

Wah Lee Industrial Corporation

**Financial Statements for the
Years Ended December 31, 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 December 31, 2012 and 2011, 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, 2012 and 2011 amounted to NT\$819,688 thousand and NT\$823,958 thousand, both representing 5% of the Corporation's total assets. The investment income recognized under equity method amounted to NT\$97,449 thousand and NT\$127,000 thousand representing 8% and 11% of the Corporation's income before income tax for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, 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, 2013

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, 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	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Notes 2 and 4)	\$ 981,280	6	\$ 726,739	5	Short-term loans (Notes 13 and 24)	\$ 1,733,418	11	\$ 1,374,670	9
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	-	-	10,055	-	Short-term bills payable (Note 14)	-	-	50,000	-
Available-for-sale financial assets (Notes 2 and 6)	162,914	1	348,591	2	Notes payable	327,099	2	585,112	4
Notes receivable (Notes 2, 3 and 23)	372,200	2	348,834	2	Notes payable - related parties (Note 23)	201,807	1	200,396	1
Accounts receivable, net (Notes 2, 3 and 7)	5,206,016	32	4,528,394	30	Accounts payable	3,150,817	19	2,348,706	16
Accounts receivable - related parties, net (Notes 2, 3, 7 and 23)	602,998	4	501,212	3	Accounts payable - related parties (Note 23)	211,942	1	156,746	1
Other receivables	17,927	-	26,331	-	Income tax payable	29,594	-	93,720	1
Other receivables - related parties (Note 23)	152,486	1	135,034	1	Accrued expenses (Notes 15 and 23)	375,251	2	420,135	3
Inventories (Notes 2 and 8)	1,132,744	7	1,280,214	9	Other payables	14,716	-	8,815	-
Prepayments and others	93,469	1	139,717	1	Current portion of long-term debt (Notes 16 and 24)	9,034	-	9,034	-
Deferred income tax assets (Notes 2 and 19)	47,352	-	62,705	-	Others (Note 23)	57,055	1	118,969	1
Total current assets	8,769,386	54	8,107,826	53	Total current liabilities	6,110,733	37	5,366,303	36
LONG-TERM INVESTMENTS (Notes 2, 5, 6, 9 and 10)					LONG-TERM DEBT (Notes 16 and 24)	1,561,373	10	1,569,207	10
Financial assets at fair value through profit or loss - noncurrent	93,285	1	91,350	1	RESERVE FOR LAND VALUE INCREMENT TAX (Note 11)	8,894	-	8,894	-
Available-for-sale financial assets	82,886	-	76,423	-	OTHER LIABILITIES				
Financial assets carried at cost	98,981	1	114,981	1	Accrued pension liabilities (Notes 2 and 17)	245,453	1	231,850	1
Investments accounted for by the equity method	6,408,281	39	5,764,629	38	Guarantee deposits received	684	-	1,453	-
Total long-term investments	6,683,433	41	6,047,383	40	Deferred income tax liabilities (Notes 2 and 19)	421,552	3	384,139	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 24)					Total other liabilities	667,689	4	617,442	4
Land	383,045	2	383,045	3	Total liabilities	8,348,689	51	7,561,846	50
Buildings	270,316	2	269,640	2	COMMON STOCK - \$10 par value; authorized - 300,000 thousand shares; issued-231,390 thousand shares	2,313,901	14	2,313,901	15
Machinery and equipment	365	-	365	-	CAPITAL SURPLUS (Note 18)				
Transportation equipment	64,295	1	65,070	-	Additional paid -in capital	1,160,519	7	1,160,519	8
Miscellaneous equipment	182,787	1	178,528	1	Donations	11,867	-	11,867	-
Leasehold improvements	53,102	-	53,102	-	Long-term investments	131,434	1	95,817	-
Total cost	953,910	6	949,750	6	Total capital surplus	1,303,820	8	1,268,203	8
Land revaluation increment	27,352	-	27,352	-	RETAINED EARNINGS (Note 18)				
Cost and revaluation increment	981,262	6	977,102	6	Legal reserve	1,250,139	8	1,154,916	8
Less: Accumulated depreciation	342,830	2	312,136	2	Unappropriated earnings	3,120,719	19	2,767,012	18
	638,432	4	664,966	4	Total retained earnings	4,370,858	27	3,921,928	26
Prepayments for equipment	9,062	-	239	-	OTHER EQUITY (Notes 2, 11, 17 and 18)				
Net property, plant and equipment	647,494	4	665,205	4	Cumulative translation adjustments	45,709	-	189,980	1
INTANGIBLE ASSETS					Net loss not recognized as pension cost	(66,882)	-	(60,452)	-
Deferred pension cost (Notes 2 and 17)	73,340	-	80,332	1	Unrealized gains (loss) on financial instruments	59,291	-	(38,828)	-
OTHER ASSETS					Unrealized revaluation increment	13,649	-	13,649	-
Rental assets (Notes 2, 12 and 24)	30,126	-	30,449	-	Total other equity	51,767	-	104,349	1
Refundable deposits (Note 25)	61,736	-	74,357	1	Total stockholders' equity	8,040,346	49	7,608,381	50
Deferred charges (Note 2)	123,200	1	164,355	1	TOTAL	\$ 16,389,035	100	\$ 15,170,227	100
Restricted assets - pledged time deposits (Note 24)	320	-	320	-					
Total other assets	215,382	1	269,481	2					
TOTAL	\$ 16,389,035	100	\$ 15,170,227	100					

