change in cumulative translation adjustments	-	-	-	-	(5,495)	-	-	-	(5,495)
Changes in unrealized gain on available-for-sale financial assets (Note 17)	-	-	-	-	-	-	(22,370)	-	(22,370)
Net income for the six months ended June 30, 2011	-	-	-	698,549	-	-	-	-	698,549
BALANCE, JUNE 30, 2011	<u>\$ 2,313,901</u>	<u>\$ 1,316,701</u>	<u>\$ 1,154,916</u>	<u>\$ 2,513,329</u>	<u>\$ (75,717)</u>	<u>\$ (37,892)</u>	<u>\$ 52,252</u>	<u>\$ 2,961</u>	<u>\$ 7,240,451</u>

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

(With Deloitte & Touche audit report dated August 23, 2012)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 461,859	\$ 698,549
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision (reversal of provision) for doubtful accounts	1,276	(17,597)
Depreciation	16,520	20,546
Amortization	21,934	16,943
Recovery of loss on inventories	(40,562)	(17,314)
Gain on physical inventories	(108)	(413)
Unrealized (realized) gross profit	(12,910)	13,365
Deferred income tax expense	30,638	26,032
Investment income recognized under equity method	(287,416)	(350,053)
Gain on sale of investments	(4,004)	(22,788)
Valuation loss (gain) on financial assets	(1,555)	3,540
Impairment loss on financial assets	6,000	-
Cash dividends received from equity-method investees	80,000	64,000
Pension	7,413	7,075
Others	595	(3,718)
Changes in operating assets and liabilities:		
Notes receivable	(62,013)	(105,613)
Notes receivable - related parties	(433)	(268)
Accounts receivable	(607,948)	(852,589)
Accounts receivable - related parties	(282,148)	(140,837)
Other receivables	(277)	4,862
Other receivables - related parties	(31,324)	(35,888)
Inventories	271,722	(242,854)
Prepayments and other current assets	(57,732)	48,877
Notes payable	(142,991)	90,797
Notes payable - related parties	(19,604)	12,650
Accounts payable	688,446	(174,171)
Accounts payable - related parties	4,961	(19,925)
Income tax payable	(11,159)	17,029
Accrued expenses	48,861	165,226
Other payables	7,593	2,762
Other current liabilities	(43,236)	27,794
Net cash provided by (used in) operating activities	<u>42,398</u>	<u>(763,981)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(125,644)	(634,353)
Proceeds from disposal of available-for-sale financial assets	14,644	377,347
Acquisition of investments accounted for by equity method	(8,826)	(58,777)
Acquisition of property, plant and equipment	(4,505)	(3,469)
Proceeds from disposal of property, plant and equipment	5	67
Increase in refundable deposits	13,461	(9,511)

(Continued)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
Increase in deferred charges	\$ (1,470)	\$ (3,276)
Net cash used in investing activities	<u>(112,335)</u>	<u>(331,972)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	251,624	859,154
Decrease in short-term bills payable	(50,000)	-
Increase in long-term loans	-	900,000
Repayment of long-term debt	(4,517)	(904,517)
Decrease in guarantee deposits received	<u>(770)</u>	<u>(145)</u>
Net cash provided by financing activities	<u>196,337</u>	<u>854,492</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	126,400	(241,461)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>726,739</u>	<u>694,155</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 853,139</u>	<u>\$ 452,694</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid (excluding capitalized interest)	\$ 22,985	\$ 14,857
Income tax paid	91,443	121,117
<b>NON-CASH FINANCING ACTIVITIES</b>		
Bonus to stockholders	\$ 532,197	\$ 809,865
Current portion of long-term debt	4,517	4,517
Rental assets transferred to property, plant and equipment	-	4,508
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of property, plant and equipment	\$ 4,768	\$ 3,630
Increase in payable for equipment purchased	<u>(263)</u>	<u>(161)</u>
Cash paid	<u>\$ 4,505</u>	<u>\$ 3,469</u>

(Concluded)

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

(With Deloitte & Touche audit report dated August 23, 2012)



# WAH LEE INDUSTRIAL CORPORATION

## NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2012 AND 2011

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

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### 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 June 30, 2012 and 2011, the Corporation’s number of employees was about 480 on both dates.

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

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

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 (1) constrains the transferee from taking advantage of its right to pledge or exchange and (2) 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 differences between the proceeds and the carrying value of accounts receivable are recognized as nonoperating expenses and losses.

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 on 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 for 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 period 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 period.

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 period 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 period'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 discount is 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.

s. Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2011 have been

reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2012.

