

Shihlin Electric & Engineering Corp.

**Financial Statements for the
Years Ended December 31, 2009 and 2008 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Shihlin Electric & Engineering Corp.

We have audited the accompanying balance sheets of Shihlin Electric & Engineering Corp. as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shihlin Electric & Engineering Corp. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, effective January 1, 2009, Shihlin Electric & Engineering Corp. adopted the newly revised Statement of Financial Accounting Standards No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the year in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the year. Also, as stated in Note 3 to the financial statements, effective January 1, 2008, Shihlin Electric & Engineering Corp. adopted Interpretation 2007-052 issued in March 2007 by the Accounting Research and Development Foundation of the Republic of China, which requires companies to record bonuses to employees, directors and supervisors as an expense rather than as an appropriation of earnings.

February 12, 2010

Notice to Readers

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

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

SHIHLIN ELECTRIC & ENGINEERING CORP.

BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

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

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 4)	\$ 358,016	2	\$ 398,680	2	Short-term loans (Notes 14 and 22)	\$ 2,525,866	10	\$ 2,679,838	11
Financial assets at fair value through profit or loss - current (Note 5)	537	-	3,511	-	Short-term bills payable (Note 14)	350,000	2	200,000	1
Notes receivable	733,583	3	715,571	3	Notes payable	2,899	-	1,591	-
Notes receivable from related parties (Note 21)	5,284	-	7,480	-	Accounts payable	1,656,189	7	1,386,666	5
Accounts receivable, net (Note 6)	2,534,943	10	2,377,658	9	Accounts payable to related parties (Note 21)	279,441	1	292,678	1
Accounts receivable from related parties (Note 21)	202,195	1	123,492	-	Income tax payable, net of prepaid income tax	19,748	-	-	-
Other receivables	4,414	-	5,381	-	Accrued expenses	579,857	2	526,021	2
Other receivables from related parties (Note 21)	38,177	-	46,176	-	Other payables to related parties (Note 21)	27,170	-	27,837	-
Inventories (Notes 3 and 7)	2,556,792	10	3,332,317	13	Other payables	189,627	1	59,832	-
Real estate in development (Note 8)	-	-	1,806,969	7	Collections in advance	679,351	3	637,873	3
Deferred income tax assets - current (Note 17)	90,039	-	146,500	1	Collections in advance for real estate (Note 8)	-	-	1,821,064	7
Restricted assets - current (Note 22)	55,906	-	55,035	-	Current portion of long-term debt (Notes 15 and 22)	-	-	9,683	-
Other current assets	374,846	2	193,886	1	Other current liabilities	257,314	1	193,280	1
Total current assets	6,954,732	28	9,212,656	36	Total current liabilities	6,567,462	27	7,836,363	31
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Financial assets at fair value through profit or loss - noncurrent (Note 5)	12,824	-	-	-	Long-term debt (Notes 15 and 22)	250,000	1	3,192,907	12
Available-for-sale financial assets - noncurrent (Note 9)	2,923,498	12	2,504,514	10	RESERVES				
Financial assets carried at cost - noncurrent (Note 10)	396,009	1	417,105	1	Reserve for land value increment tax (Note 12)	950,717	4	1,000,311	4
Investments accounted for under equity method (Note 11)	4,596,684	19	4,018,109	16	OTHER LIABILITIES				
Total long-term investments	7,929,015	32	6,939,728	27	Accrued pension cost (Note 16)	920,439	4	944,955	4
PROPERTIES AND PROPERTIES FOR LEASE					Deposits received	89,501	-	18,896	-
Properties (Notes 12 and 22)					Deferred income tax liabilities - noncurrent (Note 17)	106,722	-	28,002	-
Cost					Total other liabilities	1,116,662	4	991,853	4
Land	444,174	2	458,692	2	Total liabilities	8,884,841	36	13,021,434	51
Buildings and equipment	2,657,814	11	2,655,344	10	STOCKHOLDERS' EQUITY (Note 18)				
Machinery and equipment	2,695,211	11	2,631,199	10	Common stock, \$10 par value, authorized - 580,000,000 shares; issued - 520,972,223 shares	5,209,722	21	5,209,722	20
Other equipment	1,417,559	5	1,385,719	6	Capital surplus				
Total cost	7,214,758	29	7,130,954	28	Additional paid-in capital on issuance of common stock	1,441,424	6	1,441,424	6
Revaluation increment	1,929,072	8	2,069,635	8	Additional paid-in capital on conversion of bonds	970,457	4	970,457	4
Total cost and revaluation increment	9,143,830	37	9,200,589	36	Treasury stock transactions	70,059	-	70,059	-
Less: Accumulated depreciation	(4,848,772)	(20)	(4,621,076)	(18)	Long-term stock investments	74,783	-	74,783	-
Construction in progress	-	-	2,694,111	10	Total capital surplus	2,556,723	10	2,556,723	10
Prepayments	11,639	-	5,081	-	Retained earnings				
Total properties, net	4,306,697	17	7,278,705	28	Legal reserve	1,204,556	5	1,128,007	5
Properties for lease (Notes 12 and 22)					Unappropriated earnings	4,457,258	18	1,842,508	7
Cost					Total retained earnings	5,661,814	23	2,970,515	12
Land	24,651	-	10,485	-	Other equity items				
Buildings and equipment	5,601,829	23	2,320,463	9	Cumulative translation adjustments	173,598	1	295,153	1
Total cost	5,626,480	23	2,330,948	9	Net loss not recognized as pension cost	(102,740)	-	-	-
Revaluation increment	1,067,477	4	935,397	4	Unrealized gain (loss) on available-for-sale financial assets	353,957	1	(449,109)	(2)
Total cost and revaluation increment	6,693,957	27	3,266,345	13	Unrealized revaluation increment (Note 12)	1,943,442	8	1,984,387	8
Less: Accumulated depreciation	(1,381,060)	(5)	(1,241,969)	(5)	Total other equity items	2,368,257	10	1,830,431	7
Total properties for lease, net	5,312,897	22	2,024,376	8	Total stockholders' equity	15,796,516	64	12,567,391	49
Total properties and properties for lease, net	9,619,594	39	9,303,081	36					
DEFERRED PENSION COST	83,165	-	35,585	-					
OTHER ASSETS									
Restricted assets - noncurrent (Note 22)	7,421	-	10,242	-					
Miscellaneous assets (Note 13)	87,430	1	87,533	1					
Total other assets	94,851	1	97,775	1					
TOTAL	\$ 24,681,357	100	\$ 25,588,825	100	TOTAL	\$ 24,681,357	100	\$ 25,588,825	100

