

**WEIKENG INDUSTRIAL CO., LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

Review Report of Independent Auditor

The Board of Directors
Weikeng Industrial Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Weikeng Industrial Co., Ltd. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of some subsidiaries, which reflect assets amounting to NT\$6,221,868,000 and NT\$5,248,738,000 constituting 46.66% and 44.71% of the consolidated totals as of December 31, 2011 and 2010, respectively, and total revenues amounting to NT\$14,326,836,000 and NT\$13,742,975,000 constituting 44.60% and 43.11% of the consolidated totals for 2011 and 2010, respectively. The financial statements of those subsidiaries mentioned above were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Weikeng Industrial Co., Ltd. and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the “ Business entity Accounting Act” and of the “Regulation of Handling Business Entity Accounting”, and accounting principles generally accepted in the Republic of China.

March 20, 2012

The accompanying consolidated financial statements are intended only to present the consolidated financial position, consolidated 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

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

Assets	2011		2010		Liabilities and Stockholders' Equity	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4)	\$ 2,459,696	18.5	2,140,104	18.2	Short-term loans and commercial paper (note 9)	\$ 3,995,374	30.0	3,360,465	28.6
Financial assets measured at fair value through profit or loss – current (note 5)	68,426	0.5	82,908	0.7	Notes and accounts payable	3,725,074	27.9	3,943,554	33.6
Notes and accounts receivable, net (notes 6 and 16)	4,870,813	36.5	4,181,037	35.6	Accrued expenses and other current liabilities (notes 5, 12 and 16)	<u>655,144</u>	<u>4.9</u>	<u>581,736</u>	<u>5.0</u>
Other current financial assets (note 6)	125,335	0.9	74,822	0.6		<u>8,375,592</u>	<u>62.8</u>	<u>7,885,755</u>	<u>67.2</u>
Inventories, net (note 7)	5,094,640	38.2	4,737,575	40.4	Long-term liabilities:				
Prepaid expenses and other current assets (note 13)	<u>273,425</u>	<u>2.1</u>	<u>133,852</u>	<u>1.2</u>	Financial liabilities measured at fair value through profit or loss – noncurrent (note 10)	33,322	0.2	-	-
	<u>12,892,335</u>	<u>96.7</u>	<u>11,350,298</u>	<u>96.7</u>	Convertible bonds payable (note 10)	<u>730,241</u>	<u>5.5</u>	-	-
						<u>763,563</u>	<u>5.7</u>	-	-
Funds and investments (note 5):					Other liabilities:				
Available-for-sale financial assets – noncurrent	68,157	0.5	46,502	0.4	Accrued pension liability (note 11)	67,195	0.5	65,988	0.6
Financial assets carried at cost – noncurrent	<u>120,734</u>	<u>0.9</u>	<u>119,270</u>	<u>1.0</u>	Deferred income tax liabilities and other (note 13)	<u>100,837</u>	<u>0.8</u>	<u>51,077</u>	<u>0.4</u>
	<u>188,891</u>	<u>1.4</u>	<u>165,772</u>	<u>1.4</u>		<u>168,032</u>	<u>1.3</u>	<u>117,065</u>	<u>1.0</u>
Property and equipment:					Total liabilities	<u>9,307,187</u>	<u>69.8</u>	<u>8,002,820</u>	<u>68.2</u>
Office and other equipment	161,607	1.2	148,607	1.3					
Less: accumulated depreciation	<u>(120,912)</u>	<u>(0.9)</u>	<u>(111,608)</u>	<u>(1.0)</u>	Common stock (note 12):	<u>2,439,386</u>	<u>18.3</u>	<u>2,323,225</u>	<u>19.8</u>
	<u>40,695</u>	<u>0.3</u>	<u>36,999</u>	<u>0.3</u>	Capital surplus (notes 10 and 12):				
Intangible and other assets:					Paid-in capital in excess of par value	315,026	2.3	431,187	3.7
Leased assets (note 8)	115,209	0.9	116,072	1.0	Paid-in capital – redemption right and other	<u>74,754</u>	<u>0.6</u>	<u>38,694</u>	<u>0.3</u>
Refundable deposits and other noncurrent assets	<u>98,553</u>	<u>0.7</u>	<u>69,507</u>	<u>0.6</u>		<u>389,780</u>	<u>2.9</u>	<u>469,881</u>	<u>4.0</u>
	<u>213,762</u>	<u>1.6</u>	<u>185,579</u>	<u>1.6</u>	Retained earnings (note 12):				
					Legal reserve	441,177	3.3	369,497	3.1
					Special reserve	143,579	1.1	-	-
					Unappropriated earnings	<u>666,860</u>	<u>5.0</u>	<u>716,804</u>	<u>6.1</u>
						<u>1,251,616</u>	<u>9.4</u>	<u>1,086,301</u>	<u>9.2</u>
					Equity adjustment:				
					Foreign currency translation adjustments	(77,736)	(0.6)	(147,374)	(1.2)
					Unrealized gains on financial instruments (note 5)	<u>25,450</u>	<u>0.2</u>	<u>3,795</u>	-
						<u>(52,286)</u>	<u>(0.4)</u>	<u>(143,579)</u>	<u>(1.2)</u>
					Total stockholders' equity	4,028,496	30.2	3,735,828	31.8
					Commitments and contingencies (note 17)				
Total assets	\$ <u>13,335,683</u>	<u>100.0</u>	<u>11,738,648</u>	<u>100.0</u>	Total liabilities and stockholders' equity	\$ <u>13,335,683</u>	<u>100.0</u>	<u>11,738,648</u>	<u>100.0</u>

See accompanying notes to consolidated financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2011 and 2010
(expressed in thousands of New Taiwan dollars, except earnings per share,
which are expressed in New Taiwan dollars)

	2011		2010	
	Amount	%	Amount	%
Gross sales	\$ 32,401,433	100.9	32,085,856	100.7
Less: sales returns and allowances	<u>281,172</u>	<u>0.9</u>	<u>209,025</u>	<u>0.7</u>
Net sales (note 16)	32,120,261	100.0	31,876,831	100.0
Cost of sales (notes 7 and 16)	<u>29,794,995</u>	<u>92.8</u>	<u>29,677,844</u>	<u>93.1</u>
Gross profit	<u>2,325,266</u>	<u>7.2</u>	<u>2,198,987</u>	<u>6.9</u>
Operating expenses (note 18):				
Selling expenses	986,198	3.1	895,414	2.8
Administrative expenses	<u>433,657</u>	<u>1.3</u>	<u>458,556</u>	<u>1.5</u>
	<u>1,419,855</u>	<u>4.4</u>	<u>1,353,970</u>	<u>4.3</u>
Operating income	<u>905,411</u>	<u>2.8</u>	<u>845,017</u>	<u>2.6</u>
Non-operating income:				
Interest income	5,637	-	3,826	-
Foreign currency exchange gain, net	22,923	0.1	179,198	0.6
Gain on bad debt recovery	4,192	-	-	-
Gain on valuation of financial instruments, net (notes 5 and 10)	9,361	-	-	-
Other (note 16)	<u>13,382</u>	<u>-</u>	<u>8,415</u>	<u>-</u>
	<u>55,495</u>	<u>0.1</u>	<u>191,439</u>	<u>0.6</u>
Non-operating expenses and losses:				
Interest expenses (note 10)	59,347	0.2	46,629	0.2
Impairment losses on financial assets (note 5)	10,000	-	10,000	-
Loss on valuation of financial instruments, net (note 5)	-	-	14,979	-
Other	<u>13,930</u>	<u>-</u>	<u>7,210</u>	<u>-</u>
	<u>83,277</u>	<u>0.2</u>	<u>78,818</u>	<u>0.2</u>
Net income before income tax	877,629	2.7	957,638	3.0
Income tax expense (note 13)	<u>210,769</u>	<u>0.6</u>	<u>240,834</u>	<u>0.8</u>
Consolidated income (distributed to parent company's shareholders)	<u>\$ 666,860</u>	<u>2.1</u>	<u>\$ 716,804</u>	<u>2.2</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Basic earnings per share (note 14)	<u>\$ 3.60</u>	<u>2.73</u>	<u>4.12</u>	<u>3.09</u>
Basic earnings per share calculated by adjusting dividends declared retroactively			<u>\$ 3.93</u>	<u>2.94</u>
Diluted earnings per share	<u>\$ 3.37</u>	<u>2.58</u>	<u>4.07</u>	<u>3.04</u>
Diluted earnings per share calculated by adjusting dividends declared retroactively			<u>\$ 3.87</u>	<u>2.90</u>