### 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\$22,334 thousand in net income and an increase of NT\$0.1 in after income tax basic earnings per share for the six months ended June 30, 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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Cash on hand	\$ 743	\$ 751
Checking accounts and demand deposits	326,411	336,000
Foreign-currency time deposits	236,210	-
Foreign-currency accounts	140,187	115,943
Cash equivalents - commercial papers maturing within three months	<u>149,588</u>	<u>-</u>
	<u>\$ 853,139</u>	<u>\$ 452,694</u>

As of June 30, 2012 and 2011, the deposits overseas were as follows:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Hong Kong (US\$1 thousand and RMB¥55,371 thousand as of June 30, 2012; US\$1 thousand and RMB¥2 thousand as of June 30, 2011)	\$ 261,609	\$ 39
China (RMB¥2,713 thousand and RMB¥3,226 thousand as of June 30, 2012 and 2011, respectively)	<u>12,816</u>	<u>14,318</u>
	<u>\$ 274,425</u>	<u>\$ 14,357</u>

## 5. FINANCIAL INSTRUMENT AT FVTPL

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
<u>Financial assets designated as at FVTPL</u>		
Convertible bonds	\$ 102,960	\$ 113,760
Less: Current portion	<u>10,260</u>	<u>10,890</u>
Noncurrent portion	<u>\$ 92,700</u>	<u>\$ 102,870</u>

On the financial assets designated as at FVTPL, the Corporation recognized net gain of NT\$1,555 thousand and net loss of NT\$3,540 thousand for the six months ended June 30, 2012 and 2011, respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Stock listed on the Taiwan Stock Exchange	\$ 67,781	\$ 38,454
Mutual funds	451,790	706,323
Overseas quoted stocks	<u>49,598</u>	<u>49,598</u>
	569,169	794,375
Valuation adjustments	<u>(22,827)</u>	<u>42,729</u>
	546,342	837,104
Less: Current portion	<u>468,576</u>	<u>735,192</u>
Noncurrent portion	<u>\$ 77,766</u>	<u>\$ 101,912</u>

## 7. ACCOUNTS RECEIVABLE, NET

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Accounts receivable - unrelated parties	\$ 5,151,548	\$ 5,108,980
Less: Allowance for doubtful accounts	2,802	934
Allowance for sales discounts	<u>13,680</u>	<u>36,830</u>
	<u>\$ 5,135,066</u>	<u>\$ 5,071,216</u>
Accounts receivable - related parties	\$ 783,750	\$ 873,704
Less: Allowance for doubtful accounts	<u>390</u>	<u>28</u>
	<u>\$ 783,360</u>	<u>\$ 873,676</u>



Movements of allowance for doubtful accounts were as follows:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Balance, beginning of period	\$ 1,916	\$ 19,269
Add (deduct): Provision (reversal of provision) for doubtful accounts	1,276	(17,597)
Deduct: Amounts written off	<u>-</u>	<u>710</u>
Balance, end of period	<u>\$ 3,192</u>	<u>\$ 962</u>

As of June 30, 2012, the Corporation had no factored accounts receivable.

As of June 30, 2011, the factored accounts receivable were as follows:

Counter-party	Subject	Receivable Sold at Period-end	Derecognized at Period-end	Advances Received at Period-end	Interest Rates on Advances Received (%)	Credit Line (Hundred Million)
<u>Six months ended June 30, 2011</u>						
Bank SinoPac	Largan Precision	\$ 126,799	\$ 126,799	\$ -	-	\$ 1.5

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

As of June 30, 2011, the factored accounts receivable were NT\$126,799 thousand. Under the contract, the bank paid the Corporation for the factored accounts receivable less related expenses. The Corporation does not bear the risk of uncollectible accounts.

## 8. INVENTORIES

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Merchandise	\$ 1,013,596	\$ 1,637,969
Merchandise in transit	<u>35,566</u>	<u>43,120</u>
	<u>\$ 1,049,162</u>	<u>\$ 1,681,089</u>

As of June 30, 2012 and 2011, the allowance for inventory devaluation was NT\$164,978 thousand and NT\$108,529 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the six months ended June 30, 2012 and 2011 was NT\$10,971,769 thousand and NT\$11,338,867 thousand, respectively, which included the following:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Reversal of loss on inventories	\$ (50,731)	\$ (21,545)
Gain on physical inventories	(108)	(413)
Loss on disposal of inventories	1,284	4,219
Others	<u>8,885</u>	<u>12</u>
	<u>\$ (40,670)</u>	<u>\$ (17,727)</u>

## 9. FINANCIAL ASSETS CARRIED AT COST

	June 30			
	2012		2011	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Yuen Technology Holding Limited (Wah Yuen)	\$ 60,104	0.75	\$ 71,604	1.24
Tetrahedron Technology Corp.	14,778	16.95	14,778	16.95
High Power Opto. Inc.	12,631	0.40	12,631	0.40
Asahi Kasei Wahlee Hi-Tech Corp.	11,468	19.38	11,468	19.38
Onano Industrial Corp.	<u>10,000</u>	6.27	<u>10,000</u>	6.27
	<u>\$ 108,981</u>		<u>\$ 120,481</u>	

The above equity investments, which had no quoted price in an active market and entail an unreasonably high cost to obtain verifiable fair values, were carried at cost.