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

(With Deloitte & Touche audit report dated February 12, 2010)

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
OPERATING REVENUES				
Gross sales (Note 21)	\$ 12,524,077	72	\$ 15,309,809	102
Less: Sales returns	48,977	-	85,020	1
Sales discounts	<u>266,713</u>	<u>2</u>	<u>379,244</u>	<u>2</u>
Net sales	12,208,387	70	14,845,545	99
Leasing revenue (Note 21)	339,513	2	176,526	1
Construction revenue (Note 8)	<u>4,909,614</u>	<u>28</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>17,457,514</u>	<u>100</u>	<u>15,022,071</u>	<u>100</u>
OPERATING COSTS (Note 20)				
Cost of goods sold (Notes 3, 7 and 21)	10,397,725	59	12,645,533	84
Cost of leasing revenue	175,865	1	93,716	1
Construction cost (Note 8)	<u>2,369,762</u>	<u>14</u>	<u>-</u>	<u>-</u>
Total operating costs	<u>12,943,352</u>	<u>74</u>	<u>12,739,249</u>	<u>85</u>
GROSS PROFIT	<u>4,514,162</u>	<u>26</u>	<u>2,282,822</u>	<u>15</u>
OPERATING EXPENSES (Notes 20 and 21)				
Selling	742,184	4	667,370	4
Administrative	528,272	3	471,573	3
Research and development	<u>343,271</u>	<u>2</u>	<u>399,461</u>	<u>3</u>
Total operating expenses	<u>1,613,727</u>	<u>9</u>	<u>1,538,404</u>	<u>10</u>
INCOME FROM OPERATIONS	<u>2,900,435</u>	<u>17</u>	<u>744,418</u>	<u>5</u>
NON-OPERATING INCOMES AND GAINS				
Interest income	1,015	-	7,168	-
Investment income recognized under equity method, net	412,598	3	158,721	1
Dividend income	27,708	-	54,812	-
Gain on disposal of properties (Note 21)	4,975	-	3,638	-
Gain on sale of investments, net (Note 11)	-	-	27,333	-
Foreign exchange gain, net	1,795	-	-	-
Valuation gain on financial instruments, net (Note 5)	12,000	-	5,176	-
Miscellaneous (Note 21)	<u>49,321</u>	<u>-</u>	<u>63,075</u>	<u>1</u>
Total non-operating incomes and gains	<u>509,412</u>	<u>3</u>	<u>319,923</u>	<u>2</u>

(Continued)

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	\$ 32,840	1	\$ 66,217	1
Loss on disposal of properties	1,967	-	7,247	-
Loss on sale of investments, net	26,004	-	-	-
Foreign exchange loss, net	-	-	5,301	-
Impairment loss (Note 10)	20,000	-	18,000	-
Miscellaneous	307	-	5,503	-
Total non-operating expenses and losses	<u>81,118</u>	<u>1</u>	<u>102,268</u>	<u>1</u>
INCOME BEFORE INCOME TAX	3,328,729	19	962,073	6
INCOME TAX EXPENSE (Note 17)	<u>324,847</u>	<u>2</u>	<u>173,482</u>	<u>1</u>
NET INCOME	<u>\$ 3,003,882</u>	<u>17</u>	<u>\$ 788,591</u>	<u>5</u>
	2009		2008	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE (Note 19)				
Basic earnings per share	<u>\$ 6.39</u>	<u>\$ 5.77</u>	<u>\$ 1.85</u>	<u>\$ 1.51</u>
Diluted earnings per share	<u>\$ 6.37</u>	<u>\$ 5.74</u>	<u>\$ 1.84</u>	<u>\$ 1.51</u>

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

(With Deloitte & Touche audit report dated February 12, 2010)

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SHIHLIN ELECTRIC & ENGINEERING CORP.
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)**

	Capital Surplus (Note 18)						Retained Earnings (Note 18)			Other Equity Items					
	Common Stock (Note 18)	Additional Paid-in Capital on Issuance of Common Stock	Additional Paid-in Capital on Conversion of Bonds	Treasury Stock Transactions	Long-term Stock Investments	Total	Legal Reserve	Unappropriated Earnings		Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Available- for-sale Financial Assets	Unrealized Revaluation Increment (Note 12)	Total	Total Stockholders' Equity
									Total						
BALANCE, JANUARY 1, 2008	\$ 5,209,722	\$ 1,441,424	\$ 970,457	\$ 70,059	\$ 44,668	\$ 2,526,608	\$ 1,025,226	\$ 1,915,962	\$ 2,941,188	\$ 114,319	\$ -	\$ (402,952)	\$ 1,984,387	\$ 1,695,754	\$ 12,373,272
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	102,781	(102,781)	-	-	-	-	-	-	-
Cash dividends - \$1.2 per share	-	-	-	-	-	-	-	(625,167)	(625,167)	-	-	-	-	-	(625,167)
Bonus to directors and supervisors	-	-	-	-	-	-	-	(36,998)	(36,998)	-	-	-	-	-	(36,998)
Bonus to employees	-	-	-	-	-	-	-	(74,002)	(74,002)	-	-	-	-	-	(74,002)
Adjustment for long-term stock investments accounted for under equity method	-	-	-	-	30,115	30,115	-	(23,097)	(23,097)	(3,644)	-	(25,262)	-	(28,906)	(21,888)
Net income for the year ended December 31, 2008	-	-	-	-	-	-	-	788,591	788,591	-	-	-	-	-	788,591
Change in translation adjustments	-	-	-	-	-	-	-	-	-	184,478	-	-	-	184,478	184,478
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(20,895)	-	(20,895)	(20,895)
BALANCE, DECEMBER 31, 2008	5,209,722	1,441,424	970,457	70,059	74,783	2,556,723	1,128,007	1,842,508	2,970,515	295,153	-	(449,109)	1,984,387	1,830,431	12,567,391
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	76,549	(76,549)	-	-	-	-	-	-	-
Cash dividends - \$0.6 per share	-	-	-	-	-	-	-	(312,583)	(312,583)	-	-	-	-	-	(312,583)
Adjustment for long-term stock investments accounted for under equity method	-	-	-	-	-	-	-	-	-	(11,527)	-	291,149	-	279,622	279,622
Disposal of revalued land	-	-	-	-	-	-	-	-	-	-	-	-	(40,945)	(40,945)	(40,945)
Net income for the year ended December 31, 2009	-	-	-	-	-	-	-	3,003,882	3,003,882	-	-	-	-	-	3,003,882
Change in translation adjustments	-	-	-	-	-	-	-	-	-	(110,028)	-	-	-	(110,028)	(110,028)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(102,740)	-	-	(102,740)	(102,740)
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	511,917	-	511,917	511,917
BALANCE, DECEMBER 31, 2009	\$ 5,209,722	\$ 1,441,424	\$ 970,457	\$ 70,059	\$ 74,783	\$ 2,556,723	\$ 1,204,556	\$ 4,457,258	\$ 5,661,814	\$ 173,598	\$ (102,740)	\$ 353,957	\$ 1,943,442	\$ 2,368,257	\$ 15,796,516