See accompanying notes to consolidated financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2011 and 2010
(expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Foreign currency translation adjustment	Unrealized gain on financial instruments	Total
Balance as of January 1, 2010	\$ 2,321,555	469,778	323,814	-	456,827	(8,585)	12,685	3,576,074
Appropriation (note 1):								
Legal reserve	-	-	45,683	-	(45,683)	-	-	-
Cash dividends	-	-	-	-	(411,144)	-	-	(411,144)
Donated assets received	-	270	-	-	-	-	-	270
Issuance of stock from exercise of employee stock options	1,670	(167)	-	-	-	-	-	1,503
Net income for 2010	-	-	-	-	716,804	-	-	716,804
Foreign currency translation adjustments	-	-	-	-	-	(138,789)	-	(138,789)
Adjustment for unrealized gain or loss on financial instruments	-	-	-	-	-	-	(8,890)	(8,890)
Balance as of December 31, 2010	<u>2,323,225</u>	<u>469,881</u>	<u>369,497</u>	<u>-</u>	<u>716,804</u>	<u>(147,374)</u>	<u>3,795</u>	<u>3,735,828</u>
Appropriation (note 2):								
Legal reserve	-	-	71,680	-	(71,680)	-	-	-
Special reserve	-	-	-	143,579	(143,579)	-	-	-
Cash dividends	-	-	-	-	(501,545)	-	-	(501,545)
Capital surplus transferred to common stock	116,161	(116,161)	-	-	-	-	-	-
Changes in equity component of convertible bonds	-	36,060	-	-	-	-	-	36,060
Net income for 2011	-	-	-	-	666,860	-	-	666,860
Foreign currency translation adjustments	-	-	-	-	-	69,638	-	69,638
Adjustment for unrealized gain or loss on financial instruments	-	-	-	-	-	-	21,655	21,655
Balance as of December 31, 2011	<u>\$ 2,439,386</u>	<u>389,780</u>	<u>441,177</u>	<u>143,579</u>	<u>666,860</u>	<u>(77,736)</u>	<u>25,450</u>	<u>4,028,496</u>

Note 1: Directors' and supervisors' remuneration amounting to \$12,335 and employee bonuses amounting to \$49,337 were recognized in the 2009 statement of income.

Note 2: Directors' and supervisors' remuneration amounting to \$15,046 and employee bonuses amounting to \$60,185 were recognized in the 2010 statement of income.

See accompanying notes to consolidated financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010
(expressed in thousands of New Taiwan dollars)

	2011	2010
Cash flows from operating activities:		
Consolidated income	\$ 666,860	716,804
Adjustments to reconcile net income to consolidated cash provided by (used in) operating activities:		
Depreciation and amortization	24,654	24,231
Impairment losses on financial assets	10,000	10,000
Decrease (increase) in financial assets measured at fair value through profit or loss – current	14,482	129,501
Decrease (increase) in notes and accounts receivable	(689,776)	(827,881)
Decrease (increase) in other current financial assets	(50,513)	(10,170)
Decrease (increase) in inventories, net	(358,749)	(1,061,461)
Decrease (increase) in prepaid expenses and other current assets	(125,395)	25,438
Increase (decrease) in notes and accounts payable	(218,480)	315,842
Increase (decrease) in accrued expenses and other current liabilities	75,414	211,113
Net change in deferred income tax assets and liabilities	32,928	47,289
Other	4,485	32,100
Net cash provided by (used in) operating activities	<u>(614,090)</u>	<u>(387,194)</u>
Cash flows from investing activities:		
Increase in financial assets carried at cost – noncurrent	(30,689)	(12,400)
Proceeds from disposal of financial assets carried at cost	16,317	-
Additions to property and equipment	(16,222)	(18,331)
Decrease (increase) in refundable deposits	(26,308)	3,788
Increase in deferred expenses	(13,338)	(5,781)
Decrease (increase) in restricted assets	-	700
Other	4,134	1,428
Net cash provided by (used in) investing activities	<u>(66,106)</u>	<u>(30,596)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans and commercial paper	634,909	714,655
Increase in bonds payable	800,000	-
Redemption of convertible bonds	(17,326)	-
Cash dividends paid	(501,545)	(411,144)
Proceeds from issuance of stock for employee stock options exercised	-	1,503
Other	(17)	3,158
Net cash provided by (used in) financing activities	<u>916,021</u>	<u>308,172</u>
Foreign currency translation adjustments	<u>83,767</u>	<u>(164,622)</u>
Net increase (decrease) in cash and cash equivalents	319,592	(274,240)
Cash and cash equivalents at beginning of year	<u>2,140,104</u>	<u>2,414,344</u>
Cash and cash equivalents at end of year	\$ <u>2,459,696</u>	\$ <u>2,140,104</u>
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ <u>44,018</u>	<u>45,153</u>
Income tax	\$ <u>216,112</u>	<u>130,846</u>
Supplementary disclosures of operating and investing not affecting cash flows:		
Inventories transferred to property and equipment	\$ <u>1,684</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

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

(1) Organization (expressed in thousands of US dollars)

Weikeng Industrial Co., Ltd. (the Company) was incorporated in Taiwan as a company limited by shares in January 1977. The major activities of the Company are the purchase and sale of electronic components and computer peripherals, technical service, and the import-export trade business. The Company's common shares are listed on the Taiwan Stock Exchange (TSE).

Weikeng International Co., Ltd. (WKI) was incorporated in Hong Kong in February 1997. The major activities of WKI are the purchase and sale of electronic components. As of December 31, 2011, the Company owned 100% of WKI's outstanding common stock, amounting to USD 23,794.

Weikeng Technology Pte Ltd. (WTP) was incorporated in Singapore in January 2001. The major activities of WTP are the purchase and sale of electronic components. As of December 31, 2011, the Company owned 100% of WTP's outstanding common stock, amounting to USD 5,512.

Weikeng Technology Co., Ltd. (WTC, formerly Score Zap Industry Co., Ltd.) was incorporated in Taiwan in January 1988. The major activities of WTC are the purchase and sale of electronic components. As of December 31, 2011, the Company owned 100% of WTC's outstanding common stock, amounting to \$95,893.

Weikeng International (Shanghai) Co., Ltd. (WKS) was incorporated in Mainland China in June 2002. The major activities of WKS are international trade, import and export trade, and bonded trade. As of December 31, 2011, WKI owned 100% of WKS's outstanding common stock, amounting to USD 5,000.

Weitech International Co., Ltd. (Weitech) was incorporated in Hong Kong in March 1998. The major activities of Weitech are the purchase and sale of electronic components. As of December 31, 2011, WKI owned 100% of Weitech's outstanding common stock, amounting to USD 0.01.

The Company and the above subsidiaries consolidated in the accompanying financial statements are jointly called "the Group". As of December 31, 2011 and 2010, the number of employees hired by the Group was 929 and 892, respectively.

(2) Summary of Significant Accounting Policies

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

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The accompanying consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles and practices generally accepted in Taiwan, the Republic of China (ROC). The significant accounting policies and measurement bases adopted in preparing the accompanying consolidated financial statements are as follows:

(a) Reporting entities of the consolidated financial statements and basis of consolidation

Investees which the Company has the power to control are consolidated into the Company's financial statements. The Company prepares consolidated financial statements by quarter.

As of December 31, 2011 and 2010, the Company and the subsidiaries (the Group) included in the consolidated financial statements and the Company's direct and indirect percentage of ownership were as follows:

Name of company which holds securities	Name of subsidiary	Major operations	Percentage of ownership (%)	
			2011	2010
The Company	WKI	Purchase and sale of electronic components	100.00%	100.00%
"	WTC	"	100.00%	100.00%
"	WTP	"	100.00%	100.00%
WKI	WKS	International trade, import and export trade, and bonded trade	100.00%	100.00%
"	Weitech	Purchase and sale of electronic components	100.00%	100.00%

All significant inter-company transactions have been eliminated. The Company adopted amended SFAS No. 5 "Long-Term Investments under Equity Method" to handle the difference between investment cost and net equity.

(b) Foreign currency transactions and translation

The Group's reporting currency is the local currency. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of income.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at foreign exchange rates ruling at the dates the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

(c) Accounting estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(d) Distinction between current and noncurrent assets and liabilities

Cash or cash equivalents and assets that will be held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets shall be classified as non-current.

Liabilities that will be held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities shall be classified as non-current.

