

**Pou Chen Corporation**

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

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Pou Chen Corporation

We have audited the accompanying balance sheets of Pou Chen Corporation (the "Company") as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As mentioned in Note 10 to the accompanying financial statements, the 2011 financial statements of Ruen Chen Investment Holding Co., Ltd., an investee of the Company accounted for under the equity method, were audited by other auditors. Our opinion, insofar as it relates to Ruen Chen Investment Holding Co., Ltd., is based solely on the report of other auditors. The carrying value of such long-term investment was 10.83% (\$8,939,565 thousand) of the total assets as of December 31, 2011, and the investment income recognized under the equity method was 13.27% (\$805,060 thousand) of the income before income tax in 2011.

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. 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 report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2011 and 2010 (not accompanied herein) on which we have issued our report with a modified unqualified opinion on 2011 and an unqualified opinion on 2010 dated March 28, 2012.



March 28, 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 independent 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 independent auditors' report and financial statements shall prevail.*

**POU CHEN CORPORATION**

**BALANCE SHEETS**  
**DECEMBER 31, 2011 AND 2010**  
(In Thousands of New Taiwan Dollars)

ASSETS	2011		2010		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>								
Cash and cash equivalents (Notes 2 and 4)	\$ 202,213	-	\$ 332,699	1	\$ 3,750,000	4	\$ 3,839,000	5
Available-for-sale financial assets, current (Notes 2 and 6)	3,282,473	4	3,580,839	5	499,133	1	-	-
Notes receivable (Notes 2 and 7)	5,424	-	2,023	-	35,704	-	38,354	-
Notes receivable from affiliates (Notes 2, 7 and 30)	43,887	-	5,771	-	23,843	-	48,791	-
Accounts receivable (Notes 2 and 8)	87,975	-	94,507	-	1,050,941	1	1,666,492	2
Accounts receivable from affiliates (Notes 2, 8 and 30)	1,302,578	2	1,766,235	2	102,747	-	203,443	-
Other receivables (Note 30)	202,489	-	248,229	-	456,917	1	431,291	1
Inventories (Notes 2 and 9)	175,754	-	313,971	-	-	-	-	-
Other current assets	26,702	-	43,110	-	-	-	-	-
Total current assets	5,329,495	6	6,387,384	9	7,199,442	9	9,113,101	13
<b>FUNDS AND LONG-TERM INVESTMENTS</b>								
Investments accounted for by the equity method (Notes 2 and 10)	70,600,462	86	60,272,544	82	17,000,000	20	10,375,000	14
Investments in real estate (Notes 2 and 11)	187,371	-	187,371	-	11,450	-	52,502	-
Available-for-sale financial assets, noncurrent (Notes 2 and 12)	-	-	-	-	-	-	-	-
Financial assets carried at cost, noncurrent (Notes 2 and 13)	60,000	-	9	-	-	-	-	-
Total funds and long-term investments	70,847,833	86	60,459,924	82	17,011,450	20	10,427,502	14
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 30)</b>								
Cost	5,895,638	8	5,442,993	8	873,942	1	731,969	1
Revaluation increment	282,244	-	279,008	-	25,171,381	30	20,359,119	28
Less accumulated depreciation	6,177,882	8	5,722,001	8	779,728	1	694,613	1
Prepayments for equipment	(2,396,524)	(3)	(2,109,364)	(3)	3,452	-	3,452	-
Property, plant and equipment	130	-	9	-	90,762	-	33,904	-
OTHER ASSETS (Notes 2 and 15)	3,781,488	5	3,612,646	5	-	-	-	-
TOTAL	2,622,511	3	3,004,334	4	25,171,381	30	20,359,119	28
	\$ 82,581,327	100	\$ 73,464,288	100	\$ 82,581,327	100	\$ 73,464,288	100
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
<b>CURRENT LIABILITIES</b>								
Short-term loans (Note 16)	-	-	-	-	-	-	-	-
Short-term bills payable (Note 17)	-	-	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-	-	-
Notes payable to affiliates (Note 30)	-	-	-	-	-	-	-	-
Accounts payable	-	-	-	-	-	-	-	-
Accounts payable to affiliates (Note 30)	-	-	-	-	-	-	-	-
Income tax payable (Notes 2 and 27)	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	-	-	-	-	-	-	-	-
Hedging derivative liabilities, current (Notes 2 and 29)	-	-	-	-	-	-	-	-
Other payables (Note 18)	-	-	-	-	-	-	-	-
Current portion of long-term liabilities (Note 19)	-	-	-	-	-	-	-	-
Deferred income tax liabilities, current (Notes 2 and 27)	-	-	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-	-	-
Total current liabilities	-	-	-	-	-	-	-	-
<b>LONG-TERM LIABILITIES</b>								
Long-term debt (Note 19)	-	-	-	-	-	-	-	-
Hedging derivative liabilities, noncurrent (Notes 2 and 29)	-	-	-	-	-	-	-	-
Total long-term liabilities	-	-	-	-	-	-	-	-
<b>RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)</b>								
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	-	-	-	-	-	-	-	-
<b>OTHER LIABILITIES</b>								
Accrued pension cost (Notes 2 and 20)	-	-	-	-	-	-	-	-
Guarantee deposits received	-	-	-	-	-	-	-	-
Others (Notes 2 and 21)	-	-	-	-	-	-	-	-
Total other liabilities	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-
<b>STOCKHOLDERS' EQUITY</b>								
Capital stock (Note 22)	29,241,469	36	29,241,469	36	29,241,469	36	28,997,559	39
Capital surplus (Notes 2 and 24)	8,556,321	10	8,556,321	10	8,556,321	10	8,063,112	11
Retained earnings (Note 24)	22,895,905	28	22,895,905	28	22,895,905	28	20,569,705	28
Cumulative translation adjustments (Note 2)	(2,154,982)	(3)	(2,154,982)	(3)	(2,154,982)	(3)	(4,563,813)	(6)
Net loss not recognized as pension cost (Notes 2 and 20)	(114,235)	-	(114,235)	-	(114,235)	-	(57,341)	-
Unrealized (loss) gain on financial instruments (Note 2)	(993,798)	(1)	(993,798)	(1)	(993,798)	(1)	1,202,722	2
Unrealized revaluation increment	134,641	-	134,641	-	134,641	-	134,641	-
Treasury stock (Notes 2 and 25)	(155,375)	-	(155,375)	-	(155,375)	-	(1,241,416)	(2)
Total stockholders' equity	57,409,946	70	57,409,946	70	57,409,946	70	53,105,169	72
TOTAL	\$ 82,581,327	100	\$ 73,464,288	100	\$ 82,581,327	100	\$ 73,464,288	100

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 28, 2012)

# POU CHEN CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED (Notes 2 and 30)	\$ 13,073,008	100	\$ 14,045,133	100
LESS SALES RETURNS AND ALLOWANCES	<u>(21,009)</u>	<u>-</u>	<u>(14,854)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	13,051,999	100	14,030,279	100
COST OF GOODS SOLD (Note 30)	<u>10,003,910</u>	<u>77</u>	<u>10,836,277</u>	<u>77</u>
GROSS PROFIT	3,048,089	23	3,194,002	23
REALIZED (UNREALIZED) GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS (Note 2)	<u>2,341</u>	<u>-</u>	<u>(2,413)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>3,050,430</u>	<u>23</u>	<u>3,191,589</u>	<u>23</u>
OPERATING EXPENSES				
Selling expenses	134,288	1	144,449	1
General and administrative expenses (Note 25)	1,826,740	14	1,650,567	12
Research and development expenses	<u>879,826</u>	<u>7</u>	<u>830,719</u>	<u>6</u>
Total operating expenses	<u>2,840,854</u>	<u>22</u>	<u>2,625,735</u>	<u>19</u>
INCOME FROM OPERATIONS	<u>209,576</u>	<u>1</u>	<u>565,854</u>	<u>4</u>
NON-OPERATING INCOME				
Interest income (Note 30)	11,476	-	232	-
Investment income recognized under equity method (Note 10)	5,740,188	44	8,041,447	57
Dividend income	144,516	1	158,930	1
Gain on disposal of property, plant and equipment and leased-out assets (Note 30)	5,528	-	2,079	-
Gain on disposal of investments (Note 10)	3,258	-	302,503	2
Foreign exchange gain, net	87,971	1	-	-
Rental income (Note 30)	166,013	1	166,281	1
Reversal of provision for doubtful accounts	1,024	-	803	-
Others	<u>91,631</u>	<u>1</u>	<u>92,196</u>	<u>1</u>
Total non-operating income	<u>6,251,605</u>	<u>48</u>	<u>8,764,471</u>	<u>62</u>

(Continued)

# POU CHEN CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES</b>				
Interest expense	\$ 298,252	2	\$ 225,032	2
Loss on disposal of property, plant and equipment and leased-out assets (Note 30)	902	-	215	-
Foreign exchange loss, net	-	-	197,429	1
Valuation loss on financial liabilities, net (Note 5)	30,939	-	-	-
Others	<u>66,421</u>	<u>1</u>	<u>68,625</u>	<u>-</u>
Total non-operating expenses	<u>396,514</u>	<u>3</u>	<u>491,301</u>	<u>3</u>
INCOME BEFORE INCOME TAX	6,064,667	46	8,839,024	63
INCOME TAX EXPENSE (Notes 2 and 27)	<u>(257,944)</u>	<u>(2)</u>	<u>(943,410)</u>	<u>(7)</u>
NET INCOME	<u>\$ 5,806,723</u>	<u>44</u>	<u>\$ 7,895,614</u>	<u>56</u>

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 28)	<u>\$ 2.10</u>	<u>\$ 2.01</u>	<u>\$ 3.11</u>	<u>\$ 2.77</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 28)	<u>\$ 2.06</u>	<u>\$ 1.98</u>	<u>\$ 3.05</u>	<u>\$ 2.72</u>

Pro-forma information assuming common shares of the Company held by its subsidiaries were not treated as treasury stock:

	2011	2010
NET INCOME	<u>\$ 5,819,001</u>	<u>\$ 7,910,661</u>

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 28)	<u>\$ 2.10</u>	<u>\$ 2.01</u>	<u>\$ 3.10</u>	<u>\$ 2.77</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 28)	<u>\$ 2.06</u>	<u>\$ 1.97</u>	<u>\$ 3.04</u>	<u>\$ 2.72</u>

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

(With Deloitte & Touche audit report dated March 28, 2012)

(Concluded)

**POU CHEN CORPORATION**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2011 AND 2010  
(In Thousands of New Taiwan Dollars)**

	Capital Surplus			Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Employee Stock Options	Long-term Equity Investments	Retained Earnings		Unappropriated Earnings	Cumulative Translation Adjustments	Not Loss Not Recognized as Pension Cost	Other Equity Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	Total
	Capital Stock	Treasury Stock	Legal Reserve					Special Reserve								
BALANCE, JANUARY 1, 2010	\$ 28,430,847	\$ 1,438,517	\$ -	\$ 1,447,492	\$ 3,754,538	\$ 5,248,562	\$ 2,999,633	\$ 9,385,573	\$ (127,367)	\$ (40,706)	\$ (364,036)	\$ 134,641	\$ (1,241,416)	\$ 51,678,268		
Appropriation of 2009 earnings (Note 24)	-	-	-	-	-	-	-	(702,124)	-	-	-	-	-	-		
Legal reserve	-	-	-	-	702,124	-	-	-	-	-	-	-	-	-		
Special reserve	-	-	-	-	-	(2,201,265)	-	2,201,265	-	-	-	-	-	-		
Stock dividends	559,962	-	-	-	-	-	-	(359,962)	-	-	-	-	-	-		
Cash dividends	-	-	-	-	-	-	-	(4,199,715)	-	-	-	-	-	(4,199,715)		
Execution of employee stock warrants (Note 23)	6,750	-	-	-	-	-	-	-	-	-	-	-	-	6,750		
Cash dividends received by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	15,047		
Effect of changes of ownership interest in investees	-	-	-	-	594,628	-	-	-	-	-	-	-	-	594,628		
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	(4,436,446)	-	-	-	-	(4,436,446)		
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(16,635)	-	-	-	(16,635)		
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	630,910	-	-	630,910		
Investee's unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	880,595	-	-	880,595		
Unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	56,153	-	-	56,153		
Net income for 2010	-	-	-	-	-	-	-	2,895,614	-	-	-	-	-	2,895,614		
BALANCE, DECEMBER 31, 2010	28,997,559	1,453,564	-	1,447,492	4,349,166	5,940,686	398,368	14,220,651	(4,563,813)	(57,341)	1,202,722	134,641	(1,241,416)	53,105,169		
Appropriation of 2010 earnings (Note 24)	-	-	-	-	-	-	-	(789,561)	-	-	-	-	-	-		
Legal reserve	-	-	-	-	789,561	-	-	-	-	-	-	-	-	-		
Special reserve	-	-	-	-	-	-	2,885,424	(2,885,424)	-	-	-	-	-	-		
Cash dividends	-	-	-	-	-	-	-	(3,480,523)	-	-	-	-	-	(3,480,523)		
Execution of employee stock warrants (Note 23)	243,910	-	-	-	-	-	-	-	-	-	-	-	-	243,910		
Cash dividends received by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	12,278		
Effect of changes of ownership interest in investees	-	-	-	-	371,250	-	-	-	-	-	-	-	-	371,250		
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	2,408,631	-	-	-	-	2,408,631		
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(56,894)	-	-	-	(56,894)		
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	(298,376)	-	-	(298,376)		
Investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	(1,936,312)	-	-	(1,936,312)		
Unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	38,168	-	-	38,168		
Compensation cost of employee stock options (Note 25)	-	-	-	-	-	-	257,655	-	-	-	-	-	-	257,655		
Transfer of treasury stock - 43,300 thousand shares (Note 25)	-	109,681	-	-	-	-	(257,655)	-	-	-	-	-	1,086,041	938,087		
Net income for 2011	-	-	-	-	-	-	-	5,806,722	-	-	-	-	-	5,806,722		
BALANCE, DECEMBER 31, 2011	29,241,469	1,575,523	-	1,447,492	4,720,416	6,740,342	3,383,702	17,871,866	(2,154,982)	(114,235)	(693,293)	134,641	(155,375)	57,489,916		

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 28, 2012)

# POU CHEN CORPORATION

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

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 5,806,723	\$ 7,895,614
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	296,084	289,900
Amortization	36,060	28,304
(Reversal of) provision for doubtful accounts	(1,024)	(803)
Investment income recognized under equity method	(5,740,188)	(8,041,447)
Cash dividends received from investees under equity method	4,717,912	119,828
(Realized) unrealized gross profit from inter-affiliate transactions	(2,341)	2,413
Net gain on disposal of property, plant and equipment and leased-out assets	(4,626)	(1,864)
Valuation loss on financial liabilities	30,939	-
Compensation cost of treasury stock transfer to employees	257,635	-
Gain on disposal of investments	(3,258)	(302,503)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	(11,584)	830
Notes receivable	(3,401)	647
Notes receivable from affiliates	(38,116)	(5,771)
Accounts receivable	7,556	(26,605)
Accounts receivable from affiliates	463,657	(199,093)
Other receivables	46,415	1,879
Inventories	138,217	(139,194)
Deferred income tax asset, current	-	32,500
Other current assets	16,257	(17,826)
Deferred income tax asset, noncurrent	(4,696)	14,430
Income tax prepayment	-	(1,978)
Notes payable	(2,650)	782
Notes payable to affiliates	(22,948)	(9,462)
Accounts payable	(615,551)	543,480
Accounts payable to affiliates	(100,696)	25,864
Income tax payable	25,626	375,503
Other payables	108,585	(232,806)
Deferred income tax liabilities, current	11,476	449,890
Other current liabilities	(2,109)	2,914
Accrued pension cost	28,221	32,704
Net cash provided by operating activities	<u>5,438,175</u>	<u>838,130</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in investments accounted for by the equity method	(8,517,171)	(500,405)
Proceeds from disposal of investments accounted for by the equity method	50,547	4,224,408
Proceeds from reduction of capital from investments accounted for by the equity method	76,961	50,000
Increase in financial assets carried at cost, noncurrent	(60,000)	-

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# POU CHEN CORPORATION

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

	2011	2010
Acquisition of property, plant and equipment	\$ (93,830)	\$ (95,832)
Acquisition of leased assets	(914)	(399)
Proceeds from disposal of property, plant and equipment	18,119	4,694
Proceeds from disposal leased assets	25,378	-
Proceeds from disposal of land and buildings for sale	-	119
Decrease in refundable deposits	96	962
Increase in deferred charges	<u>(54,454)</u>	<u>(8,881)</u>
Net cash (used in) provided by investing activities	<u>(8,555,268)</u>	<u>3,674,666</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term loans	(89,000)	(602,000)
Increase in short-term bills payable	499,133	-
Increase in long-term debt	4,875,000	-
Increase in guarantee deposits received	-	1,164
Execution of employee stock warrants	243,910	6,750
Cash dividends	(3,480,523)	(4,199,715)
Transfer treasury stock to employees	<u>938,087</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>2,986,607</u>	<u>(4,793,801)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(130,486)	(281,005)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>332,699</u>	<u>613,704</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 202,213</u>	<u>\$ 332,699</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 267,995</u>	<u>\$ 236,571</u>
Income tax	<u>\$ 225,538</u>	<u>\$ 73,536</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Cash dividend received by subsidiaries	<u>\$ 12,278</u>	<u>\$ 15,047</u>
Effect of changes in ownership interest in investees	<u>\$ 371,250</u>	<u>\$ 594,628</u>
Translation adjustments on foreign long-term equity investments	<u>\$ 2,408,831</u>	<u>\$ (4,436,446)</u>
Unrealized (loss) gain on available-for-sale financial assets	<u>\$ (298,376)</u>	<u>\$ 630,910</u>
Investee's unrealized (loss) gain on available-for-sale financial assets	<u>\$ (1,936,312)</u>	<u>\$ 880,595</u>
Unrealized gain on cash flow hedge financial liabilities	<u>\$ 38,168</u>	<u>\$ 56,153</u>
Current portion of long-term liabilities	<u>\$ -</u>	<u>\$ 1,750,000</u>
Adjustments on capital surplus from treasury stock transfer to employees	<u>\$ 109,681</u>	<u>\$ -</u>
Property, plant and equipment transferred from leased assets	<u>\$ 320,412</u>	<u>\$ 322</u>

(Continued)

# POU CHEN CORPORATION

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

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	2011	2010
CASH PAID DURING THE YEAR FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 98,424	\$ 101,478
Add payables for acquisition of property, plant and equipment at beginning of year	11,328	5,682
Less payables for acquisition of property, plant and equipment at end of year	<u>(15,922)</u>	<u>(11,328)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 93,830</u>	<u>\$ 95,832</u>

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

(With Deloitte & Touche audit report dated March 28, 2012)

(Concluded)

# POU CHEN CORPORATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

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### 1. ORGANIZATION AND OPERATIONS

Pou Chen Corporation (the “Company”) was incorporated in the Republic of China (“ROC”) in September 1969. The Company is located in Changhwa County, Taiwan, and currently has three factories and nine trade departments. The Company’s business activities include manufacturing and sales of various kinds of shoes, and import and export of related products and materials. The Company also invests significantly in shoes and electronics industries to diversify its business operation. As a result, investment income has become the Company’s major source of revenue.

Pou Chen invested in Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”) and other footwear - related companies through Wealthplus Holdings Limited. Yue Yuen and Pou Sheng International (Holdings) Limited (“Pou Sheng”), a subsidiary of Yue Yuen, are listed on Hong Kong Exchange and Clearing Limited.

In January 1990, the Company started to trade its stocks on the Taiwan Stock Exchange.

As at December 31, 2011 and 2010, there were 3,060 and 3,000 employees of the Company, respectively.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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 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.