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

(With Deloitte & Touche audit report dated February 12, 2010)

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,003,882	\$ 788,591
Depreciation	404,999	316,921
Provision for doubtful accounts	2,166	15,840
Loss (gain) on disposal of properties, net	(3,008)	3,609
Investment income recognized under equity method, net	(412,598)	(158,721)
Cash dividends from investees accounted for under equity method	23,426	145,064
Loss (gain) on sale of investments, net	26,004	(27,333)
Impairment loss	20,000	18,000
Valuation loss on financial instruments, net	-	11,927
Deferred income tax	135,181	25,202
Changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss	(9,850)	1,666
Notes receivable	(18,012)	153,527
Notes receivable from related parties	2,196	(1,648)
Accounts receivable	(159,451)	43,069
Accounts receivables from related parties	(78,703)	42,765
Other receivables	967	127,685
Other receivables from related parties	(3,206)	6,431
Inventories	762,770	(1,037,601)
Real estate in development	1,826,148	(1,035,330)
Other current assets	(180,960)	11,861
Notes payable	1,308	327
Accounts payable	163,296	(181,184)
Accounts payable to related parties	(13,237)	(58,631)
Income tax payable	19,748	(49,100)
Accrued expenses	53,836	(4,892)
Other payables to related parties	(667)	4,239
Other payables	1,338	4,279
Collections in advance	41,477	(87,348)
Collections in advance for real estate	(1,821,064)	452,266
Other current liabilities	64,034	(142,216)
Accrued pension cost	(174,837)	(61,955)
Net cash provided by (used in) operating activities	<u>3,677,183</u>	<u>(672,690)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other receivables from related parties transferred from accounts receivable from related parties	11,205	(9,808)
Proceeds from disposal of financial assets at fair value through profit or loss	-	213,080
Acquisition of available-for-sale financial assets	(1,300,000)	(1,311,595)
Proceeds from disposal of available-for-sale financial assets	1,366,929	1,441,153
Acquisition of financial assets carried at cost	-	(25,002)
Proceeds from disposal of financial assets carried at cost	1,096	52,127
Acquisition of investments accounted for under equity method	(19,809)	(161,786)

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SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
Proceeds from disposal of investments accounted for under equity method	\$ -	\$ 255,729
Acquisition of properties and properties for lease	(586,001)	(1,695,805)
Proceeds from disposal of properties	5,219	6,404
Decrease in restricted assets	1,950	3,821
Decrease (increase) in miscellaneous assets	<u>104</u>	<u>(13,401)</u>
Net cash used in investing activities	<u>(519,307)</u>	<u>(1,245,083)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term loans	(153,972)	796,358
Net increase in short-term bills payable	150,000	200,000
Repayments of bonds payable	-	(400,000)
Additions to long-term debt	400,000	2,380,000
Repayments of long-term debt	(3,352,590)	(329,139)
Increase in deposits received	70,605	2,124
Cash dividends	(312,583)	(625,167)
Bonus to directors and supervisors	-	(36,998)
Bonus to employees	<u>-</u>	<u>(74,002)</u>
Net cash provided by (used in) financing activities	<u>(3,198,540)</u>	<u>1,913,176</u>
NET DECREASE IN CASH	(40,664)	(4,597)
CASH, BEGINNING OF YEAR	<u>398,680</u>	<u>403,277</u>
CASH, END OF YEAR	<u>\$ 358,016</u>	<u>\$ 398,680</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 36,612</u>	<u>\$ 66,407</u>
Income tax paid	<u>\$ 169,918</u>	<u>\$ 197,380</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of properties and properties for lease	\$ 714,458	\$ 1,695,805
Add: Payable for properties and properties for lease purchased (included in other payables), beginning of year	<u>(128,457)</u>	<u>-</u>
Cash paid for acquisition of properties and properties for lease	<u>\$ 586,001</u>	<u>\$ 1,695,805</u>
NON-CASH INVESTING ACTIVITIES		
Transfer of inventories to properties	<u>\$ 12,755</u>	<u>\$ 33,047</u>
Transfer of properties to real estate in development	<u>\$ 3,490</u>	<u>\$ -</u>
Transfer of investments accounted for under equity method to financial assets carried at cost	<u>\$ -</u>	<u>\$ 11,696</u>

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

(With Deloitte & Touche audit report dated February 12, 2010)

(Concluded)

SHIHLIN ELECTRIC & ENGINEERING CORP.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

1. GENERAL

The Corporation, established in November 1955, is engaged in the manufacture of heavy electric equipment, electric machinery, electric automotive equipment and related parts, and in the sale and lease of commercial building. The Corporation's shares have been listed and traded on the Taiwan Stock Exchange since December 1969.