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

(With Deloitte & Touche audit report dated March 21, 2013)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 23)				
Net sales	\$ 22,970,219	99	\$ 22,246,388	99
Commission revenue	149,431	1	215,115	1
Other operating revenue	<u>7,931</u>	-	<u>43,168</u>	-
Total operating revenue	<u>23,127,581</u>	<u>100</u>	<u>22,504,671</u>	<u>100</u>
OPERATING COSTS (Notes 8 and 23)				
Cost of goods sold	21,423,828	92	20,741,059	92
Other operating cost	<u>7,115</u>	-	<u>40,285</u>	-
Total operating costs	<u>21,430,943</u>	<u>92</u>	<u>20,781,344</u>	<u>92</u>
GROSS PROFIT	1,696,638	8	1,723,327	8
ADD : REALIZED INTERCOMPANY GAIN	<u>9,130</u>	-	<u>6,470</u>	-
REALIZED GROSS PROFIT	<u>1,705,768</u>	<u>8</u>	<u>1,729,797</u>	<u>8</u>
OPERATING EXPENSES (Notes 20 and 23)				
Selling	1,046,997	5	954,316	4
General and administrative	<u>268,178</u>	<u>1</u>	<u>279,592</u>	<u>2</u>
Total operating expenses	<u>1,315,175</u>	<u>6</u>	<u>1,233,908</u>	<u>6</u>
OPERATING INCOME	<u>390,593</u>	<u>2</u>	<u>495,889</u>	<u>2</u>
NONOPERATING INCOME AND GAINS				
Interest income	3,438	-	982	-
Investment income recognized under equity method (Note 10)	701,227	3	490,600	2
Gain on disposal of property, plant and equipment	160	-	363	-
Gain on sale of investments (Notes 10 and 18)	4,101	-	34,035	-
Exchange gains, net	122	-	51,996	-
Gain on reversal of bad debts (Note 7)	-	-	16,642	-
Valuation gain on financial assets, net (Notes 2 and 5)	2,182	-	-	-
Others (Notes 12 and 23)	<u>110,876</u>	-	<u>141,480</u>	<u>1</u>
Total nonoperating income and gains	<u>822,106</u>	<u>3</u>	<u>736,098</u>	<u>3</u>

(Continued)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest expense	\$ 45,859	-	\$ 41,885	-
Impairment loss (Notes 2 and 9)	16,000	-	5,500	-
Valuation loss on financial assets, net (Notes 2 and 5)	-	-	15,895	-
Others	1,352	-	1,797	-
Total nonoperating expenses and losses	63,211	-	65,077	-
INCOME BEFORE INCOME TAX	1,149,488	5	1,166,910	5
INCOME TAX (Notes 2 and 19)	168,361	1	214,678	1
NET INCOME	\$ 981,127	4	\$ 952,232	4
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 21)				
Basic	\$ 4.97	\$ 4.24	\$ 5.04	\$ 4.12
Diluted	4.84	4.13	4.90	4.00

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

(With Deloitte & Touche audit report dated March 21, 2013)

(Concluded)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	Other Items								
	Common Stock	Capital Surplus	Retained Earnings		Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instruments	Unrealized Asset Revaluation Increment	Total Stockholders' Equity
			Legal Reserve	Unappropriated					
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
Appropriations of 2010 earnings									
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	2,313,901	1,268,203	1,154,916	2,767,012	189,980	(60,452)	(38,828)	13,649	7,608,381
Appropriations of 2011 earnings									
Legal reserve	-	-	95,223	(95,223)	-	-	-	-	-
Dividends on common stock									
Cash - 23%	-	-	-	(532,197)	-	-	-	-	(532,197)
Adjustment from changes in percentage of ownership in investees (Note 18)	-	35,617	-	-	-	(631)	65,672	-	100,658
Change in translation adjustments	-	-	-	-	(144,271)	-	-	-	(144,271)
Change in net loss not recognized as pension cost	-	-	-	-	-	(5,799)	-	-	(5,799)
Change in unrealized gains on available-for-sale financial assets (Note 18)	-	-	-	-	-	-	32,447	-	32,447
Net income for the year ended December 31, 2012	-	-	-	981,127	-	-	-	-	981,127
BALANCE, DECEMBER 31, 2012	\$ 2,313,901	\$ 1,303,820	\$ 1,250,139	\$ 3,120,719	\$ 45,709	\$ (66,882)	\$ 59,291	\$ 13,649	\$ 8,040,346

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

(With Deloitte & Touche audit report dated March 21, 2013)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH, END OF YEAR		
NET INCREASE IN CASH		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 981,127	\$ 952,232
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	32,148	37,855
Amortization	44,679	37,313
Provision (reversal of provision) for doubtful accounts	5,541	(16,642)
Pension	14,796	14,036
Provision for loss on inventories	37,692	95,356
Loss (gain) on physical inventory	272	(340)
Investment income recognized under equity method	(701,227)	(490,600)
Cash dividends received from equity-method investees	152,140	280,623
Gain on disposal of property, plant and equipment	(160)	(361)
Gain on sale of investments	(4,101)	(34,035)
Valuation loss (gain) on financial assets	(2,182)	15,895
Impairment loss on financial asset	16,000	5,500
Realized intercompany gain	(9,130)	(6,470)
Deferred income tax expense	73,502	47,907
Others	1,200	2,950
Changes in operating assets and liabilities:		
Notes receivable	(23,443)	17,938
Notes receivable - related parties	77	176
Accounts receivable	(683,163)	(310,317)
Accounts receivable - related parties	(101,786)	231,222
Other receivables	8,404	(4,038)
Other receivables - related parties	(17,452)	(85,901)
Inventories	109,506	45,278
Prepayments and other current assets	46,248	59,685
Notes payable	(258,013)	118,931
Notes payable - related parties	1,411	1,189
Accounts payable	802,111	(130,894)
Accounts payable - related parties	55,196	(36,952)
Income tax payable	(64,126)	(26,302)
Accrued expenses	(44,884)	(77,859)
Other payables	5,651	6,735
Other current liabilities	(52,784)	34,418
	<u>425,250</u>	<u>784,528</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through profit or loss	10,302	-
Acquisition of available-for-sale financial assets	(165,575)	(682,900)
Proceeds from disposal of available-for-sale financial assets	372,823	777,351