(e) Impairment of assets

The Group adopts ROC SFAS No. 35 "Impairment of Assets". Under SFAS No. 35, if there is any indication of impairment, assets are written down to the recoverable amount. Impairment losses, if any, are recognized in the statement of income. The Group reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Group assesses the cash generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(f) Cash equivalents

Cash equivalents represent investments in bonds purchased under resale agreements with a maturity of three months or less from the date of investment.

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

These financial instruments are intended mainly for purposes of selling or repurchasing in the short term. Except for the derivatives that the Group holds for hedging purposes and are considered to be effective, all derivative assets are classified into this account. At initial recognition, financial instruments are measured at fair value and include the cost of acquisition or issuance. Subsequent to initial recognition, the Group measures these financial instruments at fair value through profit or loss. A regular way purchase or sale of financial assets is recognized using transaction-date accounting.

(h) Available-for-sale financial assets

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

If there is objective evidence that an impairment loss has been incurred, impairment loss is recognized in profit or loss. If the impairment loss decreases subsequently, impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are reversed through equity, rather than through profit or loss.

(i) Financial assets carried at cost

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

(j) Notes and accounts receivable, other receivables, and refundable deposits

Notes and accounts receivable are created by the Group by providing goods or services directly to a debtor. Other receivables are created from non-operating income.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Before December 31, 2010, the allowance for doubtful accounts was provided according to an aging analysis and the likelihood of collection of the Group's accounts receivable balances. Effective from January 1, 2011, the Group adopted the third amended SFAS No. 34 "Financial Instruments: Recognition and Measurement". The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Impairment loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The impairment loss is recognized in profit or loss. The present value of estimated future cash flows includes the recoverable amount of collateral and insurance.

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

(k) Derivative financial instruments and hedges

The derivative financial instruments held by the Group are intended to hedge the risk of changes in foreign currency exchange rates and interest rates resulting from operating, financing and investing activities. These derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

(l) Factoring of accounts receivable

The Group adopts SFAS No. 33 "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities" and derecognizes the related financial assets and liabilities when all of the following conditions are met:

1. The transferred assets have been isolated from the transferor.
2. The transferee obtains the right to exchange the transferred assets with a third party.
3. The transferor does not maintain effective control over the transferred assets through an agreement that entitles and obligates the transferor to repurchase the transferred assets before their maturity.

The accounts receivable of factoring are accounted for as other current financial assets, net of commission.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(m) Inventories**

The cost of inventories consists of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories are measured at the lower of cost or net realizable value. The cost of inventories is calculated based on the weighted-average-cost principle. Net realizable value is the estimated selling price in the ordinary course of business, less the selling expenses at the end of the year.

(n) Property and equipment, and leased assets

Property and equipment are stated at cost. Excluding land, depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets. If the property and equipment have reached the end of their estimated useful lives but are still in use, the Group estimates the remaining useful lives and residual values, and depreciates the remaining costs using the same method. Gains on the disposal of property and equipment are included in non-operating income.

Property and equipment leased to other parties through operating lease arrangements are classified as leased assets. Excluding land, buildings are stated at cost, net of accumulated depreciation. Depreciation related to leased assets is accounted for as a reduction of rental income.

The useful lives of respective assets are as follows:

1. Leased assets - buildings: 59 to 60 years
2. Office and other equipment: 1 to 6 years

(o) Intangible assets

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

The depreciable amount of an intangible asset is determined by the original cost less its residual value. Amortization is provided for by using the straight-line method over the estimated useful lives of intangible assets from the date that they are made available for use. The cost of computer software is amortized by using the straight-line method over one to five years.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- (p) Financial liabilities measured at fair value through profit or loss

These financial instruments are intended mainly for purposes of selling or repurchasing in the short term. Except for the derivatives that the Group holds for hedging purposes and are considered to be effective, all derivative liabilities are classified into this account. At initial recognition, financial instruments are measured at fair value and include the cost of acquisition or issuance. Subsequent to initial recognition, the Group measures these financial instruments at fair value through profit or loss.

- (q) Short-term commercial paper payable

Short-term commercial paper payable is measured at present value, and its discount is recognized as a deduction from short-term commercial paper payable.

- (r) Bonds payable

The Group uses the effective interest rate to calculate the amortized cost and interest expense. At initial recognition, bonds payable are measured at fair value.

- (s) Compound financial instruments

Compound financial instruments issued by the Group on or after January 1, 2006, comprise convertible notes that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

- (t) Retirement plan

Pursuant to the Taiwan Labor Standards Law, the Company and WTC have established an employee noncontributory pension plan covering all regular employees. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments and are determined principally by the length of service of the employees and average salary for the six months before the employee's retirement. Each employee will earn two month of salary for the first 15 years of service and one month of salary for each service year after the sixteenth year. The maximum benefit is forty-five month of salary. The Company and WTC make monthly cash contributions at a rate of 2% of monthly salaries and wages to a pension fund maintained with Bank of Taiwan. Retirement benefits are paid first from the fund.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

For the above defined benefit pension plan, the Company and WTC have their pension plan actuarially valued at year-end and recognize net periodic pension costs, including service costs, interest costs, expected return on plan assets, and the amortization of net unrecognized transition obligations over the average remaining service period of the employees (26 years and 17 years, respectively).

Under the Labor Pension Act, a defined contribution pension plan is implemented for all new employees and for any employees employed before that date who choose the new plan.

For the employees who are covered by the defined contribution pension plan, the Company and WTC make a monthly cash contribution at a rate of 6% of salaries and wages to employees' individual pension fund accounts at the Bureau of Labor Insurance based on the Labor Pension Act. Such contribution is recorded as pension expenses in the accompanying statements of income when made.

No official employees were hired by Weitech, and accordingly, no retirement plan was established.

In accordance with local regulations, WKI, WKS and WTP have made a monthly cash contribution of 5% to 22% of salaries and wages to a pension fund and recognized it as current expenses.

(u) Share-based payment

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

(v) Revenue recognition

Revenue derived from product sales is recognized when products are shipped and the significant risks and rewards of ownership are transferred to the buyer.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(w) Employees' bonuses and directors' and supervisors' remuneration**

Employees' bonuses and directors' and supervisors' remuneration appropriated after January 1, 2008, are accounted for by Interpretation (96)052 issued by the ARDF. According to this Interpretation and based on the ROC Company Act and the Company's and WTC's articles of incorporation, the Company and WTC estimate the amount of employees' bonuses and directors' and supervisors' remuneration and recognize it as expenses. Differences between the amount approved in the stockholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and charged to profit or loss.

(x) Income tax

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

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

Investment tax credits are accounted for using the flow-through method. Therefore, income tax credits generated from investment tax credits are recognized in the year in which the credit arises.

The Company's and WTC's 10% surtax on unappropriated earnings is recorded as income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

The Group's income tax returns are calculated and filed based on the Company's and each subsidiary's local tax law. The Group's income tax expenses are the aggregation of all consolidated entities' income tax expenses.

(y) Earnings per share

Earnings per share are computed based on the weighted-average number of common shares outstanding during the year. Earnings per share for prior years are retroactively adjusted to reflect the effect of the capitalization of stock dividends from capital surplus and retained earnings.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Employees' stock options issued by the Company and employees' bonuses which could be distributed in the form of stock dividends and have not yet been approved by the annual stockholders' meetings are potentially dilutive common shares. Only basic earnings per share are disclosed if there is no dilution effect. Otherwise, both basic and diluted earnings per share are disclosed. For the purpose of calculating the diluted earnings per share, potentially dilutive common shares are deemed to have been converted into common stock at the beginning of the period, and the effect on the net income attributable to additional common shares outstanding is considered accordingly.

(z) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment, and to assess its performance for which discrete financial information is available.