As of December 31, 2009 and 2008, the number of employees of the Corporation was 1,539 and 1,632, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau ("SFB") for their oversight purposes.

The Corporation's significant accounting policies are summarized as follows:

Use of Estimates

The preparation of financial statements in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are cash and assets that are expected to be converted into cash or consumed within one year from the balance sheet date, assets other than current assets are noncurrent assets. Current liabilities are obligations that are expected to be settled within one year from the balance sheet date; liabilities other than current liabilities are noncurrent liabilities. However, the Corporation's operating cycle for the construction and sale of real estate is longer than one year. Accordingly, assets and liabilities relating to the real estate business are classified as either current or noncurrent based on this operating cycle.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss are financial assets or financial liabilities held for trading (including derivative financial instruments that do not meet the criteria for hedging accounting). Financial instruments at fair value through profit or loss are initially recognized at fair value, with transaction costs expensed as incurred. These financial instruments are subsequently measured at fair value with changes in fair value recognized in profit or loss. A regular way purchase or sale of financial instruments is accounted for using settlement date accounting.

Available-for-sale Financial Assets

Investments designated as available-for-sale financial assets include quoted stocks and open-end funds. Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent measurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in profit or loss when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

Cash dividends are recognized as investment income on the ex-dividend date of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared out of the earnings of the investee attributable to the period prior to the investment. Stock dividends are recorded for only as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided on the basis of bad debt experience and a review of the collectibility of individual receivables.

Inventories

Inventories consist of raw materials and supplies, finished goods and work in process. Before January 1, 2009, inventories were stated at the lower of cost or market value. Any write-down was made on a total-inventory basis. Market value meant replacement cost for raw materials and supplies and net realizable value for finished goods and work in process. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost.

Development and Sale of Real Estate

Revenue and cost of the sale of real estate are recorded based on the completed contract method.

Real estate in development is stated at the lower of cost or market value. The proceeds from presale of real estate are recorded as collections in advance for real estate. After the completion of construction, the related cost of real estate is transferred pro rata to cost of sales when units are sold and title deeds are transferred to customers, and the related collections in advance are transferred to sales of real estate at the same time.

Financial Assets Carried at Cost

Investments in unquoted stocks and funds whose fair value can not be reliably measured are carried at their original cost. Costs of stocks and funds sold are determined using the weighted-average method. If there is objective evidence of impairment, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends derived from financial assets carried at cost is the same as that for cash dividends and stock dividends derived from available-for-sale financial assets.

Investments Accounted for Under Equity Method

Investments for which the Corporation can exercise significant influence over the investees are accounted for under equity method. When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss charged to earnings.

Unrealized profits or losses arising from transactions with investees accounted for under equity method are deferred and then recognized as profits or losses in the year of realization.

Properties and Properties for Lease

Properties and properties for lease are stated at cost or cost plus revaluation increment, less accumulated depreciation. Major renewals and betterments are capitalized, while maintenance and repairs are expensed currently. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Depreciation on cost is provided by the straight-line method for properties bought before January 1, 1988 and on or after January 1, 1999 and by the fixed-percentage-of-declining-balance method for those bought between January 1, 1988 and December 31, 1998 over estimated service lives which range as follows: buildings and equipment, 3 to 60 years; machinery and equipment, 3 to 15 years; other equipment, 2 to 15 years. Depreciation on revaluation increment is provided over the remaining service lives of the assets after revaluation. When an asset has reached its original estimated service life but is still in use, its carrying amount is further depreciated over the newly-estimated service life.

Upon sale or disposal of properties and properties for lease, the related cost, revaluation increment, accumulated depreciation and unrealized revaluation increment are removed from the accounts, and any gain or loss is recognized in profit or loss.

Revenue Recognition

Sales are recognized when titles to products and risks of ownership are transferred to customers, primarily upon shipment.

Leasing revenue is recognized on a straight-line basis over the lease period.

Pension Cost

For a defined contribution pension plan, pension cost is recorded based on the amount of contributions made during the period in which employees render services. For a defined benefit pension plan, pension cost is recorded based on actuarial calculations.

Research and Development Expense

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are changed to expense when incurred.

Income Tax

Tax effects of deductible temporary differences, unused loss carryforwards and unused investment tax credits are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities; a valuation allowance is provided for deferred income tax assets of which the realization is not certain. Deferred income tax assets or liabilities are classified as current or noncurrent based on the classification of the related asset or liability. A deferred income tax asset or liability that is not related to an asset or liability is classified as current or noncurrent based on the expected length of time before it is realized or settled.

Investment tax credits are recognized using the flow-through method.

Additional income tax at 10% of undistributed earnings is recorded when the amount is determinable, namely, when the distribution of earnings is resolved by the stockholders.

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

Foreign-currency Translation

Foreign-currency transactions other than derivative financial instruments are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from settlement of foreign-currency assets and liabilities at rates different from those at which these assets and liabilities are carried in the accounts are recognized in profit or loss in the year of settlement.

At year-end, foreign-currency monetary assets and liabilities are restated using prevailing exchange rates and the resulting differences are recognized in profit or loss.

At year-end, foreign-currency non-monetary assets and liabilities, which are measured at fair value, are restated using prevailing exchange rates and the resulting differences are treated as follows:

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

At year-end, foreign-currency non-monetary assets and liabilities, which are measured at cost, are stated at historical exchange rates at trade dates.

Translation of Foreign-currency Financial Statements

The differences resulting from translation of the foreign-currency financial statements of foreign investees accounted for under equity method prepared in their respective functional currencies into New Taiwan dollars are recorded as translation adjustments under stockholders' equity.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2009.

3. ACCOUNTING CHANGES

On January 1, 2009, the Corporation adopted the newly revised Statement of Financial Accounting Standards No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the year in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the year. The adoption resulted in a decrease of \$52.5 million in net income and a decrease of \$0.1 in basic after-tax earnings per share for the year ended December 31, 2009. For comparison purposes, the Corporation also reclassified non-operating gains of \$6.0 million and non-operating losses of \$29.6 million to cost of goods sold for the year ended December 31, 2008.