(Continued)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
Acquisition of investments accounted for by equity method	\$ (169,510)	\$ (571,551)
Proceeds from disposal of investments accounted for by equity method	19,110	-
Acquisitions of property, plant and equipment	(13,864)	(13,742)
Proceeds from disposal of property, plant, and equipment	160	363
Decrease (increase) in refundable deposits	12,621	(13,449)
Increase in deferred charges	(3,524)	(77,986)
Net cash provided by (used in) investing activities	<u>62,543</u>	<u>(581,914)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	358,748	64,790
Increase (decrease) in short-term bills payable	(50,000)	50,000
Increase in long-term debt	-	1,434,000
Repayment of long-term debt	(9,034)	(909,035)
Increase (decrease) in guarantee deposits received	(769)	80
Cash dividends	(532,197)	(809,865)
Net cash used in financing activities	<u>(233,252)</u>	<u>(170,030)</u>
	254,541	32,584
CASH, BEGINNING OF YEAR	<u>726,739</u>	<u>694,155</u>
	<u>\$ 981,280</u>	<u>\$ 726,739</u>
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	\$ 44,965	\$ 37,167
Income tax paid	158,985	193,073
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term debt	\$ 9,034	\$ 903
Rental assets transferred to property, plant and equipment	-	4,508
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisitions of property, plant and equipment	\$ 14,114	\$ 13,652
Decrease (increase) in payable for equipment purchased	(250)	90
Cash paid	<u>\$ 13,864</u>	<u>\$ 13,742</u>

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

(With Deloitte & Touche audit report dated March 21, 2013)

(Concluded)

WAH LEE INDUSTRIAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(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, 2012 and 2011, the Corporation’s number of employees was 467 and 477, 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. 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.

e. 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 on equity instrument classified as available-for-sale is

recognized directly in equity.

f. Financial Assets Carried at Cost

Investments in equity instruments with no quoted price in an active market and without fair value that can 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.

g. Impairment of Accounts Receivable

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 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.

h. 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 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.

i. 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.

j. 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 non-equity method financial assets, 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 before the new issue, 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.

k. 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 new 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.

l. 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.

m. Deferred Charges

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

n. 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.

o. 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.

p. 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.

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

	December 31	
	2012	2011
Cash on hand	\$ 855	\$ 719
Checking accounts	865	2,277
Demand deposits	279,170	468,790
Foreign-currency time deposit	139,950	-
Foreign-currency demand deposit	<u>560,440</u>	<u>254,953</u>
	<u>\$ 981,280</u>	<u>\$ 726,739</u>

As of December 31, 2012 and 2011, the deposits overseas were as follows:

	<u>December 31</u>	
	2012	2011
Hong Kong (US\$3 thousand and RMB¥54,532 thousand as of December 31, 2012; US\$1 thousand and RMB¥3,273 thousand as of December 31, 2011)	\$ 254,486	\$ 15,756
China (RMB¥5,067 thousand and RMB¥22,668 thousand as of December 31, 2012 and 2011, respectively)	<u>23,640</u>	<u>108,916</u>
	<u>\$ 278,126</u>	<u>\$ 124,672</u>

5. FINANCIAL INSTRUMENTS AT FVTPL

	<u>December 31</u>	
	2012	2011
<u>Financial assets designated as at FVTPL</u>		
Convertible bonds	\$ 93,285	\$ 101,405
Less: Current portion	<u>-</u>	<u>10,055</u>
Noncurrent portion	<u>\$ 93,285</u>	<u>\$ 91,350</u>

On the financial assets designated as at FVTPL, the Corporation recognized net gain of NT\$2,182 thousand and net loss of NT\$15,895 thousand for the years ended December 31, 2012 and 2011, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2012	2011
Stock listed on the Taiwan Stock Exchange	\$ 67,681	\$ 67,825
Mutual funds	125,224	336,741
Overseas quoted stocks	<u>49,599</u>	<u>49,599</u>
	242,504	454,165
Valuation adjustments	<u>3,296</u>	<u>(29,151)</u>
	245,800	425,014
Less: Current portion	<u>162,914</u>	<u>348,591</u>
Noncurrent portion	<u>\$ 82,886</u>	<u>\$ 76,423</u>

7. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2012	2011
Accounts receivable - unrelated parties	\$ 5,229,262	\$ 4,538,633
Less: Allowance for doubtful accounts	5,395	1,594
		(Continued)

	December 31	
	2012	2011
Allowance for sales discounts	\$ 17,851	\$ 8,645
	<u>\$ 5,206,016</u>	<u>\$ 4,528,394</u>
Accounts receivable - related parties	\$ 603,337	\$ 501,534
Less: Allowance for doubtful accounts	<u>339</u>	<u>322</u>
	<u>\$ 602,998</u>	<u>\$ 501,212</u>
		(Concluded)

Movements of allowance for doubtful accounts were as follows:

	Year Ended December 31	
	2012	2011
Balance, beginning of year	\$ 1,916	\$ 19,269
Provision (reversal of provision) for doubtful accounts	5,541	(16,642)
Amounts written off	<u>(1,723)</u>	<u>(711)</u>
Balance, end of year	<u>\$ 5,734</u>	<u>\$ 1,916</u>

8. INVENTORIES

	December 31	
	2012	2011
Merchandise	\$ 1,103,742	\$ 1,275,924
Merchandise in transit	<u>29,002</u>	<u>4,290</u>
	<u>\$ 1,132,744</u>	<u>\$ 1,280,214</u>

As of December 31, 2012 and 2011, the allowance for inventory devaluation was NT\$124,433 thousand and NT\$215,708 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2012 and 2011 was NT\$21,423,828 thousand and NT\$20,741,059 thousand, respectively, which included the following:

	Year Ended December 31	
	2012	2011
Provision for loss on inventories	\$ -	\$ 85,634
Loss (gain) on physical inventories	272	(340)
Loss on disposal of inventories	17,868	9,710
Others	<u>19,824</u>	<u>12</u>
	<u>\$ 37,964</u>	<u>\$ 95,016</u>

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2012		2011	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Yuen Technology Holding Limited (Wah Yuen)	\$ 60,104	0.75	\$ 66,104	0.75
Tetrahedron Technology Corp.	14,778	16.94	14,778	16.95
High Power Opto. Inc. (High Power)	2,631	0.36	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>	5.94	<u>10,000</u>	6.27
	<u>\$ 98,981</u>		<u>\$ 114,981</u>	

The above equity investments, which had no quoted prices in an active market and had no fair values that could be reliably measured, were carried at cost.