(3) Changes in Accounting Policy and Their Influence

- (a) Effective from January 1, 2011, the Group adopted the third amended SFAS No. 34 "Financial Instruments: Recognition and Measurement". In accordance with SFAS No. 34, loans and receivables originated by the Group shall apply the regulations on initial recognition, subsequent recognition and impairment. The change in accounting policy had no material effects on the Group's net income and net income per share for the year ended December 31, 2011.
- (b) Effective from January 1, 2011, the Group adopted the newly issued SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Group determines and presents operating segments based on the information that internally is provided to the chief operating decision maker. The Standard supersedes SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have any effect for the year ended December 31, 2011. The comparative information for the initial year of application has been restated.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Cash and Cash Equivalents

	December 31, 2011	December 31, 2010
Cash on hand	\$ 1,122	\$ 1,139
Checking accounts and demand deposits	593,423	536,766
Foreign currency deposits	1,832,595	1,485,032
Time deposits	2,422	117,167
Commercial paper	<u>30,134</u>	<u>-</u>
	\$ <u>2,459,696</u>	\$ <u>2,140,104</u>

(5) Financial Instruments

(a) Non-derivative financial instruments

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

	December 31, 2011	December 31, 2010
Financial assets measured at fair value through profit or loss:		
Financial assets held for trading:		
Open-end mutual funds	\$ 51,762	82,908
Listed stocks-Hua Nan Financial Holdings	<u>9,810</u>	<u>-</u>
	\$ <u>61,572</u>	<u>82,908</u>
Financial assets carried at cost – noncurrent:		
Security investments:		
Paradigm Venture Capital Corporation (PVC Corp.)	\$ 19,243	24,243
Paradigm Venture Capital Company (PVCC)	10,885	10,885
Always Positive Solar Silicon, Inc. (APSS)	2,855	4,855
InnoBridge Venture Fund L.L.P. (InnoBridge)	32,770	32,770
H&Q/GAI Incubation Fund (H&Q)	2,110	2,446
Bcom Electronics Inc. (Bcom)	2,000	2,000
Feature Integration Technology Inc.(FIT)	7,400	7,400
Luxmill Electronic Company Limited (Luxmill)	6,250	6,250
Ours Technology Inc. (Ours)	3,698	3,000
Shin Kong Global Venture Capital Corporation (Shin Kong Venture Capital)	30,000	-
Others	<u>3,523</u>	<u>9,104</u>
	120,734	102,953
Structured notes	<u>-</u>	<u>16,317</u>
	\$ <u>120,734</u>	<u>119,270</u>

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011 December 31, 2010

Available-for-sale financial assets – noncurrent:

Publicly listed securities:

Taiwan Aries Co., Ltd. (Aries)	\$ <u>68,157</u>	<u>46,502</u>
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- i) The financial assets carried at cost by the Group are measured at cost because they are not quoted in an active market and their fair value cannot be reliably measured.
- ii) The unrealized gains on available-for-sale financial assets amounted to \$25,450 and \$3,795 as of December 31, 2011 and 2010, respectively, and were recorded as a separate component of stockholders' equity.
- iii) Since the value of some financial assets carried at cost had declined materially and permanently, the Company recognized impairment losses thereon for the years ended December 31, 2011 and 2010, both amounting to \$10,000.

(b) Derivative financial instruments (expressed in thousands of US dollars)

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

	December 31, 2011		December 31, 2010	
	Book value	Nominal amount	Book value	Nominal amount
Derivative financial asset – current:				
USD forward foreign currency exchange contracts bought	\$ <u>6,854</u>	USD <u>8,000</u>	<u>-</u>	<u>-</u>
Derivative financial liability – current:				
USD forward foreign currency exchange contracts bought	\$ <u>188</u>	USD <u>4,000</u>	<u>15,531</u>	USD <u>15,000</u>
Derivative financial liability-noncurrent				
Convertible bonds payable debt components	\$ <u>33,322</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The above derivative financial instruments were accounted for as financial assets measured at fair value through profit or loss – current and financial liabilities measured at fair value through profit or loss – current (recorded as other current liabilities).

To hedge the exchange rates, the Group signed forward foreign currency contracts with several banks for the years ended December 31, 2011 and 2010. The net exchange gain (loss) resulting from the changes in fair market value of these contracts was of \$(25,422) and \$36,284 for the years ended December 31, 2011 and 2010, respectively.

To hedge the exchange rates, the Group signed European-style foreign currency option contracts with several banks. The net gain resulting from changes in fair value of option contracts was \$329 and \$138 for the years ended December 31, 2011 and 2010, respectively.

For convertible bonds payable debt components, please see note 10.

(6) Notes and Accounts Receivable

	December 31, 2011	December 31, 2010
Notes receivable	\$ 53,169	102,547
Accounts receivable	4,885,986	4,124,713
Less: allowance for doubtful accounts	<u>(37,663)</u>	<u>(46,223)</u>
	\$ <u>4,901,492</u>	<u>4,181,037</u>

Short-term notes and accounts receivable are not discounted and its book value is considered to be approximation of fair value.

As of December 31, 2011 and 2010, the Group had insured against its accounts receivable, and the amount of accounts receivable insurance was \$1,170,215 and \$0, respectively. The percentage of the insurance of the Company and WKI was 90% and 100 % of the covered accounts receivable, respectively. When the Group assesses accounts receivable for impairment, the recoverable amount of the above insurance has been considered.

The Company entered into accounts receivable factoring agreements with banks. Based on the agreements, the banks have no right of recourse on the discounted accounts receivable which were sold. The Company received the proceeds from the discounted accounts receivable on the selling date. Interest is calculated and paid based on the duration and interest rate of the agreement, and the remaining amounts are received when the accounts receivable are paid by the customers. In addition, the Company has to pay a service charge based on a certain rate. As of December 31, 2011 and 2010, the unreceived balances of discounted accounts receivable were \$85,312 and \$47,623, respectively, and were recognized as other current financial assets.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2011 and 2010, the details of the factored of accounts receivable were as follows (expressed in thousands of US dollars):

December 31, 2011					
Bank	Accounts receivable factored (gross)	Factoring amount	Cash received	Collateral (note)	Deducted amount
Mega International Commercial Bank	\$ 260,553	1,211,000	234,497	Promissory note US\$40,000	260,553
Taishin International Bank	97,828	1,000,000	88,045	Promissory note \$1,000,000	97,828
Taiwan Cooperative Bank	150	45,412	120	Promissory note US\$1,500	150
DBS Bank	494,430	938,525	444,987	Promissory note US\$31,000	494,430
	\$ <u>852,961</u>		<u>767,649</u>		<u>852,961</u>
December 31, 2010					
Bank	Accounts receivable factored (gross)	Factoring amount	Cash received	Collateral (note)	Deducted amount
Far Eastern International Bank	\$ 78,266	451,515	70,439	Promissory note US\$15,500	78,266
Mega International Commercial Bank	344,223	582,600	309,801	Promissory note US\$20,000	344,223
Taishin International Bank	18,604	700,000	16,736	Promissory note \$700,000	18,604
Taiwan Cooperative Bank	7,217	43,695	5,774	Promissory note US\$1,500	7,217
DBS Bank	20,629	174,780	18,566	Promissory note US\$6,000	20,629
	\$ <u>468,939</u>		<u>421,316</u>		<u>468,939</u>

note: collateral is only for sales returns and allowances pledged

Annual interest rates on accounts receivable factoring agreements for the years ended December 31, 2011 and 2010, ranged from 0.78% to 2.07% and 0.77% to 1.37%, respectively.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Inventories

	December 31, 2011	December 31, 2010
Merchandise inventories	\$ 4,984,271	4,651,215
Goods in transit	<u>220,224</u>	<u>185,704</u>
	5,204,495	4,836,919
Less: allowance for inventory valuation loss and obsolescence	<u>(109,855)</u>	<u>(99,344)</u>
	<u>\$ 5,094,640</u>	<u>4,737,575</u>

Inventory-related expenses amounted to \$8,492 and \$56,206 for the years ended December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010 write-downs of inventories to net realizable value amounted to \$8,491 and \$55,771, respectively, which were changed to cost of sales.

(8) Leased Assets

	December 31, 2011	December 31, 2010
Land	\$ 77,377	77,377
Buildings	<u>51,836</u>	<u>51,836</u>
	129,213	129,213
Less: accumulated depreciation	<u>(14,004)</u>	<u>(13,141)</u>
	<u>\$ 115,209</u>	<u>116,072</u>

(9) Short-term Loans and Commercial Paper

	December 31, 2011	December 31, 2010
Usance letters of credit	\$ 3,815,680	3,280,516
Commercial paper, net	<u>179,694</u>	<u>79,949</u>
	<u>\$ 3,995,374</u>	<u>3,360,465</u>
Unused short-term credit lines	<u>\$ 7,269,000</u>	<u>5,753,000</u>

Annual interest rates on short-term loans for the years ended December 31, 2011 and 2010, ranged from 0.76% to 7.02% and 0.37% to 4.59%, respectively.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Convertible Bonds Payable

(a) As of December 31, 2011, the convertible bonds payable were as follows:

	December 31, 2011
The third domestic unsecured convertible bonds:	
Aggregate principal amount	\$ 800,000
Less: Bond discount	(51,959)
Accumulated redeemed amount	<u>(17,800)</u>
	\$ <u>730,241</u>
Debt components – put option (recorded as financial liabilities measured at fair value through profit or loss – non-current)	\$ <u>33,322</u>
Equity components – conversion right (recorded as paid-in capital – redemption rights)	\$ <u>36,060</u>

The effective interest rate of the third domestic unsecured convertible bonds was 1.55%. The Annual interest expenses on convertible bonds payable for the years ended December 31, 2011 were \$6,037. Besides, according to the convertible bonds issued and transferred rules, The Company redeemed the convertible bonds of \$17,800 for the year ended December 31, 2011 and recorded other revenues amounting to \$587, then deduct the paid-in capital-redemption right amounting to \$820.