Effective January 1, 2008, the Corporation adopted Interpretation 2007-052 issued in March 2007 by the Accounting Research and Development Foundation of the ROC which requires companies to record bonuses to employees, directors and supervisors as an expense rather than as an appropriation of earnings. The adoption of this interpretation resulted in a decrease of \$62.0 million in net income and a decrease of \$0.12 in basic after-tax earnings per share for the year ended December 31, 2008.

4. CASH

	<u>December 31</u>	
	2009	2008
Cash on hand	\$ 887	\$ 1,067
Checking account deposits and demand deposits	356,890	374,135
Time deposits	<u>239</u>	<u>23,478</u>
	<u>\$ 358,016</u>	<u>\$ 398,680</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2009	2008
<u>Financial assets held for trading - current</u>		
Forward exchange contracts	<u>\$ 537</u>	<u>\$ 3,511</u>
<u>Financial assets held for trading - noncurrent</u>		
Forward exchange contracts	<u>\$ 12,824</u>	<u>\$ -</u>

The Corporation entered into forward exchange contracts in the years ended December 31, 2009 and 2008 mainly to manage exposures due to the fluctuations of foreign exchange rates. The forward exchange contracts entered into by the Corporation did not meet the criteria for hedge accounting. Therefore, the Corporation did not apply hedge accounting treatment for its forward exchange contracts.

As of December 31, 2009 and 2008, outstanding forward contracts were as follows:

Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2009</u>		
Buy NT\$ /Sell US\$	January 2010	NT\$32,567/US\$1,000
Buy EUR/Sell NT\$	January 2011	EUR4,175 /NT\$177,746
<u>December 31, 2008</u>		
Buy EUR/Sell NT\$	February 2009	EUR3,800/NT\$172,140

Net gains arising from financial instruments held for trading for the years ended December 31, 2009 and 2008 were \$12.0 million and \$5.2 million, respectively.

6. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2009	2008
Accounts receivable	\$ 2,628,001	\$ 2,474,732
Less: Allowance for doubtful accounts	<u>(93,058)</u>	<u>(97,074)</u>
	<u>\$ 2,534,943</u>	<u>\$ 2,377,658</u>

Information about accounts receivable sold by the Corporation is as follows:

Counter Party	Amount Sold	Amount Collected	Outstanding Advances at End of Year	Annual Interest Rate for Outstanding Advances (%)	Credit Limit
<u>Year ended December 31, 2008</u>					
Chinatrust Bank	<u>\$ 371,926</u>	<u>\$ 371,926</u>	<u>\$ -</u>	3.95%	<u>\$ 121,600</u>

The above credit line may be used on a revolving basis. Pursuant to the factoring agreement, losses arising from commercial disputes between the customers and the Corporation shall be borne by the Corporation; whereas 10% of losses arising from credit risk shall be borne by the Corporation and the rest shall be borne by the bank.

7. INVENTORIES

	<u>December 31</u>	
	2009	2008
Finished goods	\$ 918,017	\$ 975,566
Work in process	1,017,823	1,246,448
Raw materials and supplies	<u>869,179</u>	<u>1,266,251</u>
	2,805,019	3,488,265
Less: Allowance for loss	<u>(248,227)</u>	<u>(155,948)</u>
	<u>\$ 2,556,792</u>	<u>\$ 3,332,317</u>

The cost of goods sold for the year ended December 31, 2009 included \$93.8 million loss on write-downs of inventories and \$68.7 million of unallocated overheads. The cost of goods sold for the year ended December 31, 2008 included \$26.8 million loss on write-downs of inventories.

8. REAL ESTATE IN DEVELOPMENT AND COLLECTIONS IN ADVANCE FOR REAL ESTATE

	Estimated Total Selling Price	Estimated Total Cost	Real Estate in Development	Collections in Advance for Real Estate	Year of Completion
<u>December 31, 2008</u>					
Development of an office building on the land of Shihlin plant	<u>\$ 4,881,146</u>	<u>\$ 2,362,440</u>	<u>\$ 1,806,969</u>	<u>\$ 1,821,064</u>	2009

In March 2006, the Corporation entered into a building sale and purchase agreement with GRQ Development Corp. (formerly GRQ Investment Corp.), a subsidiary of CTCI Corporation. Under the agreement, the Corporation had sold the office building together with parking places constructed on the land of its Shihlin factory to GRQ Development Corp. for \$4,909.6 million in May 2009, which was adjusted for changes in the total construction cost, total floor space and number of parking places, resulting in a gain of \$2,539.9 million after deducting the total construction cost of \$2,369.8 million.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	<u>December 31</u>	
	2009	2008
Quoted stocks	\$ 1,760,266	\$ 1,512,069
Open-end funds	<u>1,163,232</u>	<u>992,445</u>
	<u>\$ 2,923,498</u>	<u>\$ 2,504,514</u>

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2009	2008
Unquoted stocks or funds		
The Industrial Bank of Taiwan Co., Ltd.	\$ 100,000	\$ 100,000
AmTrust Capital I Corp.	82,000	82,000
Noble Tech Venture Capital Corporation	46,000	46,000
Jine De Sheng Co., Ltd.	30,318	30,318
Arch Meter Corp.	23,080	23,080
Der Shin Venture Capital Co.	18,200	18,200
Pac-Link Opportunity Venture Capital Co.	15,000	15,000
Hsinchu Venture Capital Co.	12,221	22,221
Charter Leisure Co., Ltd. (“Charter Leisure”)	11,574	11,574
Global Securities Finance Corporation	11,566	11,566
Tan Xi Photronic Corp.	10,500	10,500
Super Tech Venture Capital Co.	9,243	9,243
Power World Capital Management Inc.	9,100	15,196
Hsinchu Transport Co., Ltd.	7,608	7,608
Innocom Telecom Corp.	3,105	3,105
TSC Finance.Com	2,651	2,651
Normpacific Automation Corp.	1,740	1,740
Asia Technology 3 Limited	1,012	1,012
Formosa Capital Holdings Corporation	566	566
Sycamore Venture Capital, L.P.	449	5,449
Chinese Products Promotion Center	50	50
Windance Co., Ltd.	26	26
	<u>\$ 396,009</u>	<u>\$ 417,105</u>

Charter Leisure was formerly 19.0%-owned by the Corporation and 43.4%-owned by Shihlin Development Co. (“Shihlin Development”). However, the Corporation sold all of its stocks in Shihlin Development in April 2008 (see Note 11); as a result, the Corporation ceased to have significant influence over Charter Leisure. Accordingly, the Corporation reclassified its investment in Charter Leisure from investments accounted for under equity method to financial assets carried at cost.