The Corporation assessed the investment value of Wah Yuen and have objective evidence which indicated the financial assets were permanently impaired, and recognized an impairment loss for the six months ended June 30, 2012 and the year ended December 31, 2011 of NT\$6,000 thousand and NT\$5,500 thousand, respectively.

## 10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	June 30			
	2012		2011	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Based on audited financial statements				
Chang Wah Electromaterials Inc.	\$ 458,583	30.07	\$ 524,620	28.98
Wah Hong Industrial Corp.	<u>216,112</u>	24.44	<u>69,525</u>	16.98
	<u>674,695</u>		<u>594,145</u>	
Based on unaudited financial statements				
Wah Lee Holding Ltd.	1,839,752	100.00	1,589,874	100.00
Raycong Industrial (H.K.) Ltd.	1,357,181	53.69	1,193,823	53.69
Nagase Wahlee Plastics Corp.	609,667	40.00	578,355	40.00
Orc Technology Corp.	179,269	35.00	172,208	35.00
Wah Lee Japan Corp.	8,292	83.33	14,026	83.33
Wah Lee Korea	4,363	94.87	4,465	96.10
Investment in Chang Wah Electromaterials Inc.	445,100	30.07	479,602	28.98
Investment in Wah Hong Industrial Corp.	<u>809,879</u>	24.44	<u>472,906</u>	16.98
	<u>5,253,503</u>		<u>4,505,259</u>	
	<u>\$ 5,928,198</u>		<u>\$ 5,099,404</u>	

Fair values of listed equity-method investments calculated at their closing prices as of June 30, 2012 and 2011 were as follows:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Chang Wah Electromaterials Inc.	\$ 1,237,367	\$ 2,230,442
Wah Hong Industrial Corp.	<u>962,790</u>	<u>905,118</u>
	<u>\$ 2,200,157</u>	<u>\$ 3,135,560</u>

Movements of goodwill for the six months ended June 30, 2012 and 2011 were as follows:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Balance, beginning of period	\$ 129,260	\$ 43,865
Amount recognized on business acquisition	(890)	33,039
Translation adjustments	<u>(372)</u>	<u>(439)</u>
Balance, end of period	<u>\$ 127,998</u>	<u>\$ 76,465</u>

Investment income (loss) under equity method based on the audited and unaudited financial statements of investee companies for the six months ended June 30, 2012 and 2011 was as follows:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Based on audited financial statements		
Chang Wah Electromaterials Inc.	\$ 61,093	\$ 57,214
Wah Hong Industrial Corp.	<u>12,513</u>	<u>3,643</u>
	<u>73,606</u>	<u>60,857</u>
Based on unaudited financial statements		
Nagase Wahlee Plastics Corp.	37,072	44,791
Raycong Industrial (H.K.) Ltd.	62,784	100,153
Wah Lee Japan Corp.	(5,959)	(1,423)
Wah Lee Korea	(2,941)	(2,410)
Orc Technology Corp.	6,767	4,672
Wah Lee Holding Ltd.	90,373	102,016
Investment in Chang Wah Electromaterials Inc.	1,742	11,857
Investment in Wah Hong Industrial Corp.	<u>23,972</u>	<u>29,540</u>
	<u>213,810</u>	<u>289,196</u>
	<u>\$ 287,416</u>	<u>\$ 350,053</u>

The financial statements of Chang Wah Electromaterials Inc. (Chang Wah) and Wah Hong Industrial Corp.(Wah Hong) had been audited. The auditors of Chang Wah and Wah Hong issued qualified reports with respect to unaudited equity-method investees.

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

- a. 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\$4,928 thousand (KRW185,000 thousand) and NT\$5,041 thousand (KRW185,000 thousand) in March 2012 and June 2011, respectively; the percentage of ownership increased to 94.87%. The Corporation's cumulative investments in Wah Lee Korea Co., Ltd. amounted to NT\$15,003 thousand (KRW555,000 thousand) as of June 30, 2012.

- b. 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 and 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 June 30, 2012.
- c. 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., (70% shareholding) 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 June 30, 2012.