(b) The Company issued redeemable domestic unsecured bonds with a face value of \$800,000 on June 20, 2011. In accordance with SFAS No. 36, the Company separated the equity and debt components as follows:

	The third
The compound interest present value of the convertible bonds' face value at issuance	\$ 740,800
The embedded derivative debt at issuance – put option	22,320
The equity components at issuance	<u>36,880</u>
The total amount of the convertible bonds at issuance	\$ <u>800,000</u>

The equity components were accounted for as paid-in capital – redemption rights. On December 31, 2011, the Company revaluated the embedded derivative debt to its fair value of \$33,322, and accounted for it as financial liabilities measured at fair value through profit or loss – noncurrent. The gain resulting from changes in fair value of the embedded derivative debt was \$11,498 for the year ended December 31, 2011.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(c) The significant terms of the domestic unsecured convertible bonds were as follows:

(i) Duration: five years (June 20, 2011, to June 20, 2016)

(ii) Interest rate: 0%

(iii) Redemption at the option of the Company: The Company may redeem the bonds under the following circumstances:

1. Within the period between one month after the issuance date and 40 days before the last convertible date, the Company may redeem the bonds at their principal amount, if the closing price of the Company's common stock on the Taiwan Stock Exchange for a period of 30 consecutive trading days has been 30% more than the conversion price in effect on each such trading day.
2. Within the period between one month after the issuance date and 40 days before the last convertible date, if at least 90% of the principal amount of the bonds has been converted, redeemed, or purchased and cancelled, the Company may redeem the bonds at their principal amount.

(iv) Redemption at the option of bondholders:

The bondholders have the right to request the Company to repurchase the bonds at a price equal to the face value plus accrued premium three years and four years after the issuance date. The annual interest rate for the redemption three years and four years after the issuance date is 1.50%.

(v) Terms of conversion:

1. Bondholders may opt to have the bonds converted into common stock of the Company from July 21, 2011, to June 11, 2016.
2. Conversion price: After the adjustment for distributions of retained earnings on August 2, 2011, the conversion price was NT\$25.1 (dollars) per share of common stock.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Pension Plan

The Company and WTC completed actuarial valuations of their pension plan as of December 31, 2011 and 2010. The funded status was reconciled with accrued pension liability as follows:

	December 31, 2011	December 31, 2010
Benefit obligations:		
Vested benefit obligations	\$ (29,698)	(17,559)
Non-vested benefit obligations	<u>(97,476)</u>	<u>(102,014)</u>
Accumulated benefit obligation	(127,174)	(119,573)
Effect of estimated future increase in salary	<u>(74,085)</u>	<u>(75,281)</u>
Projected benefit obligation	(201,259)	(194,854)
Plan assets at fair value	<u>60,936</u>	<u>54,291</u>
Funded status	(140,323)	(140,563)
Unrecognized net loss	66,938	68,966
Unrecognized net transition obligation	6,190	6,711
Additional accrued pension liability	-	<u>(1,102)</u>
Accrued pension liability	<u>\$ (67,195)</u>	<u>(65,988)</u>

The net pension costs in 2011 and 2010 consisted of the following:

	2011	2010
Service cost	\$ 3,016	2,738
Interest cost	3,410	3,738
Actual return on plan assets	(673)	(790)
Amortization of net unrecognized transition cost	<u>2,529</u>	<u>1,700</u>
Net pension cost applied for defined benefit pension plan	8,282	7,386
Pension cost applied for defined contribution pension plan	<u>15,681</u>	<u>15,427</u>
Total	<u>\$ 23,963</u>	<u>22,813</u>

Actuarial assumptions used were as follows:

	2011	2010
Discount rate	2.00%	1.75%
Rate of increase in compensation	3.00%	3.00%
Expected long-term rate of return on plan assets	2.00%	1.75%

As of December 31, 2011 and 2010, the vested benefits were approximately \$39,086 and \$21,925, respectively. The subsidiaries included in the consolidated financial statements recognized pension expense and employee welfare expense amounting to \$27,429 and \$22,699 for the years ended December 31, 2011 and 2010, respectively.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(12) Stockholders' Equity****(a) Common stock**

Based on the resolution at the annual stockholders' meeting held on June 18, 2010, the Company declared cash dividends amounting to \$411,144.

Based on the resolution at the annual stockholders' meeting held on June 15, 2011, the Company declared cash dividends amounting to \$501,545 and increased its common stock through the issuance of stock dividends by transferring capital surplus amounting to \$116,161. Total shares issued were 11,616 thousand shares. The registration procedure was completed.

Further, the Company's employees exercised stock options to acquire the Company's common stock amounting to \$1,670 in the years ended December 31, 2010. The registration procedure was completed.

As of December 31, 2011 and 2010, the authorized common stock was \$3,500,000, with par value of 10 New Taiwan dollars per share.

(b) Capital surplus

In pursuant to the amended Company Act which was announced in January 2012, any realized capital surplus is initially used to cover accumulated deficit and the balance (if any) could be transferred to common stock as stock dividends or it could also be distributed by cash based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and endowments received by the Company. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital surplus derived from paid-in capital in excess of par value cannot exceed 10% of total common stock outstanding. Capital increases by transferring paid-in capital in excess of par value can only commence in the following year.

As of December 31, 2011 and 2010, the Company had recognized paid-in capital—treasury stock amounting to \$37,617 resulting from treasury stock transactions. Further, the Company recognized an increase in its capital surplus to reflect the change in percentage of ownership of investees amounting to \$365. As of December 31, 2011, the equity component of issued convertible bonds accounted for as paid-in capital – redemption right was \$36,060.

The capital surplus mentioned above, which is not delineated in Article 241 of the ROC Company Act, cannot be used to increase common stock.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Employee stock options

At a meeting held on April 23, 2003, the Company's board of directors decided to issue 10,000 units of stock options, with an exercisable right of one thousand shares of the Company's common stock per unit. The stock option issuance was authorized by the SFB on May 16, 2003. Total options issued were 9,230 units. The first and second issuances of stock options were expired in 2009, and the third issuance of stock options expired in May 2010. As of December 31, 2010, the information on total options issued was as follows:

<u>Date of issuance</u>	<u>For the year ended December 31, 2010</u>							<u>Remaining duration</u>
	<u>2010.12.31 Issued units</u>	<u>2010.1.1 Outstanding units</u>	<u>Current units exercised</u>	<u>Current units abandoned</u>	<u>Current units expired</u>	<u>2010.12.31 Outstanding units</u>	<u>2010.12.31 Exercisable units</u>	
May 14, 2004	<u>1,230</u>	<u>167</u>	<u>167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-

For the years ended December 31, 2011, the weighted-average market price of the Company's stock was NT\$22.62 (dollars), and the weighted-average exercise price of the exercised stock options was NT\$9 (dollars).

The issuance terms of the stock options are as follows:

- (i) Exercise price: After adjustment for stock dividends, the actual exercise price of the issued stock options was NT\$9 (dollars).
- (ii) Exercisable duration: The employees who received the stock options can exercise a specific percentage in each period as shown below. The exercisable duration of the options is six years. No transfer, pledge, donation or other methods of disposal are allowed except for inheritance. After the expiration of the exercisable duration, the Company will retire the unexercised options and not re-issue the options.