Impairment losses on the abovementioned financial assets recognized by the Corporation for the years ended December 31, 2009 and 2008 were as follows:

	Years Ended December 31	
	2009	2008
Unquoted stocks		
Hsinchu Venture Capital Co.	\$ 10,000	\$ -
Power World Capital Management Inc.	5,000	-
Sycamore Venture Capital, L.P.	5,000	-
AmTrust Capital I Corp.	<u>-</u>	<u>18,000</u>
	<u>\$ 20,000</u>	<u>\$ 18,000</u>

11. INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD

	December 31			
	2009		2008	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
Unquoted stocks or funds				
SEEC International Holdings Ltd. of the British Virgin Islands (“SEEC International Holdings”)	\$ 2,246,509	100.0	\$ 2,083,928	100.0
Yuh Lin Investment Co., Ltd.	435,323	93.7	335,333	93.7
Hwo Lin Investment Co., Ltd.	410,290	94.8	324,606	94.8
Shihlin Electrical Engineering Ltd. of Vietnam (“Vietnam SEEC”)	272,408	100.0	252,501	100.0
Ji Lin Investment Co., Ltd.	216,573	99.9	155,530	99.9
Jeng Lin Investment Co., Ltd.	196,640	87.4	157,235	87.4
Cheng Lin Investment Co., Ltd.	152,142	99.3	119,477	99.3
Rueylin Electric & Engineering Corp. (“Rueylin”)	129,366	70.4	133,757	70.4
SEEC International Trading Ltd. of the British Virgin Islands	107,249	100.0	112,559	100.0
Shang Lin Investment Co., Ltd.	101,502	99.3	69,833	99.3
Hsin Lin Electric Machinery Co., Ltd. (“Hsin Lin”)	100,535	60.0	78,594	60.0
Jeen-Lin Industrial Co., Ltd. (“Jeen-Lin”)	62,982	78.1	69,417	78.1
Shihlin Electric USA Company Limited (“Shihlin Electric USA”)	54,035	100.0	30,956	100.0
Chan Der Investment Co.	32,797	8.1	24,614	8.1
Yu Der Investment Co.	23,642	4.8	17,957	4.8
Union Power Industrial Corporation (“Union Power”)	18,681	72.5	17,132	72.5
Cheng Der Investment Co.	12,773	3.6	9,673	3.6
Chuan Lin Technology Corporation (“Chuan Lin”)	8,331	31.5	7,795	31.5
Shinlin Enterprise Co., Ltd. (“Shinlin”)	7,814	72.0	7,401	72.0
Yuan-Gu Light & Electricity Co., Ltd.	5,472	25.2	7,747	25.2
Ting Lin Enterprise Co. (“Ting Lin”)	<u>1,620</u>	21.1	<u>2,064</u>	21.1
	<u>\$ 4,596,684</u>		<u>\$ 4,018,109</u>	

On March 4, 2008, the Corporation’s board of directors resolved to sell all of its stocks in Shihlin Development at a price of \$13.5 per share. In April 2008, the Corporation sold 14,060 thousand shares and 4,940 thousand shares in Shihlin Development at the aforementioned price to Palette Innovation Corporation (its new chairman elected in June 2008 is one of the directors of the Corporation) and an individual, respectively, for total selling price of \$256.5 million, resulting in a gain of \$18.8 million.

12. PROPERTIES AND PROPERTIES FOR LEASE, NET

	<u>December 31</u>	
	2009	2008
Properties		
Revaluation increment		
Land	\$ 1,929,072	\$ 2,064,291
Machinery and equipment	<u>-</u>	<u>5,344</u>
	<u>\$ 1,929,072</u>	<u>\$ 2,069,635</u>
Accumulated depreciation		
Cost		
Buildings and equipment	\$ 1,438,435	\$ 1,373,858
Machinery and equipment	2,272,425	2,174,561
Other equipment	<u>1,137,912</u>	<u>1,067,313</u>
	<u>4,848,772</u>	<u>4,615,732</u>
Revaluation increment		
Machinery and equipment	<u>-</u>	<u>5,344</u>
	<u>\$ 4,848,772</u>	<u>\$ 4,621,076</u>
Properties for lease		
Revaluation increment		
Land	<u>\$ 1,067,477</u>	<u>\$ 935,397</u>
Accumulated depreciation		
Buildings and equipment	<u>\$ 1,381,060</u>	<u>\$ 1,241,969</u>

The Corporation revalued its land on various dates from 1964 to 2007 and other properties in 1961 and 1975, in accordance with government regulations. The net unrealized revaluation increment (after deducting a reserve for land value increment tax) has been credited to stockholders' equity. As of December 31, 2009, the balance of the reserve for land value increment tax had decreased to \$950.7 million due to disposal of certain revalued land and reduction of land value increment tax rate; the balance of the unrealized revaluation increment had decreased to \$1,943.4 million due to the net effect of disposal of certain revalued land, transfer of unrealized revaluation increment to common stock, and reduction of land value increment tax rate.

Capitalized interest amounted to \$12.5 million and \$48.3 million, respectively, and the interest rates used in computing capitalized interest were 0.97%-1.76% and 2.37%-2.63%, respectively, for the years ended December 31, 2009 and 2008.