The Corporation assessed the investments in Wah Yuen and High Power for impairment, and recognized an impairment loss of NT\$16,000 thousand and \$5,500 thousand for the years ended December 31, 2012 and 2011, respectively, because of objective evidence which indicated the financial assets were permanently impaired.

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Lee Holding Ltd.	\$ 1,909,281	100.00	\$ 1,775,844	100.00
Raycong Industrial (H.K.) Ltd.	1,435,100	53.69	1,313,676	53.69
Chang Wah Electromaterials Inc.	1,162,882	28.04	835,791	30.07
Nagase Wahlee Plastics Corp.	646,991	40.00	659,773	40.00
Wah Hong Industrial Corp.	990,074	24.44	989,787	24.32
Orc Technology Corp.	177,529	35.00	172,503	35.00
Wah Lee Japan Corp.	7,380	83.33	14,893	83.33
Wah Lee Korea Co., Ltd.	7,295	94.87	2,362	96.10
Skypower Ltd.	<u>71,749</u>	69.77	<u>-</u>	-
	<u>\$ 6,408,281</u>		<u>\$ 5,764,629</u>	

Fair values of listed equity-method investments calculated at their closing prices as of December 31, 2012 and 2011 were as follows:

	December 31	
	2012	2011
Chang Wah Electromaterials Inc.	\$ 1,861,863	\$ 1,108,711
Wah Hong Industrial Corp.	<u>895,280</u>	<u>785,428</u>
	<u>\$ 2,757,143</u>	<u>\$ 1,894,139</u>

Movements of goodwill for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31	
	2012	2011
Balance, beginning of year	\$ 129,260	\$ 43,865
Amount recognized on business acquisition	(462)	84,211
Translation adjustments	<u>(1,224)</u>	<u>1,184</u>
Balance, end of year	<u>\$ 127,574</u>	<u>\$ 129,260</u>

Investment income (loss) under equity method based on the audited financial statements of investee companies for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31	
	2012	2011
Wah Lee Holding Ltd.	\$ 202,863	\$ 170,443
Raycong Industrial (H.K.) Ltd.	164,115	132,752
Chang Wah Electromaterials Inc.	184,926	5,364
Nagase Wahlee Plastics Corp.	78,200	99,962
Wah Hong Industrial Corp.	71,531	80,243
Orc Technology Corp.	9,729	8,182
Wah Lee Japan Corp.	(6,017)	(1,896)
Wah Lee Korea Co., Ltd.	(4,043)	(4,450)
Skypower Ltd.	<u>(77)</u>	<u>-</u>
	<u>\$ 701,227</u>	<u>\$ 490,600</u>

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

- a. 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 efficiency and improve investment 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, 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 to August 2011; the percentage of ownership increased to 30.07%. In November 2012, Chang Wah Electromaterials Inc. conducted equity offering to raise NT\$600,000 thousand and the Corporation subscribed NT\$80,000 thousand of that amount. Besides, in October and December 2012, the Corporation reduced the investment by selling shares in the amount of NT\$10,596 thousand, and recognized gain on disposal of investments in the amount of NT\$8,514 thousand. The percentage

of ownership decreased to 28.04%. The Corporation's cumulative investments in Chang Wah Electromaterials Inc. amounted to NT\$392,820 thousand as of December 31, 2012.

- c. 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\$3,898 thousand and NT\$455,068 thousand for the years ended December 31, 2012 and 2011, respectively; the percentage of ownership increased to 24.44%. The Corporation's cumulative investments in Wah Hong Industrial Corp. amounted to NT\$732,288 thousand as of December 31, 2012.
- d. 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; Wah Lee Korea Co., Ltd. conducted equity offering to raise KRW350,000 thousand and KRW185,000 thousand for the years ended December 31, 2012 and 2011, respectively. The Corporation subscribed for new shares in the amount of NT\$8,768 thousand (KRW327,305 thousand) and NT\$5,041 thousand (KRW185,000 thousand) at a percentage different from the original holding percentage; thus, the percentage of ownership decreased to 94.87%. The Corporation's cumulative investments in Wah Lee Korea Co., Ltd. amounted to NT\$18,843 thousand (KRW697,305 thousand) as of December 31, 2012.
- e. In August 2012, the Corporation invested NT\$1,329 thousand (JPY 3,500 thousand, 70% shareholding) in Skypower Ltd. which is mainly engaged in the trade of solar energy materials and equipment. In November 2012, Skypower Ltd. conducted equity offering to raise JPY¥301,000 thousand and the Corporation subscribed NT\$75,515 thousand (JPY210,000 thousand) of that amount. The percentage of ownership decreased to 69.77%. The Corporation's cumulative investments in Skypower Ltd. amounted to NT\$76,844 thousand as of December 31, 2012.
- 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., Wah Lee Korea Co., Ltd. and Skypower Ltd. for the years ended December 31, 2012 and 2011, respectively.