Significant accounting policies are summarized as follows:

#### Foreign Currencies

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

- a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- b. Shareholders’ equity - at historical exchange rates;
- c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
- d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of shareholders’ equity. Such exchange differences are recognized in profit or loss in the year in which the foreign operations are disposed of.

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 measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;
- b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets 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 Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

### **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 and impairment of property, plant and equipment, amortization expenses, income tax, pension cost, bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

### **Current/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 one year from the balance sheet date. All other assets such as property, plant and equipment and other assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

### **Cash Equivalents**

Cash equivalents, consisting of commercial paper, bank acceptances and repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

### **Financial Instruments at Fair Value through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value plus transaction costs. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities 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. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

#### **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 recognition, derecognition and the fair value bases of available-for-sale financial assets are the same with those of financial assets at FVTPL.

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.

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.

#### **Hedge Accounting**

Derivatives that are designated and effective as hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item as follows:

##### **a. Fair value hedge**

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. Cash flow hedge

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same year or years during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

c. Hedge of a net investment in a foreign operation

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss on disposal of the foreign operation.

### **Financial Assets Carried at Cost**

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, 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.

### **Impairment of Accounts Receivable**

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. As discussed in Note 3 to the financial statements, from January 1, 2011, the Company 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 Company should be covered by SFAS No. 34.

The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, 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. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

### **Impairment of Assets**

If the recoverable amount of an asset (mainly property, plant and equipment, leased assets, financial assets carried at cost, 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 and any remaining loss is charged to earnings.

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (“CGU(s)”) that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For long-term equity investments for which the Company 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.

### **Inventories**

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

### **Investments Accounted for by the Equity Method**

Investments in which the Company 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 investment cost 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.

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

When the Company subscribes for its investee’s newly issued shares at a percentage different from its percentage of ownership in the investee, the Company 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 arising from long-term investments is insufficient, the shortage is debited to retained earnings.

If an adjustment resulted from the changes in unrealized gain (loss) on available-for-sale financial assets of an investee, the adjustment is reported as a separate component of stockholders’ equity.

When the Company’s share in losses of an investee over which the Company has significant influence equals its investment in that investee plus any advances made to the investee, the Company discontinues applying the equity method. The Company continues to recognize its share in losses of the investee if (a) the Company commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

When the Company’s share in losses of an investee over which the Company has control exceeds its investment in the investee, unless the other shareholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Company has to bear all of the losses in excess of the capital contributed by shareholders of the investee. If the investee subsequently reports profits, such profits are first attributed to the Company to the extent of the excess losses previously borne by the Company.

## **Investments in Real Estate**

Impairment loss is recognized immediately for any significant decline in the value of real estate investments. If the loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

## **Property, Plant, Equipment and Leased Asset**

Property, plant and equipment and leased assets are stated at cost plus revaluation increment, less accumulated depreciation and accumulated impairment losses. 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 the related assets are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on the straight-line basis over the following estimated useful lives of the related assets:

<b>Items</b>	<b>Estimated Useful Lives</b>
Buildings and improvements	15-55 years
Machinery and equipment	5-7 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	3-5 years
Other equipment	5 years

Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives. Depreciation of revaluated assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of the assets 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.

## **Deferred Charges**

Deferred charges are amortized on a straight-line basis over their estimated useful lives.

## **Pension Cost**

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

## **Income Tax**

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax", which requires the Company to apply inter-year allocation methods to its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. 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.



If the Company can control the timing of the reversal of a temporary difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred income tax liability or asset is not recognized. However, deferred income tax liability is recognized if the overseas subsidiary plans to distribute earnings.

Tax credits for research and development expenditures are recognized using the flow-through method.

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

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

### **Stock-based Compensation**

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment". Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

### **Treasury Stock**

Treasury stock is stated at cost and shown as a deduction in shareholders' equity.

The Company accounts for its stock held by subsidiaries as treasury stock. The recorded cost of the stock is based on its carrying amount as of January 1, 2002.

### **Revenue Recognition**

Revenue from sales of goods is recognized when the Company 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. Sales returns and allowances are subtracted from sales when they occur and the related inventory costs are subtracted from cost of goods sold.

Service revenue is recognized when service is rendered and the collection is reasonably assured.

### **Earnings Per Share**

Basic earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common stocks outstanding. On a diluted basis, both net earnings and shares outstanding are adjusted to assume the employee stock options from the date of issuance, and adopt the treasury stock method to calculate the stock warrants' dilutive potential common shares. However, if the employee stock options contain an anti-dilutive effect, they will be excluded from the calculation.

## Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2011.

### 3. EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES

#### Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include: loans and receivables originated by the Company are now covered by SFAS No. 34. The adoption did not result in significant effect in the financial statements for the year ended December 31, 2011.

#### Operating Segments

On January 1, 2011, the Company 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 Company 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 Company'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." For this accounting change, the Company restated the segment information as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Cash on hand	\$ 2,020	\$ 1,840
Banks deposits	<u>200,193</u>	<u>330,859</u>
	<u>\$ 202,213</u>	<u>\$ 332,699</u>

### 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CURRENT

Financial liabilities at fair value through profit or loss, current as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Exchange rate option contracts	\$ 508	\$ -
Interest rate swap contracts	<u>16,490</u>	<u>-</u>
	<u>\$ 16,998</u>	<u>\$ -</u>

The Company is engaged in exchange rate option contracts and interest rate swap contracts mainly to circumvent the risk due to exchange rate and interest rate fluctuations. The Company's financial hedging strategies are to circumvent the risk of fluctuations in market price or cash flow.

The information about exchange rate option contracts as at December 31, 2011 was summarized as follows:

Item	Type	Buy/Sell	Premium Amount	Contract Amount	Fair Value
Exchange rate option contracts	Put	Sell	<u>\$1,974</u>	<u>US\$9,000,000</u>	<u>\$(508)</u>

The information about interest rate swap contracts as at December 31, 2011 was summarized as follows:

Bank	Item	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
Chinatrust Commercial Bank	Interest rate swap	\$ 750,000	2014.12.02	1.135	0.861	\$ (4,705)
Chinatrust Commercial Bank	"	500,000	2014.12.02	0.935	0.861	(906)
Citibank	"	750,000	2014.12.02	1.135	0.861	(4,680)
Citibank	"	500,000	2014.12.02	0.843	0.839	109
Taipei Fubon Bank	"	500,000	2014.12.02	1.140	0.861	(3,164)
E.SUN Bank	"	<u>500,000</u>	2014.12.02	1.140	0.861	<u>(3,144)</u>
		<u>\$ 3,500,000</u>				<u>\$ (16,490)</u>

The fair value of derivative financial instruments is based on the evaluation provided by the trading banks. The net loss of the financial instruments at fair value through profit or loss was \$30,939 thousand for the year ended December 31, 2011.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as at December 31, 2011 and 2010 consisted of the following:

	2011		2010
	Original Cost	Carrying Value	Carrying Value
Marketable equity securities			
Mega Financial Holding Company	\$ 3,165,188	\$ 3,268,950	\$ 3,561,828
Taiwan Paiho Limited	10,381	13,517	19,011
Global Brands Manufacture Ltd.	<u>10</u>	<u>6</u>	<u>-</u>
	<u>\$ 3,175,579</u>	<u>\$ 3,282,473</u>	<u>\$ 3,580,839</u>

## 7. NOTES RECEIVABLE

Notes receivable as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Notes receivable	\$ 5,424	\$ 2,023
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>5,424</u>	<u>2,023</u>

(Continued)

	2011	2010
Notes receivable from affiliates (Note 30)	\$ 43,887	\$ 5,771
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>43,887</u>	<u>5,771</u>
	<u>\$ 49,311</u>	<u>\$ 7,794</u>
		(Concluded)

## 8. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Accounts receivable	\$ 89,337	\$ 96,893
Less allowance for doubtful accounts	<u>(1,362)</u>	<u>(2,386)</u>
	<u>87,975</u>	<u>94,507</u>
Accounts receivable from affiliates (Note 30)	1,302,578	1,766,235
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>1,302,578</u>	<u>1,766,235</u>
	<u>\$ 1,390,553</u>	<u>\$ 1,860,742</u>

## 9. INVENTORIES

Inventories as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Raw materials	\$ 112,036	\$ 197,537
Supplies	1,104	1,452
Work-in-process	7,284	11,538
Finished goods	49,698	96,520
Merchandise	<u>5,632</u>	<u>6,924</u>
	<u>\$ 175,754</u>	<u>\$ 313,971</u>

As of December 31, 2011 and 2010, the allowance for inventory devaluation was \$60,000 thousand and \$27,000 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2011 and 2010 was \$10,003,910 thousand and \$10,836,277 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the year ended December 31, 2011 included \$33,000 thousand write-down of inventories. The cost of inventories recognized as cost of goods sold for the year ended December 31, 2010 included \$8,000 thousand reversal of write-down of inventories.