Period options received	Exercisable percentage (cumulative)
More than 2 years	50%
More than 3 years	75%
More than 4 years	100%

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

(iv) Exercise procedure: In accordance with the Company's issuance and exercise rules, the exercised entitlement certification of stock options is registered as common stock after the end of each quarter when the exercise occurs.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

- (i) The compensation cost for the year ended December 31, 2010, would be \$208, if the Company used the fair value method instead. The Company adopted the Black-Scholes model to compute the fair value on the grant date, and the impact factors are summarized as follows:

Original exercise price (dollars)	22.4
Fair price of the Company's stock at the measurement date (dollars)	21
Expected cash dividend yield rate	3.33%
Expected volatility	28.27%
Risk-free interest rate	1.50%
Expected life of the option	6 years

- (ii) The pro forma information on net income and earnings per share using the fair value method to calculate compensation cost is as follows:

		2010
Net income	Actual	\$ 716,804
	Pro forma	716,596
Basic earnings per share	Actual (dollars)	3.09
	Pro forma (dollars)	3.09
Diluted net income per share	Actual (dollars)	3.04
	Pro forma (dollars)	3.04

- (d)Restriction on a appropriation

According to the amended Company Act which was announced in January 2012, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, in pursuant to a resolution approved by the stockholders meeting, distribute its legal reserve by issuing new shares or cash for the portion in excess of 25% of the paid-in capital.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Limitation on distribution of retained earnings

Based on the Company's articles of incorporation, 10% of annual net income after tax is to be set aside as legal reserve and special reserve, 10% to 15% as bonus to employees, and 2% to 4% as remuneration to the directors and supervisors after offsetting prior years' deficits, if any. The remaining balance, if any, can be distributed as dividends to stockholders based on the appropriation proposed by the directors' meeting and a resolution by the annual stockholders' meeting. The dividends to stockholders cannot be lower than 50% the accumulated unappropriated retained earnings in the current year, and cash dividends cannot be lower than 20% of the total stockholders' dividends.

According to SFB (former SFC) regulations, when there is a reduction in stockholders' equity during the year, an amount equal to the reduction before appropriation must be included as a special reserve within retained earnings. The special reserve will be available for dividend distribution only after the related stockholders' equity reduction has been reversed.

The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation for the interim financial statements. The Company recognized a specific percentage of net income after deducting the legal reserve and special reserve as employees' bonuses and directors' and supervisors' remuneration. For the years ended December 31, 2011 and 2010, the employees' bonuses were \$82,976 and \$60,185, respectively, and the directors' and supervisors' remuneration was \$20,744 and \$15,046, respectively. The number of shares of the dividend distribution is based on the closing price of the day before the stockholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the stockholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the following year.

(f) Based on the resolution of the annual stockholders' meetings held on June 15, 2011, and June 18, 2010, the information on dividends, employees' bonuses, and directors' and supervisors' remuneration appropriated from the distributable retained earnings of 2010 and 2009 was as follows:

	2010	2009
Employees' bonuses – cash	\$ 60,185	49,337
Directors' and supervisors' remuneration	<u>15,046</u>	<u>12,335</u>
	<u>\$ 75,231</u>	<u>61,672</u>

The above earnings distribution had no difference from the resolution by the meeting of the board of directors. The earnings distribution of fiscal year 2011 is still subject to being determined by a meeting of the board of directors and approved in a stockholder's meeting. The related information about the 2011 earnings distribution can be queried in the Market Observation Post System after the above meetings are held by the Company.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Income Tax

- (a) Pursuant to the ROC Income Tax Act, income tax is filed separately by each company of the Group.
- (b) The Company's and WTC's income is subject to an income tax rate of 17% in 2011 and 2010. Also, the Company and WTC have applied the "Income Basic Tax Act" to compute basic tax. Pursuant to Hong Kong income tax law, WKI is subject to a 16.5% income tax. According to Singapore income tax law, WTP is subject to an 18% income tax.
- (c) WKS is a foreign investment enterprise, incorporated in the PRC. According to the PRC Tax Law, WKS is subject to income tax at the rate of 25%.
- (d) The components of income tax expense were as follows:

	2011	2010
Current income tax expense	\$ <u>192,106</u>	<u>165,284</u>
Deferred income tax expense (benefit):		
Pension cost over the limitation	(392)	(329)
Change in bad debt expense over the tax limitation	945	(6,380)
Change in inventory provisions	2,784	(4,303)
Change in unrealized foreign currency exchange gain (loss), net	(24,360)	19,975
Change in valuation allowance	2,273	2,480
Impairment losses on financial assets	(979)	(2,210)
Change in gain (loss) on valuation of financial instruments	3,020	(2,130)
Investment income recognized under the equity method (overseas)	42,372	75,455
Deferred tax effect resulting from change in income tax rate	-	(5,526)
Change in reserve for loss on outward investment	(7,191)	(2,286)
Other	<u>191</u>	<u>804</u>
	<u>18,663</u>	<u>75,550</u>
Income tax expense	\$ <u>210,769</u>	<u>240,834</u>

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (e) The expected income tax computed by applying the statutory income tax rate to pre-tax accounting income was reconciled with income tax expense for the years ended December 31, 2011 and 2010, as follows:

	2011	2010
Expected income tax	\$ 188,832	230,894
Investment income recognized under the equity method	883	133
Increase (decrease) in valuation allowance	2,273	2,480
Estimated tax effect of prior years	10,433	4,995
Tax effect resulting from the change in income tax rate	-	103
Other	8,348	2,229
Income tax expense	<u>\$ 210,769</u>	<u>240,834</u>

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

	2011	2010
Deferred income tax assets:		
Loss on valuation of inventory	\$ 8,503	11,287
Pension cost over the tax limitation	11,423	11,031
Bad debt expense over the tax limitation	11,625	12,570
Impairment losses on financial assets	14,445	13,466
Foreign currency translation adjustment	15,958	30,223
Loss carryforward	474	151
Other	103	3,120
	<u>62,531</u>	<u>81,848</u>
Less: Valuation allowance	<u>(25,551)</u>	<u>(23,278)</u>
	<u>36,980</u>	<u>58,570</u>
Deferred income tax liabilities:		
Reserve for loss on outward investment	-	7,191
Investment income recognized under the equity method (overseas)	111,329	68,957
Unrealized foreign currency exchange gain	4,624	28,984
Other	1,299	782
	<u>117,252</u>	<u>105,914</u>
Net deferred income tax liabilities	<u>\$ (80,272)</u>	<u>(47,344)</u>
Net deferred income tax assets – current	\$ 14,178	-
Net deferred income tax assets – noncurrent	604	-
Net deferred income tax liabilities – current	-	(2,006)
Net deferred income tax liabilities – noncurrent	<u>(95,054)</u>	<u>(45,338)</u>
	<u>\$ (80,272)</u>	<u>(47,344)</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (g) The ROC Income Tax Act allows losses for tax purposes as assessed by the tax authorities to be offset against the taxable income in the following ten years. WTC's estimated tax losses which could be used to offset the future taxable income are summarized as follows:

<u>Year of loss</u>	<u>Amount of loss</u>	<u>Deductible amount</u>	<u>Expiry year</u>	<u>Note</u>
2010	\$ 885	885	2020	Filed
2011	\$ <u>1,902</u>	<u>1,902</u>	2021	Estimated
	\$ <u><u>2,787</u></u>	<u><u>2,787</u></u>		

- (h) The tax authority has examined the Company's income tax returns through 2009 except for 2006. The tax authority has examined WTC's income tax returns through 2009.
- (i) Related information about the integrated income tax system is as follows:

	December 31, 2011	December 31, 2010
Unappropriated retained earnings for 1998 and thereafter	\$ <u>666,860</u>	\$ <u>716,804</u>
Imputation credit account balance	\$ <u>37,185</u>	\$ <u>30,742</u>
	2010	2009
Creditable ratio for earnings distribution to resident shareholders	<u>17.80% (estimated)</u>	<u>14.14% (actual)</u>

(14) Earnings per Share

Earnings per share for the years ended December 31, 2011 and 2010, were computed as follows (all net income per share amounts are expressed in New Taiwan dollars):

	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
Basic earnings per share:				
Net income	\$ <u>877,629</u>	<u>666,860</u>	<u>957,638</u>	<u>716,804</u>
Weighted-average number of shares outstanding before retroactive adjustments (thousands)	<u>243,939</u>	<u>243,939</u>	<u>232,283</u>	<u>232,283</u>
Earnings per share before retroactive adjustments	\$ <u>3.60</u>	<u>2.73</u>	<u>4.12</u>	<u>3.09</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u>243,897</u>	<u>243,897</u>
Earnings per share after retroactive adjustments			\$ <u>3.93</u>	<u>2.94</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
Diluted net income per share:				
Net income	\$ 877,629	666,860	957,638	716,804
Effects of dilutive potential common stock:				
Convertible bonds payable	<u>17,536</u>	<u>17,536</u>	<u>-</u>	<u>-</u>
Net income for calculation of diluted earnings per share	\$ <u>895,165</u>	<u>684,396</u>	<u>957,638</u>	<u>716,804</u>
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	243,939	243,939	232,283	232,283
Effects of dilutive potential common stock:				
Employee stock options	-	-	20	20
Employee bonuses that could be declared in the form of stock dividends and have not been approved by the stockholders' meeting	5,096	5,096	3,261	3,261
Convertible bonds payable	<u>16,276</u>	<u>16,276</u>	<u>-</u>	<u>-</u>
	<u>265,311</u>	<u>265,311</u>	<u>235,564</u>	<u>235,564</u>
Earnings per share before retroactive adjustments	\$ <u>3.37</u>	<u>2.58</u>	<u>4.07</u>	<u>3.04</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u>247,342</u>	<u>247,342</u>
Earnings per share after retroactive adjustments			\$ <u>3.87</u>	<u>2.90</u>