11. PROPERTY, PLANT AND EQUIPMENT

- a. In December 2011 and September 1997, the Corporation revalued its land. The information on the revaluation was the same as of December 31, 2012 and 2011 as follows:

	Amount
Revaluation increment	\$ 27,352
Less: Reserve for land value increment tax	<u>8,894</u>
Net increment accounted for as unrealized revaluation increment	18,458
Less: Unrealized revaluation increment transferred to capital	<u>4,809</u>
Unrealized revaluation increment reported in stockholders' equity	<u>\$ 13,649</u>

The Corporation revalued its land in December 2011, which resulted in total revaluation increment of NT\$15,323 thousand. The net revaluation increment 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>	
	2012	2011
Buildings	\$ 81,557	\$ 73,931
Machinery and equipment	365	365
Transportation equipment	55,639	51,216
Miscellaneous equipment	153,835	137,653
Leasehold improvements	<u>51,434</u>	<u>48,971</u>
	<u>\$ 342,830</u>	<u>\$ 312,136</u>

12. RENTAL ASSETS

	<u>December 31</u>	
	2012	2011
Land	\$ 18,966	\$ 18,966
Buildings	<u>15,229</u>	<u>15,229</u>
	34,195	34,195
Less: Accumulated depreciation	<u>4,069</u>	<u>3,746</u>
	<u>\$ 30,126</u>	<u>\$ 30,449</u>

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

For the years ended December 31, 2012 and 2011, the rental income amounted to NT\$6,697 thousand and NT\$6,728 thousand, respectively, and was recognized as nonoperating income.

13. SHORT-TERM LOANS

	<u>December 31</u>	
	2012	2011
Loans for procurement of materials; interest rates at 1.53% and 1.45% as of December 31, 2012 and 2011, respectively	\$ 21,941	\$ 14,263
Foreign-currency loans; interest rates at 0.76%-1.15% and 0.87%-1.83% as of December 31, 2012 and 2011, respectively	<u>1,711,477</u>	<u>1,360,407</u>
	<u>\$ 1,733,418</u>	<u>\$ 1,374,670</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>	
	<u>2012</u>	<u>2011</u>
Salary and bonus	\$ 124,879	\$ 159,129
Bonus to employees, directors and supervisors	172,195	167,112
Commission	38,046	23,826
Deferred charges	150	27,851
Others	<u>39,981</u>	<u>42,217</u>
	<u>\$ 375,251</u>	<u>\$ 420,135</u>

16. LONG-TERM DEBT

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Syndicated bank loans (led by Hua Nan Bank)	\$ 1,440,000	\$ 1,440,000
Less: Syndicated loan fee	<u>3,600</u>	<u>4,800</u>
	<u>1,436,400</u>	<u>1,435,200</u>
 Hua Nan Bank		
Mortgage loan repayable in 214 installments from December 2009 to October 2027, NT\$753 thousand per installment, interest rate at 1.87% and 1.67% as of December 31, 2012 and 2011, respectively	134,007	143,041
Less: Current portion	<u>9,034</u>	<u>9,034</u>
	<u>124,973</u>	<u>134,007</u>
	<u>\$ 1,561,373</u>	<u>\$ 1,569,207</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 are 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. Beginning on the third year, the maximum credit line will be reduced every six months; each of the first four six-month periods will be reduced by NT\$360 million and the fifth six-month period will be reduced by NT\$960 million. Under the borrowing limit, the Corporation could use the 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 three business days from original loan's maturity date subject to no occurrence of default. As of December 31, 2012 and 2011, the interest rates were 1.6237% and 1.5328%, 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 December 31, 2012 and 2011, 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, 2012 and 2011.

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\$15,443 thousand and NT\$14,848 thousand for the years ended December 31, 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\$30,724 thousand and NT\$30,017 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about the defined benefit plan was as follows:

- a. Components of net periodic pension cost

	Year Ended December 31	
	2012	2011
Service cost	\$ 12,591	\$ 12,588
Interest cost	9,472	9,720
Projected return on plan assets	(3,281)	(3,105)
Amortization of net transition obligation	1,755	1,755
Amortization of prior service cost	5,236	5,236
Amortization of pension loss	<u>4,951</u>	<u>3,823</u>
	<u>\$ 30,724</u>	<u>\$ 30,017</u>

- b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2012 and 2011.

	December 31	
	2012	2011
Benefit obligation		
Vested	\$ 150,705	\$ 141,372
Nonvested	<u>256,479</u>	<u>250,508</u>
Accumulated	407,184	391,880

(Continued)

	December 31	
	2012	2011
Additional benefit based on future salaries	\$ 91,100	\$ 90,587
Projected	498,284	482,467
Fair value of plan assets	<u>(161,732)</u>	<u>(160,030)</u>
Funded status	336,552	322,437
Unamortized prior service cost	(68,075)	(73,312)
Unrecognized net transition obligation	(5,265)	(7,020)
Unamortized net loss	(153,569)	(147,258)
Deferred pension cost	73,340	80,332
Net loss not recognized as pension cost	<u>62,470</u>	<u>56,671</u>
Accrued pension cost	<u>\$ 245,453</u>	<u>\$ 231,850</u>
Vested benefit	<u>\$ 165,868</u>	<u>\$ 159,982</u>
		(Concluded)

c. Actuarial assumptions

	December 31	
	2012	2011
Discount rate used in determining present values	1.75%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	1.75%	2.00%

	Year Ended December 31	
	2012	2011
d. Contributions to the fund	\$ 15,928	\$ 15,980
e. Payments from the fund	15,829	12,872

18. STOCKHOLDERS' EQUITY

Capital Surplus

Under the Company Law, capital surplus from premium on issued stock may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital, but limited to a certain percentage of the Corporation's paid-in capital and once a year. The capital surplus from donations should only be used to offset a deficit. Capital surplus from long-term investments 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, 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% as bonus to directors and supervisors, and not less than 1% as 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 years ended December 31, 2012 and 2011, the bonus to employees was NT\$156,990 thousand and NT\$152,356 thousand, respectively, and the remuneration to directors and supervisors was NT\$15,205 thousand and NT\$14,756 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represent 16% and 1.55%, respectively, of net income (net of the bonus and remuneration). 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 on 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:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share</u>	
	<u>For Year 2011</u>	<u>For Year 2010</u>	<u>For Year 2011</u>	<u>For Year 2010</u>
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:

	Year Ended December 31			
	2011		2010	
	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	\$ 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>

The appropriations of earnings for 2012 had been proposed in the board of directors' meeting on March 21, 2013. The proposed appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 98,113	\$ -
Cash dividends	578,475	2.5

The appropriations of the 2012 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 3, 2013.