## 10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at December 31, 2011 and 2010 consisted of the following:

	2011			2010	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Wealthplus	\$ 295,429	\$ 49,062,979	100.00	\$ 46,086,533	100.00
Win Fortune	3,230	1,298,536	100.00	1,137,052	100.00
Ming Wang	427,291	833,811	100.00	932,103	100.00
Windsor Entertainment	500,000	87,624	100.00	90,458	100.00
Pou Shine	195,000	1,046,993	100.00	1,136,410	100.00
Pan Asia Insurance Services	3,000	6,373	100.00	4,554	100.00
Proshine Healthcare	110,000	40,836	100.00	42,274	100.00
Vistas Design	4,708	7,311	100.00	7,972	100.00
Barits Development	1,836,345	4,419,237	99.47	5,571,347	99.47
Pou Yuen Technology	966,218	229,798	97.80	121,447	97.41
Pro Arch International	2,443,485	-	96.32	162,219	96.32
Yun Yang	112,085	128,592	91.15	123,463	91.15
LNC Technology	384,809	377,688	76.96	491,863	85.41
Right and Great Asia-Pacific	420,000	383,336	70.00	401,060	70.00
Techview International	380,115	-	30.00	-	30.00
Ruen Chen	9,000,000	8,939,565	20.00	491,868	20.00
Pou Yii	40,320	91,209	15.00	96,781	15.00
Elitegroup Computer	4,618,697	3,629,320	12.63	3,367,915	12.12
Wang Yi	7,700	17,254	7.82	7,225	7.82
Global Brands Manufacture	-	-	-	-	-
	<u>\$ 21,748,432</u>	<u>\$ 70,600,462</u>		<u>\$ 60,272,544</u>	

The Company's investment income (loss) recognized under equity method for the years ended December 31, 2011 and 2010 was summarized as follows:

	2011	2010
Wealthplus	\$ 4,783,138	\$ 7,404,396
Win Fortune	103,851	145,818
Ming Wang	38,173	45,299
Windsor Entertainment	(2,835)	(8,584)
Pou Shine	47,764	52,206
Pan Asia Insurance Services	2,494	750
Proshine Healthcare	(1,438)	(49,664)
Vistas Design	(661)	2,467
Barits Development	45,129	449,175
Pou Yuen Technology	81,522	(19,337)
Pro Arch International	(217,571)	(91,451)
Yun Yang	3,457	2,435
LNC Technology	3,426	28,112
Right and Great Asia-Pacific	(17,724)	(14,985)
Techview International	-	45,621
Ruen Chen	805,060	(8,132)
Pou Yii	3,319	5,619
Elitegroup Computer	53,269	20,940
Wang Yi	9,815	1,411
Global Brands Manufacture	-	29,351
	<u>\$ 5,740,188</u>	<u>\$ 8,041,447</u>

Wealthplus Holdings Limited (“Wealthplus”) and Win Fortune Investments Limited (“Win Fortune”), wholly-owned subsidiaries of the Company, were incorporated in the British Virgin Islands. These two companies primarily invest in companies which are engaged in the manufacturing and sales of sports-footwear. Originally, Wealthplus and Win Fortune had their accounting year from October 1 of the preceding year to September 30 of the year. The two companies had changed their accounting year to calendar year in 2010. In 2010, the Company recognized investment income from the two companies from October 1, 2009 to December 31, 2010, accordingly.

The Company’s investment income (loss) recognized under equity method from Wealthplus and Win Fortune in 2011 was summarized as follows:

	October 1, 2010 to September 30, 2011	October 1, 2011 to December 31, 2011	Total
Wealthplus	\$ 7,586,875	\$ (182,479)	\$ 7,404,396
Win Fortune	<u>146,913</u>	<u>(1,095)</u>	<u>145,818</u>
	<u>\$ 7,733,788</u>	<u>\$ (183,574)</u>	<u>\$ 7,550,214</u>

The primary income of Wealthplus and Win Fortune is the investment income recognized under equity method from Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”). Yue Yuen has its accounting year from October 1 of the preceding year to September 30 of the year. The Company effectively holds 49.98% ownership in Yue Yuen through Wealthplus and Win Fortune. Therefore, in 2011 and 2010, Wealthplus and Win Fortune accounted for its investment income recognized under equity method from Yue Yuen based on the information of the period from October 1, 2010 to September 30, 2011 and October 1, 2009 to September 30, 2010, respectively.

The primary income (loss) of Wealthplus and Win Fortune in 2011 and 2010 was summarized as follows:

	Wealthplus		Win Fortune	
	2011	2010	2011	2010
Equity in earnings of Yue Yuen	\$ 6,218,051	\$ 7,346,749	\$ 133,381	\$ 144,643
Equity in earnings of other overseas investees	(1,075,173)	184,011	-	-
Others	<u>(359,740)</u>	<u>(126,364)</u>	<u>(29,530)</u>	<u>1,175</u>
	<u>\$ 4,783,138</u>	<u>\$ 7,404,396</u>	<u>\$ 103,851</u>	<u>\$ 145,818</u>

Wealthplus’ board of directors decided to distribute earnings in the amount of US\$140,000 thousand (NT\$4,032,000 thousand) in July 2011.

Because of the Company’s investment in Nan Shan Life Insurance Co., Ltd. through Ruen Chen Investment Holding Co., Ltd. (“Ruen Chen”), the Company received a request by Insurance Bureau of Executive Yuan Financial Supervisory Commission (“FSC”) for the Company to provide 61,295 thousand ordinary shares of Yue Yuen in the custody of the Trust Department of Mega International Commercial Bank.

Ming Wang Investments Co., Ltd. (“Ming Wang”) was established in September 1996, with an outstanding common stock of \$681,192 thousand at December 31, 2011, and is primarily engaged in investing activities.

Windsor Entertainment Co., Ltd. (“Windsor Entertainment”) was established in July 2003, with an outstanding common stock of \$210,000 thousand at December 31, 2011, and is primarily engaged in entertainment and resort operation.

Pou Shine Investments Co., Ltd. (“Pou Shine”) was established in March 1990, with an outstanding common stock of \$709,594 thousand at December 31, 2011, and is primarily engaged in investing activities.

Pan Asia Insurance Services Co., Ltd. (“Pan Asia Insurance Services”) was established in May 1999, with an outstanding capital of \$3,000 thousand at December 31, 2011, and is primarily engaged in agency of property and casualty insurance.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”) was established in November 2007, and is primarily engaged in the rental and sale of medical devices. Proshine Healthcare’s board of directors decided to decrease and return its capital in the amount of \$50,000 thousand in October 2010. As at December 31, 2011, Proshine Healthcare had outstanding common stock of \$110,000 thousand.

Vistas Design Co., Ltd. (“Vistas Design”) was established in June 2008, with an outstanding common stock of \$5,000 thousand at December 31, 2011, and is primarily engaged in interior decorating and design services.

Barits Development Corporation (“Barits Development”) was established in November 1985, with an outstanding common stock of \$1,528,727 thousand at December 31, 2011, and is primarily engaged in leather manufacturing and investing activities.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”) was established in December 1993, and is primarily engaged in tooling design software and information technology software service. Pou Yuen Technology’s board of directors decided to decrease its capital to offset its accumulated deficit by \$609,300 thousand in September 2011. As at December 31, 2011, Pou Yuen Technology had outstanding common stock of \$290,700 thousand. In 2011 and 2010, the Company purchased 350 thousand shares for \$3,499 thousand and 2 thousand shares for \$20 thousand, respectively, from non-related parties.

Pro Arch International Development Enterprise Inc. (“Pro Arch International”) was established in June 1999. It is primarily engaged in real estate development business. Pro Arch International’s board of directors decreased its capital to offset its accumulated deficit by \$56,415 thousand in June 2010. As at December 31, 2011, Pro Arch International had outstanding common stock of \$257,004 thousand. Because the book value of the investment as at December 31, 2011 was negative, the Company reclassified \$59,707 thousand to other liabilities. Please see Note 21 to the financial statements for the relevant information.

Yun Yang Investments Co., Ltd. (“Yun Yang”) was established in April 1997, and is primarily engaged in investing activities. In February 2011, Yun Yang issued additional capital stock of \$15,000 thousand at \$10 per share, of which \$13,672 thousand was subscribed by the Company in proportion to the percentage of ownership. Yun Yang had outstanding common stock of \$107,792 thousand at December 31, 2011.

LNC Technology Co., Ltd. (“LNC Technology”) was established in August 2007, with an outstanding common stock of \$500,000 thousand at December 31, 2011, and is primarily engaged in manufacturing and sale of precision instruments and computer numerical controlled machine. In October 2011, LNC Technology’s board of directors approved to decrease and return its capital in the amount of \$100,000 thousand. In proportion to the percentage of ownership, the Company received the returned capital of \$76,961 thousand. In August 2011, LNC Technology sold 5,070 thousand shares for \$50,547 thousand to non-related parties, with a gain of \$901 thousand.

The Right and Great Asia-Pacific Realty Development Co., Ltd. (“Right and Great Asia-Pacific”) was established in March 2008, with an outstanding common stock of \$600,000 thousand at December 31, 2011, and is primarily engaged in real estate development and investing activities.

Techview International Technology Inc. (“Techview International”) was established in November 2003, and is primarily engaged in development, sale and assembly of TFT-LCD display.

Ruen Chen Investment Holding Co., Ltd. was established in November 2010. The Company was one of the original stockholders and has invested \$500,000 thousand, representing 20% ownership. In 2011, Ruen Chen issued additional capital stock of \$42,500,000 thousand at \$10 per share, of which \$8,500,000 thousand was subscribed by the Company in proportion to the percentage of ownership. Ruen Chen primarily engages in investing in Nan Shan Life Insurance Co., Ltd. Ruen Chen had outstanding common stock of \$45,000,000 thousand as at December 31, 2011.

In addition, the Company has provided 820,000 thousand shares of Ruen Chen as collateral of the long-term loans made by Ruen Chen from Taiwan Cooperative Bank and other financial institutions. Please see Note 30 to the financial statements for the relevant information.

Pou Yii Development Co., Ltd. (“Pou Yii”) was established in October 1996, with an outstanding common stock of \$525,000 thousand at December 31, 2011, and is primarily engaged in constructing buildings, selling and renting apartments, real estate investment analysis and consulting services.

Elitegroup Computer Systems Co., Ltd. (“Elitegroup Computer”) is engaged in designing, manufacturing and sale of computer peripheral equipment, and had outstanding common stock of \$11,831,937 thousand as at December 31, 2011. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. On August 24, 2011, Elitegroup Computer’s board of directors decided to cancel 50,000 thousand shares of treasury shares under the Company law. Accordingly, the Company’s ownership in Elitegroup Computer was increased from 12.12% to 12.63%.