(15) Related Information about Financial Instruments

(a) Fair value of financial instruments

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

	December 31, 2011		December 31, 2010	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Financial assets measured at fair value through profit or loss – current:				
Open-end mutual funds	\$ 51,762	51,762	82,908	82,908
Listed stocks	9,810	9,810	-	-
Forward foreign currency exchange contract	6,854	6,854	-	-
Available-for-sale financial assets – noncurrent	68,157	68,157	46,502	46,502
Financial assets carried at cost – noncurrent	120,734	-	119,270	-

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Financial Liabilities:				
Financial liabilities measured at fair value through profit or loss – current:				
Forward foreign currency exchange contract	188	188	15,531	15,531
Financial liabilities measured at fair value through profit or loss – noncurrent	33,322	33,322	-	-
Bonds payable	730,241	736,285	-	-

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

1. The book value of short-term financial instruments is considered to be the fair value because of the short-term maturity periods of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. This method is applied to cash and cash equivalents, notes and accounts receivable/payable, other current financial assets, short-term loans and commercial paper, and accrued expenses and other current liabilities.
2. If a public price quote of financial assets and liabilities is available, then the quoted price is adopted as the fair value. If market value is not available, an assessment method is used. The assumptions used are the same as those used by financial market traders when quoting their prices.
3. None of the Group's financial assets carried at cost are publicly listed. No publicly quoted prices are available for these investments.
4. The fair value of convertible bonds payable is not available, and an assessment method will be used. The assumptions used should be the same as those used by financial market traders when quoting their prices. However, the fair value is not expected to equal future cash outflow.

(c) The fair value of the financial instruments evaluated by the Group using public quote or an assessment method was as follows:

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Public quote value</u>	<u>Assessment value</u>	<u>Public quote value</u>	<u>Assessment value</u>
Financial assets:				
Cash and cash equivalents	\$ -	2,459,696	-	2,140,104
Financial assets measured at fair value through profit or loss:				
Open-end mutual funds	51,762	-	82,908	-
Publicly listed securities	9,810	-	-	-
Forward foreign currency exchange contracts	-	6,854	-	-
Notes and accounts receivable	-	4,901,492	-	4,181,037
Other current financial assets	-	94,656	-	74,822
Available-for-sale financial assets – noncurrent	68,157	-	46,502	-
Financial liabilities:				
Short-term loans and commercial paper	-	3,995,374	-	3,360,465
Notes and accounts payable	-	3,725,074	-	3,943,554
accrued expenses and other current liabilities	-	655,144	-	581,736
Forward foreign currency exchange contracts	-	188	-	15,531
Financial liabilities measured at fair value through profit or loss – noncurrent	-	33,322	-	-
Bonds payable	-	736,285	-	-

(d) For the years ended December 31, 2011 and 2010, the net gain (loss) resulting from public quoting or an assessment method amounted to \$9,361 and \$(14,979), respectively, recorded as net gain (loss) on valuation of financial instruments.

(e) Information on financial risk

1. Market risk

- a) The main purpose of the derivative financial instruments is to hedge the exchange rate and interest rate risk. Therefore, the gains or losses resulting from changes in exchange rates will be offset by those from the hedged item. Management believes that the related market risk is not significant.
- b) The equity securities held by the Group are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Group has risk exposure related to changes in fair value in an equity securities market.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Credit risk

- a) The amount of credit risk is a potential loss of the Group if the counterparty involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not believe that there is significant credit risk from these transactions.
- b) The primary potential credit risk is derived from financial instruments like cash, cash equivalents, equity securities under non-equity method, and accounts receivable. The Group deposits cash in different financial institutions. Cash equivalents represent investments in commercial paper purchased under resale agreements with a maturity of three months or less from the date of investment. Equity securities under non-equity method are structured notes, funds, and listed stock issued by a company with good credit ratings. The Group manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk related to cash and cash equivalents. As the clients of the Group are mainly high-tech companies, the Group evaluates the financial condition of these clients continuously to reduce credit risk related to accounts receivable.

3. Liquidity risk (in thousands of New Taiwan and US dollars)

- a) The Group will have cash inflows and outflows within the periods shown below. There are no significant financing risks due to expected receipt of sufficient foreign currency from the collection of accounts receivable. Management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed. Management believes that the cash flow risk related to forward foreign exchange contracts is also not significant because these contracts are settled in net amount on the exercise date.

<u>Financial instruments</u>	<u>December 31, 2011</u>		
	<u>Transaction period</u>	<u>Cash outflow</u>	<u>Cash inflow</u>
USD forward foreign currency exchange contracts bought	2012.01~2012.04	NTD 356,139	USD 12,000

<u>Financial instruments</u>	<u>December 31, 2010</u>		
	<u>Transaction period</u>	<u>Cash outflow</u>	<u>Cash inflow</u>
USD forward foreign currency exchange contracts bought	2011.06	NTD 444,430	USD 15,000

- b) The funds and listed stock investments of the Group have quoted prices and would be sold back at close to the market price. A portion of the Group's equity instruments (recorded as financial assets carried at cost – noncurrent) which have no quoted price would have liquidity risk.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Cash flow risk related to variation in interest rates

The short-term loans and commercial paper are accounted for as floating-rate debts. Changes in market interest rates cause changes in the effective interest rates of short-term loans and variations in future cash flows. For every 1% increase in market interest rates, the cash outflows of the Group would increase by \$39,954. The bonds payable issued by the Group are zero-interest-rate and fixed-interest-rate debts. Changes in market interest rates have no significant influence on future cash flows.

(16) Related-party Transactions

(a) Names and relationships of the related parties

Related Party	Relationship
Aries	Chairman of the board of directors is the same as the Company's.
Promate Electronic Co., Ltd (Promate)	Chairman of the board of directors is a Company director.
Genlog Industrial Co., Ltd. (Genlog)	Chairman of the board of directors is the Company's CFO.
Cipherlab Co., Ltd. (Cipherlab)	A Cipherlab director is also the Company's Chairman.
The directors, supervisors, chief executive officer, and executive vice president	The Group's key management

(b) Summary of significant transactions with related parties

1. Sales

	2011		2010	
	Amount	%	Amount	%
Cipherlab	\$ 20,908	-	24,312	-
Other	<u>641</u>	<u>-</u>	<u>1,331</u>	<u>-</u>
	<u>\$ 21,549</u>	<u>-</u>	<u>25,643</u>	<u>-</u>

There were no significant differences in terms of collection and pricing on sales to related parties and other customers. The collection period was approximately 30 to 60 days after the sales date.

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Notes to Consolidated Financial Statements

2. Purchases

	2011		2010	
	Amount	%	Amount	%
Promate	\$ <u>179</u>	<u>-</u>	<u>-</u>	<u>-</u>

There were no significant differences in purchase prices for related parties and other suppliers. The payment period was approximately 30 to 60 days after the date of purchase.

3. Processing fee

	2011	2010
Genlog	\$ <u>18,569</u>	<u>11,880</u>

Genlog was commissioned to provide processing services for the Group; the cost arising from this transaction was recognized as cost of sales. The payment period was 30 days after the monthly closing of the balances.

4. Notes and accounts receivable (payable)

The balances resulting from the above sales, purchase, and processing transactions as of December 31, 2011 and 2010, were as follows:

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Notes and accounts receivable:				
Cipherlab	\$ 8,074	-	2,725	-
Other	<u>71</u>	<u>-</u>	<u>97</u>	<u>-</u>
	\$ <u>8,145</u>	<u>-</u>	<u>2,822</u>	<u>-</u>
Accrued expense:				
Genlog	\$ <u>1,069</u>	<u>-</u>	<u>968</u>	<u>-</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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5. Rental income

The Group leased a portion of its building to its related parties for office use purposes. The rental is collected monthly. The related rental income for the years ended December 31, 2011 and 2010, was as follows:

	2011	2010
Promate	\$ 3,466	3,466
Genlog	<u>985</u>	<u>960</u>
	\$ <u>4,451</u>	<u>4,426</u>

6. Salaries and remuneration of the main management

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

	2011	2010
Salaries	\$ 82,996	57,843
Incentives	54,235	41,049
Special compensation	555	200
Employees' bonuses	38,410	23,668

The amounts include the estimated and accrued directors' and supervisors' remuneration and employees' bonuses.