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 years ended December 31, 2012 and 2011, movements of unrealized gain or loss on financial instruments were as follows:

	Available-for- sale Financial Assets	Equity-method Investments	Total
<u>Year ended December 31, 2012</u>			
Balance, beginning of year	\$ (29,151)	\$ (9,677)	\$ (38,828)
Recognized in stockholders' equity	28,034	65,672	93,706
Transferred to profit or loss	<u>4,413</u>	<u>-</u>	<u>4,413</u>
Balance, end of year	<u>\$ 3,296</u>	<u>\$ 55,995</u>	<u>\$ 59,291</u>
<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>

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

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:

	Year Ended December 31	
	2012	2011
Income tax expense at the statutory rate	<u>\$ 195,413</u>	<u>\$ 198,375</u>
Permanent differences:		
Domestic investment income under equity method	(58,546)	(32,938)
Realized bad debt loss	(6,355)	-
Impairment loss	1,700	-
Gain on disposal of domestic investments	(697)	(5,786)
Others	<u>(2,079)</u>	<u>609</u>
	<u>(65,977)</u>	<u>(38,115)</u>
Temporary differences:		
Provision for loss (reversal gains) on inventories	(15,517)	14,558
Foreign investment income under equity method	(60,663)	(50,464)
Realized sales gross profit	(1,552)	(1,100)
Unrealized (realized) sale allowance	1,565	(712)
Unrealized exchange losses (gains)	5,807	(9,554)
Bonuses paid	(5,790)	(3,019)
Unpaid pension	2,515	2,386
Others	<u>1,153</u>	<u>933</u>
	<u>(72,482)</u>	<u>(46,972)</u>
Income tax under the Income Tax Law	56,954	113,288
Additional 10% income tax on unappropriated earnings	32,481	45,881
Others	<u>-</u>	<u>18</u>
Current income tax expense	<u>89,435</u>	<u>159,187</u>
Deferred income tax expense		
Temporary differences	72,482	46,972
Adjustments to valuation allowance	<u>1,020</u>	<u>935</u>
	<u>73,502</u>	<u>47,907</u>
Adjustments to prior years' tax	<u>5,424</u>	<u>7,584</u>
	<u>\$ 168,361</u>	<u>\$ 214,678</u>

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

	December 31	
	2012	2011
Deferred income tax assets - current		
Unrealized allowance for loss on inventories	\$ 21,153	\$ 36,670
Allowance for sales discounts	3,035	1,470
Unpaid bonuses	16,814	22,604
Intercompany unrealized gains	5,846	7,398
Others	<u>504</u>	<u>132</u>
	<u>47,352</u>	<u>68,274</u>

(Continued)

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Deferred income tax liabilities - current		
Unrealized exchange gains	\$ <u>-</u>	\$ <u>(5,569)</u>
Net deferred income tax assets - current	<u>47,352</u>	<u>62,705</u>
Deferred income tax assets - noncurrent		
Unrealized permanent impairment of foreign long-term investments	29,524	28,504
Pension cost	16,203	13,688
Others	<u>192</u>	<u>193</u>
	45,919	42,385
Less: Valuation allowance	<u>(29,524)</u>	<u>(28,504)</u>
	<u>16,395</u>	<u>13,881</u>
Deferred income tax liabilities - noncurrent		
Foreign investment income under equity-method	(425,003)	(364,340)
Cumulative translation adjustment of foreign investment under equity-method	<u>(12,944)</u>	<u>(33,680)</u>
	<u>(437,947)</u>	<u>(398,020)</u>
Net deferred income tax liabilities - noncurrent	<u>(421,552)</u>	<u>(384,139)</u>
Total deferred income tax liabilities, net	<u>\$ (347,200)</u>	<u>\$ (321,434)</u> (Concluded)

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

d. Information about integrated income tax was as follows:

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 3,120,719</u>	<u>\$ 2,767,012</u>

As of December 31, 2012 and 2011, the balance of the imputation credits which can be allocated to the stockholders amounted to NT\$562,945 thousand and NT\$507,763 thousand, respectively.

The creditable ratio for distribution of earnings of 2012 and 2011 was 18.99% (estimate) and 22.39%, 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 2012 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>2012</u>	<u>2011</u>
Personnel		
Salary	\$ 711,547	\$ 646,821

(Continued)

	Operating Expenses	
	Year Ended December 31	
	2012	2011
Labor and health insurance	\$ 32,141	\$ 30,621
Pension	46,167	44,865
Others	<u>22,341</u>	<u>22,679</u>
	<u>\$ 812,196</u>	<u>\$ 744,986</u>
Depreciation	\$ 31,849	\$ 37,582
Amortization	44,679	37,313
		(Concluded)

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

	Year Ended December 31			
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS (NT\$)				
Income for the year attributable to common stockholders	<u>\$ 1,149,488</u>	<u>\$ 981,127</u>	<u>\$ 1,166,910</u>	<u>\$ 952,232</u>

- b. Denominator - shares in thousands

	Year Ended December 31	
	2012	2011
Weighted average issued common stock	231,930	231,390
Add: Dilutive potential common stock - bonus to employees	<u>6,047</u>	<u>6,575</u>
	<u>237,437</u>	<u>237,965</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.

22. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments:

Nonderivative Financial Instruments	December 31			
	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Financial assets at fair value				
through profit or loss	\$ 93,285	\$ 93,285	\$ 101,405	\$ 101,405
Available-for-sale financial assets	245,800	245,800	425,014	425,014
Financial assets carried at cost	98,981	-	114,981	-
Refundable deposits	61,736	61,736	74,357	74,357
<u>Financial liabilities</u>				
Long-term debt (including current portion)	1,570,407	1,570,407	1,578,241	1,578,241
Guarantee deposits	684	684	1,453	1,453

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

- 1) Cash, 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, 2012 and 2011, financial assets exposed to cash flow interest rate risk amounted to NT\$839,930 thousand and NT\$724,063 thousand, respectively; financial liabilities exposed to cash flow interest rate risk amounted to NT\$2,058,334 thousand and NT\$1,894,068 thousand, respectively.
- d. As of December 31, 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:

	Year Ended December 31	
	2012	2011
Total interest income	\$ 3,438	\$ 982
Total interest expense	45,859	41,885

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 would have resulted in price variation of financial instruments at December 31,2012 up to NT\$3,391 thousand.

The Corporation's foreign-currency financial instruments (Note 26) are affected by changes in exchange rates. A 1% decrease in foreign exchange rate would have decreased the Corporation's net assets at December 31,2012 by NT\$8,625 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			
	2012		2011	
	Book Value	Maximum Credit Risk	Book Value	Maximum Credit Risk
Off-balance-sheet commitments and guarantees	\$ -	\$ 3,171,284	\$ -	\$ 2,710,188

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 result in changes in effective rate and affect future cash flows. A 1% increase in market interest rates would have increased the Corporation's cash outflow at December 31,2012 by NT\$20,583 thousand.

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.	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. (Ningbo Chang Hong)	Wah Hong's subsidiary
Xiamen Guang Hong Optronics Co., Ltd. (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 (Singapore))	Subsidiary
Global SYK Holding Ltd.	Subsidiary
Shanghai Yikang Chemicals and Industries Co., Ltd. (Shanghai Yikang)	Subsidiary
Skypower Ltd. (Skypower)	Subsidiary
Daily Polymer Corp. (Daily)	Chairman's relative
Raycon Industrial Inc. (Raycon)	Chairman's relative
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

b. Significant transactions with related parties:

- 1) For the years ended December 31, 2012 and 2011, purchases from related parties were NT\$1,069,833 thousand (5%) and NT\$1,260,722 thousand (6%), respectively, and individual transaction amount was less than 10% of the amount of purchases of the Corporation.

The prices of purchases from Shanghai Yikang and Raycong were similar to those from third parties, and purchases from other related parties were made under arm's length terms and did not have similar transactions in the market for comparison.

- 2) For the years ended December 31, 2012 and 2011, sales to related parties were NT\$3,101,667 thousand (14%) and NT\$3,428,639 thousand (15%), 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, 2012</u>				
Shanghai Yikang	\$ 971	1	\$ 22,021	40
Wah Hong	275	-	-	-
Raycong	26	-	3,064	6
Raycon	-	-	2,174	3
Others	<u>78</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,350</u>	<u>1</u>	<u>\$ 27,259</u>	<u>49</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>

- 4) The management services agreements, industry consulting and SAP-use contracts were signed by the Corporation and related parties, and the contracts will expire on various dates with December 31, 2014 as the latest. 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, 2012 and 2011 recognized as nonoperating income was as follows:

	<u>Year Ended December 31</u>	
	<u>2012</u>	<u>2011</u>
Shanghai YiKang	\$ 29,305	\$ 47,734
Raycong	23,450	30,713
Wah Lee Tech (Singapore)	2,498	1,252
Wah Hong	1,589	2,311
Others	<u>2,257</u>	<u>1,565</u>
	<u>\$ 59,099</u>	<u>\$ 83,575</u>

- 5) The Corporation rented parts of buildings and computer software to related parties. The leases on the buildings will expire on various dates with August 31, 2013 as the latest, and the lease on computer software will expire on December 31, 2013. The rental income for the years ended December 31, 2012 and 2011 recognized as nonoperating income and reduction of rental expense was as follows:

	Year Ended December 31	
	2012	2011
Wah Hong	\$ 2,256	\$ 1,923
Orc	2,040	2,040
Others	<u>24</u>	<u>24</u>
	<u>\$ 4,320</u>	<u>\$ 3,987</u>

6) Others

a) Financing to related parties for the year ended December 31, 2012 was as follows:

	Credit Line		Actual Amount Used	
	Maximum Balance	Ending Balance	Maximum Balance	Ending Balance
Dong Guan Hua Gang	\$114,293 (RMB¥24,500 thousand)	\$114,293 (RMB¥24,500 thousand)	\$ -	\$ -

b) The Corporation offered guarantees to investee companies as follows:

	December 31	
	2012	2011
Nagase Wahlee	\$ 500,000	\$ 500,000
Asahi Kasei Wahlee	19,380	9,690
Wah Lee Japan	-	15,624 (JPY 40,000 thousand)
Raycong	313,632 (US\$ 10,800 thousand)	326,970 (US\$ 10,800 thousand)
Shanghai Yikang	549,630 (US\$ 18,927 thousand)	554,930 (US\$ 18,330 thousand)
Dong Guan Hua Gang	479,160 (US\$ 16,500 thousand)	454,125 (US\$ 15,000 thousand)
Raycong/Shanghai Yikang / Dong Guan Hua Gang (Co-guarantees)	120,000	90,000
Shanghai Hua Chang	-	170,000
Shanghai Hua Chang	638,880 (US\$ 22,000 thousand)	272,475 (US\$ 9,000 thousand)
Wah Lee Tech (Singapore)	322,344 (US\$ 11,100 thousand)	316,374 (US\$ 10,450 Thousand)
Wah Lee Korea	11,616 (US\$ 400 thousand)	-

(Continued)

	December 31	
	2012	2011
Skypower	\$ 216,642 (JPY\$644,000 thousand)	\$ -
	<u>\$ 3,171,284</u>	<u>\$ 2,710,188</u>

The guarantee income from aforementioned related parties was NT\$7,383 thousand and NT\$6,512 thousand for the years ended December 31, 2012 and 2011, respectively.