Wang Yi Construction Co., Ltd. (“Wang Yi”) was established in May 1984, with an outstanding common stock of \$77,000 thousand at December 31, 2011, and is primarily engaged in management and investment in construction projects. In May 2010, the Company purchased 38.5 thousand shares for \$385 thousand from non-related parties.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”) is engaged in manufacturing and selling of printed circuit boards. The shares of Global Brands Manufacture are listed on the Taiwan Stock Exchange Corporation. On March 24, 2010, the Company auctioned 147,589 thousand shares at \$28.75 per share, total amount of \$4,224,408 thousand with \$301,673 thousand profit, recognized as gain on disposal of investments. Moreover, Pou Shine, Barits Development and Pou Yuen Technology, the subsidiaries of the Company also sold 13,167 thousand shares, 2,900 thousand shares and 2,844 thousand shares, respectively. Thus, the shares sold by the Company and its subsidiaries amount to a total of 40% ownership. The Company lost controlling power and significant influence over Global Brands Manufacture after the transaction, and ceased amounting for the investment by the equity method on March 24, 2010. The Company reclassified unsold shares to available-for-sale financial assets, noncurrent, based on the book value on the trading day. Please see Note 12 to the financial statements for further information.

## 11. INVESTMENT IN REAL ESTATE

Investment in real estate as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Land	<u>\$ 187,371</u>	<u>\$ 187,371</u>

For urban redevelopment of Taichung, the Company purchased the land located on Guangshun section, Xitun District, Taichung.



## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at December 31, 2011 and 2010 were as follows:

	2011	2010
Marketable equity securities		
Global Brands Manufacture Ltd.	\$ <u>          -</u>	\$ <u>          9</u>

In September 2011, the Company reclassified the shares of Global Brands Manufacture Ltd. from available-for-sale financial assets, noncurrent to available-for-sale financial assets, current in consideration of the purpose and intent. Please see Note 6 to the financial statement for further information.

## 13. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2011 and 2010 were as follows:

	2011	2010
DTE Technology Corp.	\$ <u>          -</u>	\$ <u>          -</u>
Zhi Yuen Venture Capital Corporation	<u>60,000</u>	<u>          -</u>
	<u>\$ 60,000</u>	<u>\$ <u>          -</u></u>

The stocks mentioned above do not have public offering, active market and reliable fair values; thus, they are carried at cost. The Company invested in Zhi Yuen Venture Capital Corporation the amount of \$60,000 thousand in December 2011. Due to the operation loss of DTE Technology Corp., the Company had assessed the unrecoverable amount of investment cost, and recognized its impairment loss \$50,000 thousand.

## 14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2011 and 2010 consisted of the following:

	2011			2010	
	Cost	Revaluation Value	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 949,640	\$ 238,744	\$ -	\$ 1,188,384	\$ 1,215,424
Buildings and improvements	3,771,650	43,500	1,449,660	2,365,490	2,124,481
Machinery equipment	524,818	-	409,926	114,892	132,025
Transportation equipment	220,998	-	176,294	44,704	55,886
Furniture, fixtures and office equipment	359,766	-	305,076	54,690	67,044
Other equipment	68,766	-	55,568	13,198	17,777
Prepayments for equipment	<u>130</u>	<u>-</u>	<u>-</u>	<u>130</u>	<u>9</u>
	<u>\$ 5,895,768</u>	<u>\$ 282,244</u>	<u>\$ 2,396,524</u>	<u>\$ 3,781,488</u>	<u>\$ 3,612,646</u>

The Company recorded land value increment in 1987 and 1991 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities. Furthermore, in accordance with the amended Land Tax Law, the Company decreased its reserve for land value increment tax by \$49,652 thousand with a corresponding increase in adjustments of stockholders' equity for the year ended December 31, 2005.

## 15. OTHER ASSETS

Other assets as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Leased assets		
Cost and revaluation increment	\$ 2,665,697	\$ 3,146,331
Less accumulated depreciation	<u>(315,661)</u>	<u>(391,374)</u>
	2,350,036	2,754,957
Refundable deposits	9,778	9,874
Deferred charges	56,797	38,253
Deferred income tax assets, noncurrent (Note 27)	123,466	118,770
Land held by trustee	73,713	73,713
Others - land and buildings for sale	5,254	5,300
Temporary tax payments (Note 27)	<u>3,467</u>	<u>3,467</u>
	<u>\$ 2,622,511</u>	<u>\$ 3,004,334</u>

The Company leased its building to related party - Pou Chien Chemical Co., Ltd. and non-related party - Taiwan McDonald's, etc. Additionally, the Company rented part of Pou Chen International Building to related party - Windsor Entertainment. Rent income is determined by the rental space and local leasing market price.

Three parcels of land located in Changhwa County were purchased by the Company for \$22,187 thousand in June 1990, for \$33,668 thousand in April 1997, and for \$17,858 thousand in July 2007. According to related laws, the ownership for these three parcels of land should be transferred to the Company. However, due to certain restrictions under the land regulations, the ownership for these three parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the three parcels of land in the amount of \$73,713 thousand at December 31, 2011, are included in "other assets - land held by trustee".

## 16. SHORT-TERM LOANS

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

	2011		2010	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Unsecured loans	0.95-1.09	<u>\$ 3,750,000</u>	0.75-1.24	<u>\$ 3,839,000</u>

## 17. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at December 31, 2011 and 2010 consisted of the following:

	2011		2010	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Unsecured bills	0.82	\$ 500,000	-	\$ -
Less discount on short-term bills payable		<u>(867)</u>		<u>-</u>
		<u>\$ 499,133</u>		<u>\$ -</u>

## 18. OTHER PAYABLES

Other payables as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Salary and wages payable	\$ 202,070	\$ 202,359
Employee bonus payable (Note 24)	161,307	141,575
Compensation due to directors and supervisors (Note 24)	80,722	63,309
Interest payable	44,328	13,463
Payables on machinery and equipment	15,922	11,328
Other accrued expenses	<u>249,486</u>	<u>208,623</u>
	<u>\$ 753,835</u>	<u>\$ 640,657</u>

## 19. LONG-TERM DEBT

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

	2011	2010
Chinatrust Commercial Bank (lead lender) syndication loan Long-term debt, \$2,500,000 thousand, due in semiannual repayments commencing December 2, 2009 and maturing June 9, 2011. The principal was fully repaid in June 2011.	\$ -	\$ 625,000
Chinatrust Commercial Bank (lead lender) syndication loan Long-term debt, \$7,000,000 thousand, due in semiannual repayments commencing November 16, 2011 and maturing May 16, 2013. Interest rate is 1.37%.	5,250,000	7,000,000
Chinatrust Commercial Bank (lead lender) syndication loan Long-term debt, \$10,000,000 thousand, due in semiannual repayments commencing June 2, 2013 and maturing December 2, 2014. Interest rate is between 1.52%-1.57%.	10,000,000	4,500,000
First Commercial Bank (lead lender) syndicated loan Long-term debt, \$13,000,000 thousand, due in semiannual repayments commencing March 27, 2015 and maturing September 29, 2016. Interest rate is 1.50%.	<u>1,750,000</u>	<u>-</u>
	17,000,000	12,125,000
Less current portion	<u>-</u>	<u>(1,750,000)</u>
	<u>\$ 17,000,000</u>	<u>\$ 10,375,000</u>

Since the Company had refinanced the loans before December 31, 2011 and 2010, respectively, the current portion of the syndication loans from China Trust Commercial Bank was recorded under "long-term debt", accordingly.

## 20. PENSION PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were \$109,347 thousand and \$100,176 thousand for the years ended December 31, 2011 and 2010, respectively.

Based on the defined benefit plan under 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 Company recognized pension costs of \$56,779 thousand and \$61,786 thousand for the years ended December 31, 2011 and 2010, respectively.

Information about the defined benefit plan was as follows:

a. Components of net periodic pension cost for the years 2011 and 2010 consisted of the following:

	<b>2011</b>	<b>2010</b>
Service cost	\$ 23,553	\$ 28,030
Interest cost	27,736	27,404
Expected return on plan assets	(8,457)	(8,072)
Amortization of net transition asset	(1,875)	(1,875)
Amortization of pension loss	<u>15,822</u>	<u>16,299</u>
	<u>\$ 56,779</u>	<u>\$ 61,786</u>

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

	<b>2011</b>	<b>2010</b>
Actuarial present value of benefit obligation		
Vested benefits	\$ (451,461)	\$ (399,474)
Nonvested benefits	<u>(687,569)</u>	<u>(703,058)</u>
Accumulated benefit obligation	(1,139,030)	(1,102,532)
Additional benefits at future salaries	<u>(238,082)</u>	<u>(284,278)</u>
Projected benefit obligation	(1,377,112)	(1,386,810)
Plan assets at fair value	<u>359,302</u>	<u>407,919</u>
Projected benefit obligation in excess of plan assets	(1,017,810)	(978,891)
Net transition asset not yet recognized	(874)	(2,749)
Net pension loss not yet recognized	353,191	344,368
Additional pension liability	<u>(114,235)</u>	<u>(57,341)</u>
Accrued pension cost	<u>\$ (779,728)</u>	<u>\$ (694,613)</u>
Vested benefit	<u>\$ 547,994</u>	<u>\$ 489,215</u>

c. Actuarial assumptions as of December 31, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Weighted-average discount rate	2.00%	2.00%
Assumed rate of increase in salary	2.00%	2.25%
Expected rate of return on plan assets	2.00%	2.00%

	<b>Year Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
d. Contributions to the fund	<u>\$ 28,558</u>	<u>\$ 29,081</u>
e. Payments from the fund	<u>\$ 81,785</u>	<u>\$ 16,315</u>

## 21. OTHER LIABILITIES, OTHER

Other liabilities, other as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Unrealized gross profit from inter-affiliate transactions	\$ 31,055	\$ 33,904
Others (Note 10)	<u>59,707</u>	<u>-</u>
	<u>\$ 90,762</u>	<u>\$ 33,904</u>

## 22. CAPITAL STOCK

The Company's registered and issued capital as at December 31, 2011 and 2010 were summarized as follows:

	2011	2010
Registered capital		
Shares (in thousands)	<u>4,500,000</u>	<u>4,500,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 45,000,000</u>	<u>\$ 45,000,000</u>
Issued capital		
Shares (in thousands)	<u>2,924,147</u>	<u>2,899,756</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 29,241,469</u>	<u>\$ 28,997,559</u>

The Company's outstanding capital stock was \$28,430,847 thousand as at January 1, 2010. As at June 17, 2010, the stockholders' meeting approved to issue additional capital stock of \$559,962 thousand through unappropriated earnings. Furthermore, employee stock warrants were exercised for 675 thousand shares (amounted to \$6,750 thousand) during 2010. The Company's outstanding capital stock was \$28,997,559 thousand, divided into 2,899,756 thousand common shares, with a par value of \$10.00 per share, as at December 31, 2010.