- d. In June 1990, the Corporation invested in Wah Hong Industrial Corp. (Wah Hong) which is engaged in the manufacture of LCD, BMC materials and finished goods and increased the investment by NT\$3,898 thousand and NT\$455,068 thousand in January 2012 and July to December 2011; the percentage of ownership increased to 24.44%. The Corporation's cumulative investments in Wah Hong amounted to NT\$732,288 thousand as of June 30, 2012.
- e. 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 for the six months ended June 30, 2012 and 2011, respectively.

## 11. PROPERTY, PLANT AND EQUIPMENT

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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
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 increment 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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Buildings	\$ 77,741	\$ 70,072
Machinery and equipment	365	358
Transportation equipment	53,926	51,364
Miscellaneous equipment	145,867	128,882
Leasehold improvements	<u>50,232</u>	<u>47,676</u>
	<u>\$ 328,131</u>	<u>\$ 298,352</u>

**12. RENTAL PROPERTIES**

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Land	\$ 18,966	\$ 18,966
Buildings	<u>15,229</u>	<u>15,229</u>
	34,195	34,195
Less: Accumulated depreciation	<u>3,920</u>	<u>3,621</u>
	<u>\$ 30,275</u>	<u>\$ 30,574</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 six months ended June 30, 2012 and 2011, the rental income amounted to NT\$3,349 thousand and NT\$4,369 thousand, respectively, and was recognized as nonoperating income and reduction of rental expense.

**13. SHORT-TERM LOANS**

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Letters of credit, interest rate at 1.13% and 0.85%-0.98% as of June 30, 2012 and 2011, respectively.	\$ 71,981	\$ 218,200
Loans for procurement of materials, interest rate at 1.43%-1.53% and 1.45% as of June 30, 2012 and 2011, respectively.	32,375	5,231
Foreign-currency loans, interest rate at 0.92%-1.29% and 0.76%-1.00% as of June 30, 2012 and 2011, respectively.	<u>1,521,938</u>	<u>1,945,603</u>
	<u>\$ 1,626,294</u>	<u>\$ 2,169,034</u>

**14. ACCRUED EXPENSES**

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Salary and bonus	\$ 158,383	\$ 208,617

(Continued)

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Bonus to employees, directors and supervisors - current period	\$ 81,027	\$ 129,972
Bonus to employees, directors and supervisors - prior period	167,112	261,495
Commission	29,692	21,223
Others	<u>32,782</u>	<u>41,913</u>
	<u>\$ 468,996</u>	<u>\$ 663,220</u> (Concluded)

## 15. LONG-TERM DEBT

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Syndicated bank loans (led by Hua Nan Bank)	\$ 1,440,000	\$ 900,000
Less: Syndicated loan fee	<u>4,200</u>	<u>5,400</u>
	<u>1,435,800</u>	<u>894,600</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 1.79% as of June 30, 2012 and 2011, respectively.	138,524	147,558
Less: Current portion	<u>9,034</u>	<u>9,034</u>
	<u>129,490</u>	<u>138,524</u>
	<u>\$ 1,565,290</u>	<u>\$ 1,033,124</u>

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 by NT\$360 million each for the first four installments and by NT\$960 million 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 June 30, 2012 and 2011, the interest rates were 1.6004% and 1.4905%, respectively.
- b. Pursuant to the 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 loan agreement, the Corporation should maintain the 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 the aforementioned financial ratios or other terms of the loan agreement, the syndicated banks have the

right to suspend or cancel all or portion of the credit line, declare the entire unpaid principal amount of the advances, all accrued and unpaid interest, fees 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 June 30, 2012, the Corporation had met the conditions of the loan agreement based on the semi-annual reviewed consolidated financial statements as of and for the six months ended June 30, 2012.

## **16. 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\$7,611 thousand and NT\$7,342 thousand for the six months ended June 30, 2012 and 2011, 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\$15,362 thousand and NT\$15,009 thousand for the six months ended June 30, 2012 and 2011, respectively.

## **17. STOCKHOLDERS' EQUITY**

### **Capital Surplus**

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

### **Appropriation of Earnings and Dividend Policy**

The Corporation's Articles of Incorporation provide that the annual net income, after offset of 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 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 deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

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 six months ended June 30, 2012 and 2011, the bonus to employees was NT\$73,872 thousand and NT\$119,106 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\$7,155 thousand and NT\$10,866 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 2011 and 2010 had been approved in the stockholders' meetings in June 2012 and June 2011, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share</b>	
	<b>For Year 2011</b>	<b>For Year 2010</b>	<b>For Year 2011</b>	<b>For Year 2010</b>
Legal reserve	\$ 95,223	\$ 140,964	\$ -	\$ -
Dividends on common stock				
Cash dividends	<u>532,197</u>	<u>809,865</u>	<u>2.3</u>	<u>3.5</u>
	<u>\$ 627,420</u>	<u>\$ 950,829</u>	<u>\$ 2.3</u>	<u>\$ 3.5</u>