- c) Payments received by the Corporation on behalf of Raycong for goods sold amounted to NT\$1,198 thousand and NT\$2,106 thousand as of December 31, 2012 and 2011, respectively, and were booked as other current liabilities.
- 7) The changes in investment in related parties are disclosed in Note 10.

Balances at end of year

	December 31			
	2012		2011	
	Amount	%	Amount	%
Notes receivable				
Wah Hong	\$ 84	-	\$ 84	-
Nagase Wahlee	<u>3</u>	<u>-</u>	<u>80</u>	<u>-</u>
	<u>\$ 87</u>	<u>-</u>	<u>\$ 164</u>	<u>-</u>
Accounts receivable - related parties				
Shanghai Yikang	\$ 266,862	5	\$ 228,614	5
Raycong	247,279	4	135,109	3
Dong Guan Hua Gang	29,360	1	93,919	2
Chang Wah	27,831	-	6,333	-
Others	<u>32,005</u>	<u>-</u>	<u>37,559</u>	<u>-</u>
	603,337	10	501,534	10
Less: Allowance for doubtful accounts	<u>339</u>	<u>-</u>	<u>322</u>	<u>-</u>
	<u>\$ 602,998</u>	<u>10</u>	<u>\$ 501,212</u>	<u>10</u>
Other receivable - related parties				
Shanghai Yikang	\$ 91,268	54	\$ 95,270	59
Raycong	51,480	30	30,699	19
Dong Guan Hua Gong	3,504	2	2,090	1
Wah Lee Tech (Singapore)	2,819	2	2,364	1
Wah Hong	2,353	1	2,708	1
Others	<u>1,062</u>	<u>-</u>	<u>1,903</u>	<u>3</u>
	<u>\$ 152,486</u>	<u>89</u>	<u>\$ 135,034</u>	<u>84</u>

(Continued)

	December 31			
	2012		2011	
	Amount	%	Amount	%
Notes payable - related parties				
Asahi Kasei Wahlee	\$ 201,523	38	\$ 199,807	26
Nagase Wahlee	<u>284</u>	<u>-</u>	<u>589</u>	<u>-</u>
	<u>\$ 201,807</u>	<u>38</u>	<u>\$ 200,396</u>	<u>26</u>
Accounts payable - related parties				
Wah Hong	\$ 86,313	3	\$ 51,090	2
Asahi Kasei Wahlee	68,511	2	62,785	3
Daily	41,428	1	34,767	1
Others	<u>15,690</u>	<u>-</u>	<u>8,104</u>	<u>-</u>
	<u>\$ 211,942</u>	<u>6</u>	<u>\$ 156,746</u>	<u>6</u>
Accrued expenses - related parties				
Shanghai Yikang	\$ 5,581	1	\$ 5,640	1
Raycong	1,007	-	155	-
Others	<u>720</u>	<u>-</u>	<u>1,967</u>	<u>-</u>
	<u>\$ 7,308</u>	<u>1</u>	<u>\$ 7,762</u>	<u>1</u>
Receipts under custody (included in other current liabilities)				
Raycong	<u>\$ 1,198</u>	<u>12</u>	<u>\$ 2,106</u>	<u>26</u>

(Concluded)

c. Compensation of directors, supervisors and management personnel:

	Year Ended December 31	
	2012	2011
Salaries and incentives	\$ 34,956	\$ 34,957
Special compensation	440	450
Bonus	<u>41,187</u>	<u>41,936</u>
	<u>\$ 76,583</u>	<u>\$ 77,343</u>

24. PLEDGED OR MORTGAGED ASSETS

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

	December 31	
	2012	2011
Property, plant and equipment		
Land	\$ 232,817	\$ 232,817
Buildings	<u>177,023</u>	<u>184,001</u>
	<u>409,840</u>	<u>416,818</u>

(Continued)

	December 31	
	2012	2011
Rental assets		
Land	\$ 16,020	\$ 16,020
Buildings	<u>11,159</u>	<u>11,458</u>
	<u>27,179</u>	<u>27,478</u>
Restricted assets		
Pledged time deposits	<u>320</u>	<u>320</u>
	<u>\$ 437,339</u>	<u>\$ 444,616</u>
		(Concluded)

25. COMMITMENTS AND CONTINGENCIES AT DECEMBER 31, 2012

a. Operating lease:

Lessor	Leased Asset	Lease Period and Rental Rate	Rental Payment for the Year Ended December 31, 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>\$ 15,105</u>

As of December 31, 2012, future lease payments are as follows and the Corporation has paid guarantee deposits of NT\$3,500 thousand.

	Amount
2013	\$ 15,860
2014	15,860
2015	<u>2,644</u>
	<u>\$ 34,364</u>

b. As of December 31, 2012, the Corporation has outstanding letters of credit aggregating US\$3,000 thousand, JPY16,740 thousand and NT\$56,852 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						
2012			2011			
Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars	
<u>Financial assets</u>						
Monetary items						
USD	\$ 155,291	29.04	\$ 109,390	30.275	\$ 3,311,794	
JPY	1,148,739	0.3364	378,409	0.3906	147,807	
RMB	95,697	4.665	38,333	4.805	184,189	
<u>Investments accounted for by the equity method</u>						
USD	65,747	29.04	58,657	30.275	1,775,844	
JPY	235,222	0.3364	38,129	0.3906	14,893	
HKD	383,000	3.747	337,099	3.897	1,313,676	
KRW	266,927	0.02733	89,772	0.02631	2,362	
<u>Financial liabilities</u>						
Monetary items						
USD	139,932	29.04	95,176	30.275	2,881,468	
JPY	1,237,731	0.3364	620,398	0.3906	242,328	

(Concluded)