Furthermore, employee stock warrants were exercised for 24,391 thousand shares (amounted to \$243,910 thousand) during 2011. As a result, the Company's outstanding common stock was \$29,241,469 thousand, divided into 2,924,147 thousand common shares, with a par value of \$10.00 per share, as at December 31, 2011.

## 23. EMPLOYEE STOCK OPTION PLANS

As at July 15, 2002, the board of directors of the Company resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of the Company's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002, and July 24, 2003, the Company has issued 66,600 units, and 1,000 units of employee stock warrants, respectively, to the employees with an exercise price of \$23.30 dollars and \$41.20 dollars per share, respectively. The exercise price of the warrant in 2011 has been retroactively restated as \$10.00 dollars and \$14.80 per share, respectively, due to the stock dividends issued.

Additionally, as at November 6, 2007, the Company has issued 125,500,000 units of employee stock warrants to the employees with an exercise price of \$29.80 dollars per share. Each of the aforementioned individual employee stock warrant is granted the right to purchase one newly issued common share.

If the Company resolved to increase additional capital stock through stock dividends or issue of new shares, the exercise price will be retroactively restated. Additionally, the share of employee stock warrant granted but not exercised will also be adjusted. After the aforementioned adjustment, the exercise price and issued units of employee stock warrants were \$21.30 and 149,392,469 units, respectively.

As at December 31, 2011, the employee stock warrants issued in 2002 were executed for 48,263 thousand shares of common stock.

Information about the Company's outstanding stock warrants for the years ended December 31, 2011 and 2010 was as follows:

Employee Stock Warrants	2011		2010	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
Balance, beginning of year	193,121	\$ 19.55	190,910	\$ 20.86
Adjustment from ownership dilution	-	-	2,886	22.30
Stock warrants exercised	<u>(24,391)</u>	10.00	<u>(675)</u>	10.00
Balance, end of year	<u>168,730</u>	20.03	<u>193,121</u>	19.55
Exercisable stock warrants, end of year	<u>168,730</u>		<u>141,399</u>	

As at December 31, 2011 and 2010, information about the Company's outstanding and exercisable stock warrants was as follows:

Range of Exercise Price (NT\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
<u>2011</u>					
\$10.00-\$21.30	<u>168,730</u>	<u>5.25</u>	<u>\$ 20.03</u>	<u>168,730</u>	<u>\$ 20.03</u>
<u>2010</u>					
\$10.00-\$22.30	<u>193,121</u>	<u>5.66</u>	<u>\$ 19.55</u>	<u>141,399</u>	<u>\$ 18.54</u>

If the compensation cost based on the fair value method is accounted for as expenses, the pro-forma results of the Company for the years ended December 31, 2011 and 2010 would have been as follows:

	2011	2010
Income before income tax	<u>\$ 5,958,700</u>	<u>\$ 8,572,966</u>
Net income	<u>\$ 5,700,756</u>	<u>\$ 7,629,556</u>
Basic earnings per share (in dollars)	<u>\$ 1.98</u>	<u>\$ 2.68</u>

In the aforementioned employee stock warrant plan, the Company adopted the Black-Scholes options pricing model to estimate the fair value of warrants on the grant dates, and the factors were as follows:

	Grant Dates		
	August 6, 2002	July 24, 2003	November 6, 2007
Dividend rate	-	-	-
Expected volatility of price	42.16%	44.17%	34.83%
Risk-free interest rate	2.61%	1.68%	2.70%
Expected life	6.5 years	6.5 years	6.5 years
Stock warrants issued (thousand shares)	66,600	1,000	125,500
Weighted average fair value (in dollars)	\$10.70	\$18.87	\$11.93

## 24. RETAINED EARNINGS

Under the Company Law of the ROC and the Company's Articles of Incorporation, the annual earnings should be appropriated as follows:

- a. For paying tax,
- b. For offsetting deficit,
- c. 10% of the annual earnings as legal reserve,
- d. Less than 3% as bonus to directors and supervisors after the three above are appropriated,
- e. 1%-5% as bonus to employees after the four above are appropriated,
- f. As special reserve or being retained partially, and
- g. Dividends to stockholders as proposed according to stock ownership proportion.
- h. For share bonus to qualified employees, including the employees of subsidiaries of the company meeting specific requirements. Regarding the terms and proportion, the board of directors of the Company is authorized to resolve.

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus also may be distributed in cash. The capital surplus from long-term investments may not be used for any purpose.

According to the newly amended Company Law, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

For the years ended December 31, 2011 and 2010, the bonus to employees was \$159,022 thousand and \$124,720 thousand, respectively, and the remuneration to directors and supervisors was \$80,722 thousand and \$63,309 thousand, respectively. The bonus to employees and remuneration to directors and supervisors both depended on the base amount determined according to the articles of incorporation (net of the bonus to employees and bonus to directors and supervisors). The amounts were estimated based on past experience. 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 shareholders' meeting.

The appropriations of earnings for 2010 and 2009 had been approved in the shareholders' meetings on June 15, 2011 and June 17, 2010, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Year 2010</u>	<u>For Year 2009</u>	<u>For Year 2010</u>	<u>For Year 2009</u>
Legal reserve	\$ 789,561	\$ 702,124	\$ -	\$ -
Cash dividends	3,480,523	4,199,715	1.20	1.50
Stock dividends	-	559,962	-	0.20

The bonus to employees of \$124,720 thousand and remuneration to directors and supervisors of \$63,309 thousand for 2010 were approved in the stockholders' meeting on June 15, 2011. The resolved amounts of the bonus to employees and the remuneration to directors and supervisors were the same as the accrual amounts, which were reflected in the financial statements for the year ended December 31, 2010.

The bonus to employees of \$251,777 thousand and the remuneration to directors and supervisors of \$127,805 thousand for 2009 were approved in the stockholders' meeting on June 17, 2010. The resolved amounts of the bonus to employees and the remuneration to directors and supervisors were the same as the accrual amounts, which were reflected in the financial statements for the year ended December 31, 2009.

Information on the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

In accordance with the Approval Documents (95) Jin-Guan-Tseng (1) No. 0950000507 of Financial Supervisory Commission, Executive Yuan, public listed companies have to appropriate earnings for special reserve according to Article 41-1 of Securities Transaction Act, in addition to the appropriation for legal reserve, in amount equal to debit balances, if any, in stockholders' equity (such as unrealized loss on financial assets and cumulative translation adjustments). The special reserve can be reversed and distributed as retained earnings if such deduction of stockholders' equity reversed.

## 25. TREASURY STOCK

The changes in treasury stock in 2011 and 2010 were summarized as follows (in shares):

<u>Purpose of Treasury Stock</u>	<u>Number of Shares, Beginning of Year</u>	<u>Addition During the Year</u>	<u>Reduction During the Year</u>	<u>Number of Shares, End of Year</u>
<u>Year ended December 31, 2011</u>				
For transfer to employees	43,300,000	-	43,300,000	-
Common shares held by subsidiaries	<u>10,233,528</u>	<u>277</u>	<u>-</u>	<u>10,233,805</u>
	<u>53,533,528</u>	<u>277</u>	<u>43,300,000</u>	<u>10,233,805</u>
<u>Year ended December 31, 2010</u>				
For transfer to employees	43,300,000	-	-	43,300,000
Common shares held by subsidiaries	<u>10,032,712</u>	<u>200,816</u>	<u>-</u>	<u>10,233,528</u>
	<u>53,332,712</u>	<u>200,816</u>	<u>-</u>	<u>53,533,528</u>



Article 28-2 of the Securities and Exchange Law stipulates that the number of treasury shares held by the Company should not exceed 10% of the number of shares issued and that the cost for acquisition of treasury shares should not exceed the total of retained earnings, additional-paid-in capital and other realized capital surplus. Treasury stock of \$1,086,041 thousand (43,300 thousand common shares) was purchased by the Company for the years ended December 31, 2011 and 2010.

On January 21, 2011, the board of directors of the Company approved to transfer 43,300 thousand shares of treasury stocks to employees at \$21.73 per share, which after deducting \$2,822 thousand of income tax, amounted to \$938,087 thousand. The grant date was February 21, 2011. The Company recognized \$257,635 thousand compensation cost of the transaction, according to SFAS No. 39, "Accounting for Share-based Payment".

According to the Stock Exchange Law of the ROC, the treasury stock of the Company should not be pledged and does not have the same right as the common stock.

After the 200,816 shares of dividends received by the subsidiaries in 2010, and the 277 shares adjustment of the subsidiaries' ownership in 2011, the subsidiaries held 10,233,805 shares and 10,233,528 shares of the Company's commons stock, respectively, as at December 31, 2011 and 2010, both at cost of \$155,375 thousand in total.