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

	<b>Year Ended December 31</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Bonus to Employees</b>	<b>Remuneration to Directors and Supervisors</b>	<b>Bonus to Employees</b>	<b>Remuneration to Directors and Supervisors</b>
Amounts approved in board of directors' or shareholders' meetings	\$ 152,356	\$ 14,756	\$ 239,634	\$ 21,861
Amounts recognized in respective financial statements	<u>(152,356)</u>	<u>(14,756)</u>	<u>(239,634)</u>	<u>(21,861)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2012 and 2011, the unpaid cash dividends included in dividends payable amounted to NT\$532,197 thousand and NT\$809,865 thousand, respectively.



As of June 30, 2012 and 2011, the dividends payable included unpaid dividends carried over from the past years in the amount of NT\$1,649 thousand on both dates.

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

### Other Equity Items

#### a. Unrealized gain or loss on financial instruments

For the six months ended June 30, 2012 and 2011, movements of unrealized gain on financial instruments were as follows:

	<b>Available-for- sale Financial Assets</b>	<b>Equity-method Investments</b>	<b>Total</b>
<u>Six months ended June 30, 2012</u>			
Balance, beginning of period	\$ (29,151)	\$ (9,677)	\$ (38,828)
Recognized in stockholders' equity	10,328	17,409	27,737
Transferred to profit or loss	<u>(4,004)</u>	<u>-</u>	<u>(4,004)</u>
Balance, end of period	<u>\$ (22,827)</u>	<u>\$ 7,732</u>	<u>\$ (15,095)</u>
<u>Six months ended June 30, 2011</u>			
Balance, beginning of period	\$ 65,099	\$ 41,954	\$ 107,053
Recognized in stockholders' equity	418	(32,431)	(32,013)
Transferred to profit or loss	<u>(22,788)</u>	<u>-</u>	<u>(22,788)</u>
Balance, end of period	<u>\$ 42,729</u>	<u>\$ 9,523</u>	<u>\$ 52,252</u>

#### b. Unrealized revaluation increment may not be used for any purpose.

## 18. 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>Six Months Ended June 30</u>	
	<b>2012</b>	<b>2011</b>
Income tax expense at the statutory rate	\$ <u>97,373</u>	\$ <u>146,664</u>
Permanent differences:		
Domestic investment income under equity method	(24,337)	(25,792)
Gain on sale of investments	(681)	(3,874)
Others	<u>(358)</u>	<u>1,028</u>
	<u>(25,376)</u>	<u>(28,638)</u>
Temporary differences:		
Recovery of loss on inventories	(8,624)	(3,663)
Foreign investment income under equity method	(24,524)	(33,717)
Unrealized (realized) sales gross profit	(2,195)	2,272

(Continued)

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Unrealized sales discounts	\$ 856	\$ 4,079
Unrealized exchange losses (gains)	2,765	(1,499)
Bonuses unpaid (paid)	(176)	5,293
Unpaid pension	1,260	1,203
Others	<u>1,020</u>	<u>-</u>
	<u>(29,618)</u>	<u>(26,032)</u>
Income tax under the Income Tax Law	42,379	91,994
Additional 10% income tax on unappropriated earnings	32,481	45,881
Adjustments to prior years' tax	5,424	253
Others	<u>-</u>	<u>18</u>
Current income tax expense	<u>80,284</u>	<u>138,146</u>
Deferred income tax expense		
Temporary differences	<u>30,638</u>	<u>26,032</u>
	<u>\$ 110,922</u>	<u>\$ 164,178</u>

(Concluded)

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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Deferred income tax assets - current		
Unrealized allowance for loss on inventories	\$ 28,046	\$ 18,450
Allowance for sales discounts	2,326	6,261
Unpaid bonuses	22,428	30,916
Intercompany unrealized gains	5,203	10,770
Others	<u>133</u>	<u>2,618</u>
	58,136	69,015
Deferred income tax liabilities - current		
Unrealized exchange gains	<u>(2,804)</u>	<u>-</u>
Net deferred income tax assets - current	<u>55,332</u>	<u>69,015</u>
Deferred income tax assets - noncurrent		
Permanent decline in value of foreign long-term investments	29,524	27,569
Pension cost	14,948	12,504
Others	<u>192</u>	<u>194</u>
	44,664	40,267
Less: Valuation allowance	<u>(29,524)</u>	<u>(27,569)</u>
	15,140	12,698
Deferred income tax liabilities - noncurrent		
Foreign investment income under equity method	(388,864)	(347,592)
Cumulative translation adjustment of foreign investment under equity method	<u>(20,386)</u>	<u>-</u>
	(409,250)	(347,592)
Net deferred income tax liabilities - noncurrent	<u>(394,110)</u>	<u>(334,894)</u>
Total deferred income tax liabilities - net	<u>\$ (338,778)</u>	<u>\$ (265,879)</u>

c. The income tax returns through 2010 have been assessed by the tax authorities.

d. Information about integrated income tax was as follows:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 2,601,451</u>	<u>\$ 2,513,329</u>

As of June 30, 2012 and 2011, the balance of the imputation credits which can be allocated to the stockholders amounted to NT\$619,430 thousand and NT\$582,716 thousand, respectively.