(17) Commitments and Contingencies

The Group's significant commitments and contingencies as of December 31, 2011, were as follows:

1. The balance of L/Cs for customs and the purchase of merchandise amounted to \$318,038.
2. According to the existing lease contract for office space, the contract will expire in April 2015. The future rental commitments were as follows:

Period	Amount
2012.01.01~2012.12.31	\$ 99,135
2013.01.01~2013.12.31	84,235
2014.01.01~2014.12.31	69,138
2015.01.01~2015.04.30	<u>5,962</u>
	\$ <u>258,470</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Others

(a) Unadjusted items

Since 1998, the Company has recorded a loss reserve provision and related expenses on outward investment in accordance with the “Statute for Upgrading Industries” equal to 20% of the total amount of outward investment. The statute also stipulates that if there are no actual losses in the five years after the initial provision for the reserve, the loss reserve should be reversed and recognized as revenue in the fifth year. However, due to the fact that this provision does not conform to generally accepted accounting principles, the loss reserve is accordingly reversed during the preparation of the financial statements, but the Company does not adjust the books. Accordingly, the amount of net income and retained earnings on the Company’s books that was less than the amount in the accompanying financial statements as of December 31, 2011 and 2010, was as follows:

	2011	2010
Net income	\$ (42,300)	(5,083)
Retained earnings	-	42,300

(b) Employee, depreciation, and amortization expenses included as part of operating expenses for the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Employee expenses		
Salaries and wages	\$ 837,246	765,150
Labor and health insurance	27,093	24,957
Pension expense	51,392	45,512
Other	11,129	9,657
Depreciation expenses (note)	13,388	15,790
Amortization expenses	10,403	7,578

Note: Excluding the rental depreciation which both amounted to \$863 for the years ended December 31, 2011 and 2010.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (c) Significant foreign currency financial assets and liabilities were as follows (in thousands of New Taiwan and US dollars):

	December 31, 2011			December 31, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets:						
Monetary items –						
USD	185,521	30.275	5,616,639	164,533	29.130	4,792,853
RMB	212,469	4.767	1,012,841	25,720	4.419	113,658
Financial liabilities:						
Monetary items –						
USD	210,047	30.275	6,359,174	235,186	29.130	6,850,963
RMB	154,583	4.767	736,896	20,931	4.419	92,493

(19) Operating Segment Information

- (a) The Group has two reportable segments: electronic components segment and peripheral equipment segment. Electronic components segment engages in the sale of electronic components. Peripheral equipment segment engages in the sale of computer peripheral equipments.

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different marketing strategies. Most of the business were acquired as individual units, and the management at the time of the acquisition was retained.

- (b) The Group does not allocate tax expense or non-recurring gains and losses to reportable segments. The amounts of operating segment information are the same as the amounts in reports used by the chief operating decision maker.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies as stated in note 2. The Group evaluates the performance basing on the profit or loss from operations before tax expense not including non-recurring gains and losses and foreign currency exchange gains and losses. The intersegment sales and transfers that are accounted for by the "Group" are regarded as if the sales and transfers were being transacted by the 3rd parties, i.e. at current market price.

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Notes to Consolidated Financial Statements

The details and reconciliations of operating segments were as follows:

	Year ended December 31, 2011			
	Electronic components segment	Peripheral equipment segment	Adjustments & eliminations	Total
Revenues				
Revenues from external customers	\$ 25,878,031	6,242,230	-	32,120,261
Intersegment revenues	-	-	-	-
Total revenues	<u>\$ 25,878,031</u>	<u>6,242,230</u>	<u>-</u>	<u>32,120,261</u>
Reportable segment profit	<u>\$ 1,039,578</u>	<u>294,880</u>	<u>-</u>	1,334,458
Generally administrative expenses				(429,047)
Operating income				<u>\$ 905,411</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Year ended December 31, 2010			
	Electronic components segment	Peripheral equipment segment	Adjustments & eliminations	Total
Revenues				
Revenues from external customers	\$ 26,743,125	5,133,706	-	31,876,831
Intersegment revenues	-	-	-	-
Total revenues	<u>\$ 26,743,125</u>	<u>5,133,706</u>	<u>-</u>	<u>31,876,831</u>
Reportable segment profit	<u>\$ 1,117,363</u>	<u>90,874</u>	<u>-</u>	1,208,237
Generally administrative expenses				(363,220)
Operating income				<u>\$ 845,017</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

(c) Industry Information

1. Geographic information

a. Sales to Other than Consolidated Entities:

<u>Country</u>	2011	2010
China	\$ 27,033,432	27,224,938
Taiwan	4,237,110	3,845,503
Others	849,719	806,390
	<u>\$ 32,120,261</u>	<u>31,876,831</u>

(Continued)

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b. Non-current Assets:

<u>Country</u>	2011	2010
Taiwan	\$ 171,286	55,191
China	81,511	165,388
Singapore	<u>1,056</u>	<u>897</u>
	<u>\$ 253,853</u>	<u>221,476</u>

2. Major customers

There were no individual customers who accounted for over 10% of consolidated net sales in 2011 and 2010.

(20) Pre-disclosure of the Adoption of International Financial Reporting Standard

- (a) According to the Financial Supervisory Commission document No. 09900049431 that was issued on February 2, 2010 by the Financial Supervisory Commission Executive Yuan, the listed and emerging stocks companies should prepare the financial report in conformity with the International Financial Reporting Standard (IFRSs), Standing Interpretations Committee (which is the predecessor of IFRIC), and the International Financial Reporting Interpretations Committee accepted by the Financial Supervisory Commission since 2013. To assist the adjustment, the Company has formed a special task force and established an IFRS adoption plan. Mr. Hu, the General manager, is responsible for the conversion plan. Significant plan contents, expected schedules and completion status are summarized as follows:

Plan Contents	Responsible Department	Status
Phase 1 - Evaluation: (2010.01.01 ~ 2011.12.31)		
◎ Establish adoption plans and form a special task force for IFRSs conversion	Accounting Department	Completed
◎ The first stage interior staffs	Accounting Department	Completed
◎ Compare and analyze the differences between the current accounting policies and IFRSs	Accounting Department	Completed Completed
◎ Evaluate proposed adjustments to current accounting policies	Accounting Department	Completed
◎ Evaluate the adoption of IFRS 1 - "First-time Adoption of IFRSs"	Accounting Department	Completed
◎ Evaluate adjustments related to information systems and internal controls	Accounting Department, IT Department, Sales Department and Internal Control	

(Continued)

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Plan Contents	Responsible Department	Status
Phase 2 - Preparation: (2011.01.01 ~ 2012.12.31)		
⊙ Determine how to revise the current accounting policies to comply with IFRSs	Accounting Department	Completed
⊙ Determine how to adopt IFRS 1 - "First-time Adoption of IFRSs"	Accounting Department	In Progress
⊙ Adjust relevant information systems and internal controls	Internal Control Department, IT Department and Accounting Department	In Progress
Phase 3 - Implementation: (2012.01.01 ~ 2013.12.31)		
⊙ Collect information for preparation of Balance Sheet and Comparative Financial Statements in conformity with IFRSs on the date of first-time adoption	Accounting Department	In Progress
⊙ Prepare Financial Statements based on IFRSs	Accounting Department	In Progress

- (b) The Significant differences of preparing financial statement which the Group evaluated between current GAAP and IFRSs are listed below:

Accounting Issues	Difference Explanation
Employee benefits- unrecognized transition net asset or net obligation	The unrecognized net transition asset or obligation should be not existing any longer; it must be adjusted to other comprehensive income at the date of first adoption of IFRSs.
Employee benefits-compensated absences	There were no regulations about employee benefits-compensation in accordance with ROC. GAAP. After adoption of IFRSs, an employer accrues the obligation for paid absences if the obligation both relates to employees' past services and accumulates, and the obligation can be reliably estimated, the amount recognized as salary costs and accrued liabilities.
Income tax-reclassification of deferred tax and valuation allowance	Deferred tax assets or liabilities are classified as non-current in the statement of financial position. A deferred tax asset is recognized to the extent that it is probable that it will be realized, and allowance of the defer tax asset should be no longer existed.

- (c) The aforementioned assessment is based on the International Financial Reporting Standard, International Accounting Standard and the interpretations approved by FSC. However, the GAAP differences exposition between the above current GAAP and the IFRSs adoptions are based on the current environments and conditions, and may be amended by subsequent changes in the future.