## 26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2011 and 2010 were summarized as follows:

Function Category	2011				2010			
	Operating Cost	Operating Expenses	Non-operating Expenses	Total	Operating Cost	Operating Expenses	Non-operating Expenses	Total
Personnel expense								
Salaries	\$ 130,404	\$ 1,991,610	\$ -	\$ 2,122,014	\$ 141,283	\$ 1,613,744	\$ -	\$ 1,755,027
Labor insurance and health insurance	10,795	131,244	-	142,039	11,387	118,455	-	129,842
Pension cost	5,379	160,747	-	166,126	6,118	155,844	-	161,962
Others	3,125	47,444	-	50,569	3,832	49,447	-	53,279
Depreciation expenses	18,850	217,148	60,086	296,084	17,479	209,695	62,726	289,900
Amortization expenses	1,230	34,830	-	36,060	2,381	25,923	-	28,304

## 27. INCOME TAX

The Company's income tax expense for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Income tax expense, current	\$ 617,039	\$ 509,869
Basic tax payable	-	16,860
10% additional income tax on undistributed earnings	74,011	376,550
Adjustment of deferred tax asset and valuation allowance	(491,192)	-
Effect of tax law changes on deferred income tax	-	24,855
Adjustment of prior year's income tax expense	<u>58,086</u>	<u>15,276</u>
Income tax expense, net	<u>\$ 257,944</u>	<u>\$ 943,410</u>

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

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

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

	2011	2010
Deferred income tax assets (liabilities)		
Unrealized pension expenses	\$ 114,734	\$ 109,940
Unrealized inventory devaluation losses	10,200	4,590
Unrealized impairment losses	8,500	8,500
Unrealized exchange (gain) losses	(3,467)	8,910
Unrealized bad debt losses	-	4,310
Unrealized investment income under equity method from foreign subsidiaries	(469,090)	(469,090)
Others	<u>1,223</u>	<u>1,720</u>
Deferred income tax liabilities, net	(337,900)	(331,120)
Deferred income tax assets, noncurrent	<u>123,466</u>	<u>118,770</u>
Deferred income tax liabilities, current	<u>\$ (461,366)</u>	<u>\$ (449,890)</u>

The Company's current income tax for the years ended December 31, 2011 and 2010 and income tax payable as at December 31, 2011 and 2010 were reconciled as follows:

	2011	2010
Income tax expense at statutory rate of 17%	\$ 1,030,993	\$ 1,502,634
Dividend income remitted overseas	216,345	-
Loss from investees which decreased capital to offset accumulated deficit	(111,202)	-
Investment income recognized under equity method	(506,738)	(897,951)
Gain on disposal of investments	(554)	(51,498)
Dividend income - tax free	(24,568)	(27,018)
Others	<u>12,763</u>	<u>(16,298)</u>
Income tax payable	617,039	509,869
Provision (reversal) for deferred income tax assets (liabilities)		
Investment income recognized under equity method from foreign subsidiaries	-	(469,090)
Loss carryforwards	(56,155)	-
Others	<u>(6,773)</u>	<u>(2,875)</u>
Income tax payable	554,111	37,904
Add basic tax payable	-	16,860
Add 10% additional income tax on undistributed earnings	74,011	376,550
Add adjustments for prior year's tax	48,637	-
Less investment tax credit	(218,699)	-
Less temporary tax payment	<u>(1,143)</u>	<u>(23)</u>
Income tax payable	<u>\$ 456,917</u>	<u>\$ 431,291</u>

Income tax payment of \$3,467 thousand (recorded under “other assets” account) as at December 31, 2011 was withholding tax.

The income tax returns for the years through 2009 (except 2008) had been examined and approved by the tax authority.

The information of the integrated income tax system as at December 31, 2011 was as follows:

Balance of Imputation Credit Account	<u>\$ 331,528</u>
Undistributed earnings for the years 1997 and before	<u>\$ 221,425</u>
Undistributed earnings for the years 1998 and thereafter	<u>\$ 12,650,441</u>
Expected IC ratio on distribution of earnings for the year 2011	<u>6.23%</u>
Actual IC ratio on distribution of earnings for the year 2010	<u>4.32%</u>

The expected IC ratio on distribution of earnings for the year 2011 considered income tax payable as at December 31, 2011.

## 28. EARNINGS PER SHARE

For the years ended December 31, 2011 and 2010, the amounts of earnings per share (EPS) before income tax and after income tax were as follows:

	2011				
	Amounts		Shares (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 6,064,667	\$ 5,806,723	2,886,017	<u>\$ 2.10</u>	<u>\$ 2.01</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	6,399		
Employee stock warrants	<u>-</u>	<u>-</u>	<u>47,286</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 6,064,667</u>	<u>\$ 5,806,723</u>	<u>2,939,702</u>	<u>\$ 2.06</u>	<u>\$ 1.98</u>
	2010				
	Amounts		Shares (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 8,839,024	\$ 7,895,614	2,845,728	<u>\$ 3.11</u>	<u>\$ 2.77</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	4,628		
Employee stock warrants	<u>-</u>	<u>-</u>	<u>49,258</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 8,839,024</u>	<u>\$ 7,895,614</u>	<u>2,899,614</u>	<u>\$ 3.05</u>	<u>\$ 2.72</u>

The Company presumes that the entire amount of the bonus will be settled in shares and the 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 shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

If the Company's common shares held by its subsidiaries were not accounted for as treasury stock, the pro-forma earnings per share for the years ended December 31, 2011 and 2010 would have been as follows:

	2011				
	Amounts		Shares (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 6,076,945	\$ 5,819,001	2,896,251	<u>\$ 2.10</u>	<u>\$ 2.01</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	6,399		
Employee stock warrants	-	-	<u>47,286</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 6,076,945</u>	<u>\$ 5,819,001</u>	<u>2,949,936</u>	<u>\$ 2.06</u>	<u>\$ 1.97</u>
	2010				
	Amounts		Shares (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 8,854,071	\$ 7,910,661	2,855,962	<u>\$ 3.10</u>	<u>\$ 2.77</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	4,628		
Employee stock warrants	-	-	<u>49,258</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 8,854,071</u>	<u>\$ 7,910,661</u>	<u>2,909,848</u>	<u>\$ 3.04</u>	<u>\$ 2.72</u>

## 29. DISCLOSURES FOR FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at December 31, 2011 and 2010 was summarized as follows:

Nonderivative Financial Instruments	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 202,213	\$ 202,213	\$ 332,699	\$ 332,699
Available-for-sale financial assets, current	3,282,473	3,282,473	3,580,839	3,580,839
Notes and accounts receivable	93,399	93,399	96,530	96,530
Note and accounts receivable from affiliates	1,346,465	1,346,465	1,772,006	1,772,006
Other receivables	202,489	202,489	248,229	248,229
Investments accounted for by the equity method	70,600,462	68,308,428	60,272,544	59,071,528
Available-for-sale financial assets, noncurrent	-	-	9	9
Financial assets carried at cost, noncurrent	60,000	-	-	-
Refundable deposits	9,778	9,778	9,874	9,874
<b>Liabilities</b>				
Short-term loans	3,750,000	3,750,000	3,839,000	3,839,000
Short-term bills payable	499,133	499,133	-	-
Notes and accounts payable	1,086,645	1,086,645	1,704,846	1,704,846
Notes and accounts payable to affiliates	128,590	128,590	252,234	252,234
Other payables	753,835	753,835	640,657	640,657
Current portion of long-term liabilities	-	-	1,750,000	1,750,000
Long-term debt	17,000,000	17,000,000	10,375,000	10,375,000
Guarantee deposits received	3,452	3,452	3,452	3,452
Derivative Financial Instruments	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Exchange rate option contracts (financial liabilities at fair value through profit or loss, current)	\$ 508	\$ 508	\$ -	\$ -
Interest rate swap contracts (financial liabilities at fair value through profit or loss, current)	16,490	16,490	-	-
Interest rate swap contracts (hedging derivative liabilities, current)	22,901	22,901	20,017	20,017
Interest rate swap contracts (hedging derivative liabilities, noncurrent)	11,450	11,450	52,502	52,502

The information about derivatives that were designated and effective as hedging instruments as at December 31, 2011 and 2010 was summarized as follows:

December 31, 2011

Bank	Derivative Financial Instruments	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
Chinatrust Commercial Bank	Interest rate swap	\$ 375,000	2013.05.16	2.480	0.861	\$ (6,126)
Chinatrust Commercial Bank	"	375,000	2013.05.16	2.280	0.861	(5,380)
Citibank	"	375,000	2013.05.16	2.480	0.861	(6,122)
Citibank	"	375,000	2013.05.16	2.460	0.861	(6,047)
Citibank	"	375,000	2013.05.16	2.280	0.861	(5,375)
Citibank	"	<u>375,000</u>	2013.05.16	2.260	0.861	<u>(5,301)</u>
		2,250,000				(34,351)
Less current portion		<u>(1,500,000)</u>				<u>22,901</u>
		<u>\$ 750,000</u>				<u>\$ (11,450)</u>

December 31, 2010

Bank	Derivative Financial Instruments	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
Chinatrust Commercial Bank	Interest rate swap	\$ 325,000	2011.06.09	2.24%	0.622%	\$ (2,516)
Chinatrust Commercial Bank	"	500,000	2013.05.16	2.48%	0.624%	(12,925)
Chinatrust Commercial Bank	"	500,000	2013.05.16	2.28%	0.624%	(11,250)
Citibank	"	500,000	2013.05.16	2.48%	0.624%	(12,341)
Citibank	"	500,000	2013.05.16	2.26%	0.624%	(10,573)
Citibank	"	500,000	2013.05.16	2.46%	0.624%	(12,180)
Citibank	"	<u>500,000</u>	2013.05.16	2.28%	0.624%	<u>(10,734)</u>
		3,325,000				(72,519)
Less current portion		<u>(1,075,000)</u>				<u>20,017</u>
		<u>\$ 2,250,000</u>				<u>\$ (52,502)</u>

Approaches and assumptions employed in assessing the fair value of financial instruments are summarized as follows:

- The fair value of cash and cash equivalents, receivable, payable, short-term loans, refundable deposits, and guarantee deposits received, approximates their carrying value due to the short-term maturities of these financial instruments.
- The fair values of financial instruments at fair value through profit or loss, and available-for-sale financial assets are quoted by market price. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

- The fair values of investments accounted for by the equity method are based on their quoted prices in the active market. For those investments with no quoted market prices, their fair values are based on the net equity value in the financial report verified and certified by an independent accountant.

- d. Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- e. The fair value of long-term debt is estimated based on the net present value of expected cash flows.

The fair value of financial instruments that used the quoted market price in active market or other method of valuation was summarized as follows:

	Quoted Market Price in Active Market		Other Method of Valuation	
	2011	2010	2011	2010
<b>Assets</b>				
Available-for-sale financial assets, current	\$ 3,282,473	\$ 3,580,839	\$ -	\$ -
Available-for-sale financial assets, noncurrent	-	9	-	-
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss, current	-	-	16,998	-
Hedging derivative liabilities, current	-	-	22,901	20,017
Hedging derivative liabilities, noncurrent	-	-	11,450	52,502

As at December 31, 2011 and 2010, financial liabilities exposed to cash flow interest rate risk were \$21,249,133 thousand and \$15,964,000 thousand, respectively.