The creditable ratio for distribution of earnings of 2011 and 2010 was 22.39% 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.

## 19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<b>Operating Expenses</b>	
	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Personnel		
Salary	\$ 343,978	\$ 412,488
Labor and health insurance	16,009	15,113
Pension	22,973	22,351
Others	<u>11,271</u>	<u>11,655</u>
	<u>\$ 394,231</u>	<u>\$ 461,607</u>
Depreciation	\$ 16,370	\$ 20,397
Amortization	21,934	16,943

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.

## 20. EARNINGS PER SHARE ("EPS")

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

a. Numerator - current net income

	<b>Six Months Ended June 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
Basic EPS (NT\$)				
Income for the period attributable to common stockholders	<u>\$ 572,781</u>	<u>\$ 461,859</u>	<u>\$ 862,727</u>	<u>\$ 698,549</u>

b. Denominator - shares in thousands

	<u>Six Months Ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Weighted average issued common stock	231,390	231,390
Add: Dilutive potential common stock - bonus to employees	<u>5,899</u>	<u>6,167</u>
	<u>237,289</u>	<u>237,557</u>

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.

## 21. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments:

Nonderivative Financial Instruments	<u>June 30</u>			
	<u>2012</u>		<u>2011</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Financial assets at fair value through profit or loss (current and noncurrent)	\$ 102,960	\$ 102,960	\$ 113,760	\$ 113,760
Available-for-sale financial assets	546,342	546,342	837,104	837,104
Financial assets carried at cost	108,981	-	120,481	-
Refundable deposits	60,896	60,896	70,419	70,419
<u>Financial liabilities</u>				
Long-term debt (including current portion)	1,574,324	1,574,324	1,042,158	1,042,158
Guarantee deposits	683	683	1,228	1,228

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, notes payable and accounts payable (including related parties), accrued expenses, dividends payable 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 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 approximate its fair value.
- c. Valuation gains (losses) from changes in fair value of financial instruments determined using valuation techniques were gain NT\$1,555 thousand and loss NT\$3,540 thousand for the six months ended June 30, 2012 and 2011, respectively.
- d. As of June 30, 2012 and 2011, financial assets exposed to cash flow interest rate risk amounted to NT\$703,128 thousand and NT\$450,378 thousand, respectively; financial liabilities exposed to cash flow interest rate risk amounted to NT\$1,887,809 thousand and NT\$1,550,948 thousand, respectively.
- e. As of June 30, 2012 and 2011, the interest income (expense) associated with financial assets (liabilities) other than those at fair value through profit or loss was as follows:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Total interest income	\$ 789	\$ 518
Total interest expense	22,708	18,217

f. 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 result in price variation of financial instruments up to NT\$6,493 thousand.

The Corporation's foreign-currency financial instruments (Note 27) 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\$8,008 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:

	June 30			
	2012		2011	
	Book Value	Maximum Credit Risk	Book Value	Maximum Credit Risk
Off-balance-sheet commitments and guarantees	\$ -	\$ 2,980,777	\$ -	\$ 2,366,217

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, 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 loans and part of short-term loan 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\$18,878 thousand a year.

## 22. SIGNIFICANT RELATED PARTY TRANSACTIONS

a. Related parties and their relationship with the Corporation

Related Parties	Relationship with the Corporation
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.	Wah Hong's subsidiary
Ningbo Chang Hong Optoelectronics Ltd.	Wah Hong's subsidiary
Xiamen Guang Hong Optronics Co., Ltd.	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.	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

(Continued)

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
Wah Lee Tech (Singapore) Pte., Ltd. (Wah Lee Tech (Singapore))	Subsidiary
Global SYK Holding Ltd.	Subsidiary
Shanghai Yikang Chemicals and Industries Co., Ltd. (Shanghai Yikang)	Subsidiary
Daily Polymer Corp. (Daily)	Chairman's relative
Raycon Industrial Co. (Raycon)	Chairman's relative
Hsin Hao Corp.	Vice chairman's relative
Asahi Kasei Wahlee Hi-Tech Corp. (Asahi Kasei Wahlee)	A director
Tetrahedron Technology Corp. (Tetrahedron Technology)	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 six months ended June 30, 2012 and 2011, purchases from related parties were NT\$506,142 thousand (5%) and NT\$711,999 thousand (6%), respectively, and individual transaction amount was less than 10% of the amount of purchases of the Corporation. Terms of purchases from related parties were similar to those with third parties.
- 2) For the six months ended June 30, 2012 and 2011, sales to related parties were NT\$1,541,077 thousand (13%) and NT\$2,037,390 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 30<sup>th</sup> - 120<sup>th</sup> 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>Six months ended June 30, 2012</u>				
Shanghai Yikang	\$ 383	1	\$ 14,136	43
Dong Guan Hua Gang	78	-	-	-
Raycong	21	-	1,535	5
Others	<u>184</u>	<u>-</u>	<u>1,078</u>	<u>3</u>
	<u>\$ 666</u>	<u>1</u>	<u>\$ 16,749</u>	<u>51</u>
<u>Six months ended June 30, 2011</u>				
Shanghai Yikang	\$ 1,259	1	\$ 14,150	49
Wah Hong	734	-	-	-
Raycon	7	-	1,473	5
Others	<u>41</u>	<u>-</u>	<u>947</u>	<u>3</u>
	<u>\$ 2,041</u>	<u>1</u>	<u>\$ 16,570</u>	<u>57</u>

- 4) The management services agreements, industry consulting and SAP-use contracts were signed by the Corporation and related parties and the contract will expire on 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 six months ended June 30, 2012 and 2011 recognized as nonoperating income was as follows:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Shanghai Yikang	\$ 23,430	\$ 22,282
Raycong	15,093	14,321
Wah Lee Tech (Singapore)	632	627
Wah Hong	927	1,288
Others	<u>114</u>	<u>42</u>
	<u>\$ 40,196</u>	<u>\$ 38,560</u>

- 5) The Corporation rented parts of buildings and computer software to related parties. The leases on the buildings will expire on April 2013, and the lease on computer software will expire on December 31, 2012. The rental income for the six months ended June 30, 2012 and 2011 recognized as nonoperating income and reduction of rental expense was as follows:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Wah Hong	\$ 1,070	\$ 826
Orc	1,020	1,020
Others	<u>24</u>	<u>12</u>
	<u>\$ 2,114</u>	<u>\$ 1,858</u>

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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Nagase Wahlee	\$ 500,000	\$ 500,000
Asahi Kasei Wahlee	19,380	9,690
Wah Lee Japan	-	14,292
		(JPY 40,000 thousand)
Raycong	322,704	310,230
	(US\$ 10,800 thousand)	(US\$ 10,800 thousand)
Shanghai Yikang	545,609	315,879
	(US\$ 18,260 thousand)	(US\$ 10,997 thousand)
Raycong/Shanghai Yikang/Dong Guan Hua Gang (Co-guarantees)	120,000	90,000
Shanghai Hua Chang	-	170,000
Shanghai Hua Chang	657,360	258,525
	(US\$ 22,000 thousand)	(US\$ 9,000 thousand)

(Continued)



	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Dong Guan Hua Gang	\$ 493,020 (US\$ 16,500 thousand)	\$ 373,425 (US\$ 13,000 thousand)
Dong Guan Hua Gang	-	24,000
Wah Lee Korea	11,952 (US\$ 400 thousand)	-
Wah Lee Tech (Singapore)	310,752 (US\$ 10,400 thousand)	300,176 (US\$ 10,450 thousand)
	<u>\$ 2,980,777</u>	<u>\$ 2,366,217</u> (Concluded)

The guarantee income from aforementioned related parties was NT\$3,616 thousand for the six months ended June 30, 2012.

- 7) Payments received by the Corporation on behalf of Raycong for goods sold amounted to NT\$730 thousand and NT\$6,585 thousand as of June 30, 2012 and 2011, respectively, and were recognized as other current liabilities.