### Financial Risk Information

a. Market risk

The risk that the Company has on portfolios of marketable equity securities comes from changes in market price. If one percentage decline in market rate would cause the fair value of financial instruments to decline by \$42,317 thousand and \$52,700 thousand, respectively, at December 31, 2011 and 2010.

b. Credit risk

Financial instruments are evaluated for credit risk which represents the potential loss that would be incurred by the Company if the counterparties or third parties breached the contracts. The risk factors include centralization of credit, components, contract figure, and accounts receivable. The Company requires significant clients to provide guarantees or other rights to reduce credit risk of the Company effectively.

c. Liquidity risk

The Company has the ability to meet its financial obligations; thus, liquidity risks virtually do not exist.

Financial assets at fair value through profit or loss and available-for-sale financial assets of the Company are saleable in active market; thus, they can be quickly and easily sold with price close to fair value.

d. Cash flow interest rate risk

The Company engaged in floating-interest-rate, short-term and long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. If one percentage increase in market rate would cause the Company to increase its cash-out by \$212,491 thousand and \$159,640 thousand, respectively, in 2011 and 2010.

### 30. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Wealthplus Holdings Limited (“Wealthplus”)	The Company holds a 100% ownership interest
Pou Shine Investments Co., Ltd. (“Pou Shine”)	The Company holds a 100% ownership interest
Ming Wang Investments Co., Ltd. (“Ming Wang”)	The Company holds a 100% ownership interest
Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”)	The Company holds a 97.80% ownership interest
Barits Development Corporation (“Barits Development”)	The Company holds a 99.47% ownership interest
Song Ming Investments Co., Ltd. (“Song Ming”)	Barits Development holds a 100% ownership interest
Pou Yii Development Co., Ltd. (“Pou Yii”)	The Company and Song Ming hold a 75.00% ownership interest
Pro Arch International Development Enterprise Inc. (“Pro Arch International”)	The Company holds a 96.32% ownership interest
Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”)	The Company indirectly holds a 49.98% ownership interest
Sheachang Enterprise Corp. (“Sheachang”)	Related party in substance
Ming Chi Investments Co., Ltd. (“Ming Chi”)	Barits Development holds a 100% ownership interest
Windsor Entertainment Co., Ltd. (“Windsor Entertainment”)	The Company holds a 100% ownership interest
Pou Chien Chemical Co., Ltd. (“Pou Chien Chemical”)	Yue Yuen indirectly holds a 100% ownership interest
Yue Dean Technology Corp. (“Yue Dean”)	Yue Yuen indirectly holds a 100% ownership interest
San Fang Chemical Industry Co., Ltd. (“San Fang”)	Pou Chien and Yue Dean are its directors
Platinum Long John Co., Ltd. (“Platinum Long John”)	Yue Yuen indirectly holds a 48.76% ownership interest
Pou Yu Biotechnology Co., Ltd. (“Pou Yu Biotechnology”)	Wealthplus indirectly holds a 69.39% ownership interest
LNC Technology Co., Ltd. (“LNC Technology”)	The Company holds a 76.96% ownership interest
Ruen Chen Investment Holding Co., Ltd. (“Ruen Chen”)	The Company holds a 20.00% ownership interest
The Right and Great Asia-Pacific Realty Development Co., Ltd. (“Right and Great Asia-Pacific”)	The Company holds a 70.00% ownership interest
Digital Decade Limited (“Digital Decade”)	Wealthplus indirectly holds a 100% ownership interest
Tetor Ventures Ltd. (“Tetor Ventures”)	Wealthplus holds a 100.00% ownership interest



The Company's major transactions with the related parties were summarized as follows:

### Sales and Technical Service Income

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

	2011		2010	
	Amount	Percentage	Amount	Percentage
Yue Yuen	\$ 12,038,584	92	\$ 13,077,890	93
Sheachang	186,906	1	105,904	1
Others	<u>85,224</u>	<u>1</u>	<u>64,587</u>	<u>-</u>
	<u>\$ 12,310,714</u>	<u>94</u>	<u>\$ 13,248,381</u>	<u>94</u>

The price and collection terms for both related parties and unrelated parties are similar.

In April 1997, the Company entered into a technical service agreement with Yue Yuen. According to the agreement, the service fees that the Company will receive from Yue Yuen are determined by:

- For products developed by the Company and sold by Yue Yuen, 0.5% of net sales invoice amounts.
- For materials, machines and other goods purchased, inspected and arranged for shipment through the Company from Taiwan suppliers, 1% of supplier's invoice amounts.
- For materials, machines and other goods purchased from Taiwan or overseas directly by Yue Yuen through sourcing services provided by the Company, 0.5% of the supplier's invoice amounts.

### Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2011 and 2010 were summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Yue Yuen	\$ 544,677	6	\$ 632,453	6
San Fang	376,272	4	680,103	6
Platinum Long John	368,608	4	466,214	5
Others	<u>4,400</u>	<u>-</u>	<u>1,795</u>	<u>-</u>
	<u>\$ 1,293,957</u>	<u>14</u>	<u>\$ 1,780,565</u>	<u>17</u>

The purchase price and payment terms for both related parties and unrelated parties are similar.

## Rent Revenue

Rent revenue from related parties for the years ended December 31, 2011 and 2010 was summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Windsor Entertainment	\$ 108,002	65	\$ 107,789	65
Pou Chien Chemical	14,391	9	14,554	9
Others	<u>27,814</u>	<u>16</u>	<u>26,838</u>	<u>16</u>
	<u>\$ 150,207</u>	<u>90</u>	<u>\$ 149,181</u>	<u>90</u>

## Notes and Accounts Receivable

Notes and accounts receivable from affiliates as at December 31, 2011 and 2010 were summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Notes receivable				
Sheachang	\$ 43,684	89	\$ 5,685	73
Others	<u>203</u>	<u>-</u>	<u>86</u>	<u>1</u>
	<u>43,887</u>	<u>89</u>	<u>5,771</u>	<u>74</u>
Accounts receivable				
Yue Yuen	1,231,606	89	1,706,223	92
Others	<u>70,972</u>	<u>5</u>	<u>60,012</u>	<u>3</u>
	<u>1,302,578</u>	<u>94</u>	<u>1,766,235</u>	<u>95</u>
	<u>\$ 1,346,465</u>		<u>\$ 1,772,006</u>	

## Notes and Accounts Payable

Notes and accounts payable to related parties as at December 31, 2011 and 2010 were summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Notes payable				
San Fang	\$ <u>25,843</u>	<u>42</u>	\$ <u>48,791</u>	<u>56</u>
Accounts payable				
Yue Yuen	51,789	4	109,888	6
Platinum Long John	31,574	3	33,715	2
San Fang	18,738	2	45,036	2
Others	<u>646</u>	<u>-</u>	<u>14,804</u>	<u>1</u>
	<u>102,747</u>	<u>9</u>	<u>203,443</u>	<u>11</u>
	<u>\$ 128,590</u>		<u>\$ 252,234</u>	

## Compensation of Directors, Supervisors and Management Personnel

Compensation of Directors, Supervisors and Management Personnel for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Salaries	\$ 19,953	\$ 17,045
Incentives	80,722	63,309
Bonus	10,400	10,400
Others	<u>7,244</u>	<u>7,211</u>
	<u>\$ 118,319</u>	<u>\$ 97,965</u>

## Financing to Related Parties (Recorded under "Other Receivables")

The Company's financing to related parties for the year ended December 31, 2011 was as follows:

	2011			
	Maximum Balance	Ending Balance	Interest Rate Range	Interest Income
Right and Great Asia-Pacific	<u>\$ 17,000</u>	<u>\$ 17,000</u>	2.68%	<u>\$ 92</u>

## Property Transactions

The Company sold partial properties to related parties for the year ended December 31, 2011 was as follows:

	2011			
Item	Carrying Value	Selling price	Gain (Loss) on Disposal	
Windsor Entertainment				
Machinery equipment	\$ 16	\$ 17		\$ 1
Furniture, fixtures and office equipment	3,667	6,046		2,379
Other equipment	3,922	4,590		668
Leased assets	<u>25,383</u>	<u>25,378</u>		<u>(5)</u>
	<u>\$ 32,988</u>	<u>\$ 36,031</u>		<u>\$ 3,043</u>

## Property Guarantees

The Company has provided 820,000 thousand shares of Ruen Chen as collateral of the long-term loans made by Ruen Chen from banks. The maximum amount guaranteed by the Company was set at \$7,500,000 thousand.

## Credit Guarantees

See Note 31.

### 31. COMMITMENTS AND CONTINGENCIES

#### Letters of Credit

Outstanding letters of credit as at December 31, 2011 were as follows:

U.S. dollars (in dollars) \$ 225,401

Per the request from FSC and other authorities, the Company guaranteed that the shares of Yue Yuen owned by the Company's subsidiary, Wealthplus, for custody will not be disposed or pledged during the custody period in connection with the investment in Nan Shan Life Insurance Co., Ltd. through Ruen Chen.

At December 31, 2011 the Company had guaranteed the payments of credit of related parties as follows:

Related Party	Amount
Wealthplus	\$ 14,762,090
Barits Development	6,658,250
Pro Arch International	450,000
Pou Shine	1,050,000
Pou Yuen Technology	1,742,107
Ming Wang	650,000
Ming Chi	200,000
Pou Yii	400,000
LNC Technology	46,599
Pou Yu Biotechnology	3,265
Ruen Chen	7,500,000
Tetor Ventures	420,823
Digital Decade	<u>96,880</u>
	<u>\$ 33,980,014</u>

### 32. SUBSEQUENT EVENTS

On March 5, 2012, the Company's board of directors resolved to acquire 18,000 thousand shares of Right and Great Asia-Pacific, from non-related parties at \$18.00 per share. As at March 27, 2012, the Company has acquired 16,000 thousand shares, while 2,000 thousand shares were not yet registered, for a total consideration of \$288,000 thousand.