Period-end balances

	<b>June 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Notes receivable - related parties				
Wah Hong	\$ 210	-	\$ 210	-
Nagase Wahlee	<u>387</u>	<u>-</u>	<u>58</u>	<u>-</u>
	<u>\$ 597</u>	<u>-</u>	<u>\$ 268</u>	<u>-</u>
Accounts receivable - related parties				
Shanghai Yikang	\$ 372,039	6	\$ 568,839	10
Raycong	259,774	4	205,003	3
Dong Guan Hua Gang	111,520	2	27,916	-
Wah Hong	24,346	1	19,551	-
Chang Wah	1,809	-	5,612	-
SIP Chang Hong	-	-	32,734	1
Others	<u>14,262</u>	<u>-</u>	<u>14,049</u>	<u>-</u>
	783,750	13	873,704	14
Less: Allowance for doubtful accounts	<u>390</u>	<u>-</u>	<u>28</u>	<u>-</u>
	<u>\$ 783,360</u>	<u>13</u>	<u>\$ 873,676</u>	<u>14</u>
Other receivable - related parties (include dividends)				
Shanghai Yikang	\$ 115,760	60	\$ 66,267	35
Raycong	44,379	23	14,326	8

(Continued)

	<b>June 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Dong Guan Hua Gang	\$ 2,642	1	\$ -	-
Wah Hong	1,197	1	920	-
Tetrahedron Technology	1,041	-	1,992	1
Others	<u>1,339</u>	<u>1</u>	<u>1,516</u>	<u>1</u>
	<u>\$ 166,358</u>	<u>86</u>	<u>\$ 85,021</u>	<u>45</u>
Notes payable - related parties				
Asahi Kasei Wahlee	\$ 180,586	29	\$ 211,473	28
Nagase Wahlee	<u>206</u>	<u>-</u>	<u>384</u>	<u>-</u>
	<u>\$ 180,792</u>	<u>29</u>	<u>\$ 211,857</u>	<u>28</u>
Accounts payable - related parties				
Asahi Kasei Wahlee	\$ 58,438	2	\$ 69,698	3
Wah Hong	55,611	2	63,648	3
Daily	30,264	1	29,304	1
Forcera Materials	12,808	-	5,656	-
Shanghai Yikang	3,355	-	3,321	-
Others	<u>1,231</u>	<u>-</u>	<u>2,146</u>	<u>-</u>
	<u>\$ 161,707</u>	<u>5</u>	<u>\$ 173,773</u>	<u>7</u>
Accrued expenses - related parties				
Shanghai Yikang	\$ 4,742	1	\$ 4,824	1
Raycon	1,023	-	1,148	-
Others	<u>1,169</u>	<u>-</u>	<u>1,668</u>	<u>-</u>
	<u>\$ 6,934</u>	<u>1</u>	<u>\$ 7,640</u>	<u>1</u>
Receipts under custody (included in other current liabilities)				
Raycong	<u>\$ 730</u>	<u>10</u>	<u>\$ 6,585</u>	<u>53</u>

(Concluded)

## 23. PLEDGED OR MORTGAGED ASSETS

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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Property, plant and equipment		
Land	\$ 232,817	\$ 232,817
Buildings	<u>180,358</u>	<u>187,654</u>
	<u>413,175</u>	<u>420,471</u>

(Continued)

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Rental assets		
Land	\$ 16,020	\$ 16,020
Buildings	<u>11,309</u>	<u>11,607</u>
	<u>27,329</u>	<u>27,627</u>
Restricted assets		
Pledged time deposits	<u>320</u>	<u>320</u>
	<u>\$ 440,824</u>	<u>\$ 448,418</u>
		(Concluded)

#### 24. COMMITMENTS AND CONTINGENCIES AS OF JUNE 30, 2012

a. Operating lease:

Lessor	Leased Asset	Lease Period and Rental Rate	Rental Payment for the Six Months Ended June 30, 2012
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>\$7,553</u>

As of June 30, 2012, future lease payments are as follows and the Corporation has paid guarantee deposits of NT\$3,500 thousand.

	<b>Amount</b>
2012	\$ 7,930
2013	15,860
2014	15,860
2015	<u>2,644</u>
	<u>\$ 42,294</u>

b. As of June 30, 2012, the Corporation has outstanding letters of credit aggregating US\$3,453 thousand, JPY\$41,400 thousand and NT\$82,829 thousand.

c. The Corporation offered guarantees for investee companies as stated in Note 22.

## 25. 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)

	June 30					
	2012			2011		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 146,451	29.88	\$ 4,375,959	\$ 129,165	28.725	\$ 3,710,263
JPY	657,916	0.3754	246,982	511,611	0.3573	182,799
RMB	90,203	4.7242	426,136	22,794	4.4655	101,786
Investments accounted for by the equity method						
USD	61,571	29.88	1,839,752	55,348	28.725	1,589,874
JPY	22,089	0.3754	8,292	39,254	0.3573	14,026
HKD	352,240	3.853	1,357,181	323,442	3.691	1,193,823
KRW	166,267	0.02624	4,363	164,769	0.0271	4,465
<u>Financial liabilities</u>						
Monetary items						
USD	132,018	29.88	3,944,693	127,702	28.725	3,668,226
JPY	808,801	0.3754	303,624	752,622	0.3573	268,912
RMB	1	4.7242	6	30	4.4655	132