13. MISCELLANEOUS ASSETS

	<u>December 31</u>	
	2009	2008
Refundable deposits	\$ 5,995	\$ 4,382
Loans to employees for purchase of cars or motorcycles	12,829	16,785
Overdue receivables, net of allowance for loss of \$65 thousand in 2009 and \$46,871 thousand in 2008	-	-
Others	<u>68,606</u>	<u>66,366</u>
	<u>\$ 87,430</u>	<u>\$ 87,533</u>

14. SHORT-TERM LOANS AND SHORT-TERM BILLS PAYABLE

	December 31	
	2009	2008
Short-term loans		
Usance L/C (JPY): Due 90-180 days after sight, interest at 0.59%-1.142% in 2009 and 1.1212%-1.598% in 2008	\$ 71,027	\$ 199,838
Usance L/C (US\$): Due 90 days after sight, interest at 0.656%	4,839	-
Unsecured loans (NT\$): Interest at 0.57%-0.68% in 2009 and 1.6%-2.43% in 2008	2,350,000	2,180,000
Mortgage loans (NT\$): Interest at 0.69% in 2009 and 1.8%-2.08% in 2008	<u>100,000</u>	<u>300,000</u>
	<u>\$ 2,525,866</u>	<u>\$ 2,679,838</u>
Short-term bills payable		
Commercial papers (NT\$): Interest at 0.638% in 2009 and 1.528%-1.588% in 2008	<u>\$ 350,000</u>	<u>\$ 200,000</u>

15. LONG-TERM DEBT

	December 31	
	2009	2008
Mortgage loans (NT\$)		
Repayable in October 2011, interest at 0.675%	\$ 100,000	-
Repaid before its original maturity in May 2009, interest at 1.65%	-	\$ 58,207
Repaid before its original maturity in May 2009, interest at 1.65%	-	23,835
Repaid before its original maturity in May 2009, interest at 1.65%	-	10,548
Unsecured loans (NT\$)		
Repayable in October 2011, interest at 0.675%	150,000	-
Repaid before its original maturity in November 2009, interest at 1.462%	-	250,000
Repaid before its original maturity in October 2009, interest at 2.37%	-	100,000
Repaid before its original maturity in May 2009, interest at 2.44%	-	150,000
Repaid before its original maturity in May 2009, interest at 2.46%	-	400,000
Repaid before its original maturity in June 2009, interest at 2.275%	-	150,000
Repaid before its original maturity in May 2009, interest at 1.462%	-	100,000
Repaid before its original maturity in May 2009, interest at 2.62%	-	100,000
Repaid before its original maturity in May 2009, interest at 2.395%	-	150,000
Repaid before its original maturity in May 2009, interest at 1.476%	-	150,000
Repaid before its original maturity in June 2009, interest at 2.72%	-	150,000
Repaid before its original maturity in March 2009, interest at 2.281%	-	150,000
Repaid before its original maturity in June 2009, interest at 2.281%	-	50,000
Repaid before its original maturity in May 2009, interest at 2.281%	-	100,000
Repaid before its original maturity in May 2009, interest at 2.281%	-	180,000

(Continued)

	December 31	
	2009	2008
Repaid before its original maturity in May 2009, interest at 2.369%	\$ -	\$ 50,000
Repaid before its original maturity in May 2009, interest at 1.66%	-	380,000
Repaid before its original maturity in May 2009, interest at 1.66%	-	100,000
Repaid before its original maturity in May 2009, interest at 1.78%	-	200,000
Revolving unsecured loans (NT\$)		
Due in January 2009, interest at 1.95%-2.374%	-	200,000
	<u>250,000</u>	<u>3,202,590</u>
Less: Portion due within one year	-	<u>(9,683)</u>
	<u>\$ 250,000</u>	<u>\$ 3,192,907</u>
		(Concluded)

16. PENSION PLANS

The pension plan under the Labor Pension Act is a defined contribution pension plan. Pursuant to the plan, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of each employee's monthly salary. The Corporation recognized pension cost of \$24.1 million and \$23.7 million under the plan for the years ended December 31, 2009 and 2008, respectively.

Under the Labor Standard Law, the Corporation has a defined benefit pension plan for its employees. Benefits under the plan are based on length of service and average salary for the six months before retirement. The Corporation makes monthly contributions at 2% of salaries to a pension fund, which is administered by the employees pension fund committee and deposited in the committee's name with the Bank of Taiwan. Pension information about the plan is summarized as follows:

Net periodic pension cost:

	Years Ended December 31	
	2009	2008
Service cost	\$ 29,432	\$ 35,790
Interest cost	34,118	39,366
Actual return on plan assets	\$ (36)	\$ (189)
Loss on plan assets	<u>(37)</u>	<u>(5)</u>
Projected return on plan assets	(73)	(194)
Vested prior service cost	97,179	-
Amortization	<u>22,079</u>	<u>29,674</u>
Net periodic pension cost	<u>\$ 182,735</u>	<u>\$ 104,636</u>

Reconciliation of funded status of the plan and accrued pension cost:

	December 31	
	2009	2008
Benefit obligation		
Vested benefit obligation	\$ 346,207	\$ 397,124
Nonvested benefit obligation	585,106	549,499
Accumulated benefit obligation	931,313	946,623
Additional benefit based on future salaries	293,819	339,537
Projected benefit obligation	1,225,132	1,286,160
Fair value of plan assets	(10,874)	(1,668)
Funded status	1,214,258	1,284,492
Unrecognized net transition obligation	(83,165)	(96,935)
Unamortized net loss	(396,559)	(278,187)
Additional liability	185,905	35,585
Accrued pension cost	<u>\$ 920,439</u>	<u>\$ 944,955</u>
Vested benefit	<u>\$ 472,825</u>	<u>\$ 579,469</u>

Actuarial assumptions:

	December 31	
	2009	2008
Discount rate used in determining present values	2.00%	2.75%
Future salary increase rate	2.00%	2.25%
Expected rate of return on plan assets	2.00%	2.75%

17. INCOME TAX EXPENSE

A reconciliation of income tax expense based on income before income tax at statutory rates and income tax expense was as follows:

	Years Ended December 31	
	2009	2008
Income tax expense based on income before income tax at statutory rates	\$ 832,172	\$ 240,508
Tax effect on adjusting items		
Permanent differences		
Tax-exempt loss (income) on disposal of land	(703,008)	116
Others	(34,109)	(40,999)
Temporary differences	(125,753)	(25,901)
Loss carryforwards generated	30,698	-
Additional income tax at 10% of undistributed earnings	39,946	19,657
Less: Investment tax credits used	(19,973)	(49,302)
Current income tax	19,973	144,079
Deferred income tax		
Investment tax credits	(31,280)	(23,101)
Loss carryforwards	(30,698)	-
Pension cost not funded	43,710	15,488
Depreciation difference	29,478	5,703

(Continued)

	Years Ended December 31	
	2009	2008
Provision for warranty reserve	\$ (5,820)	\$ 18,568
Deferred sales discounts	640	1,120
Temporary differences relating to recognition of foreign investment income under equity method	66,113	1,949
Excess provisions for doubtful accounts	19,603	(3,320)
Allowance for loss on inventories	(23,070)	(3,727)
Others	(4,901)	(9,880)
Effect of tax law changes on deferred income tax	20,225	-
Adjustment in valuation allowance	51,181	22,402
Adjustments of prior years' income tax	<u>169,693</u>	<u>4,201</u>
Income tax expense	<u>\$ 324,847</u>	<u>\$ 173,482</u>

(Concluded)

In January 2009, the Legislative Yuan passed the amendment of Article 39 of the Income Tax Law (the "ITL"), which extends the operating losses carryforward period from five years to ten years.

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the ITL, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax expense.

Deferred income tax assets (liabilities) comprised:

	December 31	
	2009	2008
Current		
Deferred income tax assets		
Loss carryforwards	\$ 24,558	\$ -
Investment tax credits	43,505	23,101
Excess provisions for doubtful accounts	9,421	31,379
Allowance for loss on inventories	49,645	38,987
Provision for warranty reserve	35,831	38,969
Deferred sales discounts	3,242	4,692
Others	<u>13,498</u>	<u>9,372</u>
	179,700	146,500
Valuation allowance	<u>(86,661)</u>	<u>-</u>
	93,039	146,500
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>(3,000)</u>	<u>-</u>
	<u>\$ 90,039</u>	<u>\$ 146,500</u>

(Continued)

	December 31	
	2009	2008
Noncurrent		
Deferred income tax assets		
Pension cost not funded	\$ 146,907	\$ 227,343
Temporary differences relating to recognition of loss of foreign equity instruments	10,922	12,402
Others	<u>860</u>	<u>1,175</u>
	158,689	240,920
Valuation allowance	<u>(10,922)</u>	<u>(46,402)</u>
	<u>147,767</u>	<u>194,518</u>
Deferred income tax liabilities		
Depreciation difference	(93,125)	(86,929)
Temporary differences relating to recognition of foreign investment income under equity method	<u>(161,364)</u>	<u>(135,591)</u>
	<u>(254,489)</u>	<u>(222,520)</u>
	<u>\$ (106,722)</u>	<u>\$ (28,002)</u>
		(Concluded)

As of December 31, 2009, unused loss carryforwards of the Corporation were \$122.8 million which will expire in 2019.

As of December 31, 2009, information relating to the Corporation's investment tax credits was as follows:

Statutes	Tax Credit Source	Total	Unused	Year of Expiry
Statute for Upgrading Industries	Research and development expenditures	<u>\$ 45,732</u>	<u>\$ 43,505</u>	2013

The Corporation's income tax returns have been examined by the tax authority through 2007.

For distribution of earnings generated on and after January 1, 1998 under the ITL, the ratio of the imputation credits allocated to stockholders of the Corporation is based on the balance of the imputation credit account ("ICA") as of the date of dividend distribution. Information about integrated income tax was as follows:

Undistributed earnings comprised:

	December 31	
	2009	2008
Unappropriated earnings generated before January 1, 1998	\$ 387,158	\$ 387,158
Unappropriated earnings generated on and after January 1, 1998	<u>4,070,100</u>	<u>1,455,350</u>
	<u>\$ 4,457,258</u>	<u>\$ 1,842,508</u>

The balance of the ICA as of December 31, 2009 and 2008 was \$416.1 million and \$361.9 million, respectively.

The creditable ratio for distribution of earnings of 2009 and 2008 was 10.71% (estimate) and 20.98%, respectively.

18. STOCKHOLDERS' EQUITY

Under the current regulations, capital surplus may be used as follows:

- a. The capital surplus arising from additional paid-in capital on issuance of common stock and conversion of bonds, and treasury stock transactions may be used to offset a deficit or transferred to capital (limited to a certain prescribed amount in each year); and
- b. The capital surplus arising from long-term stock investments may not be used for any purpose.

The Corporation's Articles of Incorporation, which was amended on May 27, 2009, provide that the following shall be appropriated from the annual net income (less any deficit):

- a. 10% thereof as legal reserve;
- b. Special reserve provided in accordance with an SFB directive;
- c. Bonuses to directors and supervisors and to employees at rates ranging from 0.5% to 4% and 1% to 8%, respectively, of the remainder; and
- d. Other special reserve and dividends recommended by the board of directors.

The Articles of Incorporation also prescribe that, after appropriation of the bonus to employees, 1) not less than 10% of the sum of the remaining annual net income and the previous year's accumulated undistributed earnings shall be appropriated as dividends and 2) of the dividends, not less than 20% shall be paid in cash.

For the years ended December 31, 2009 and 2008, the bonus to employees was \$55.0 million and \$55.1 million, respectively, and the remuneration to directors and supervisors was \$27.5 million and \$27.6 million, respectively. The bonus to employees represented 2.03% and 8% of the net income for the years ended December 31, 2009 and 2008, respectively, minus the legal reserve to be appropriated; the remuneration to directors and supervisors represented 1.02% and 4% of the net income for the years ended December 31, 2009 and 2008, minus the legal reserve to be appropriated. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Under the Company Law, the aforementioned appropriation for legal reserve shall be made until the reserve equals the Corporation's paid-in capital. This reserve may be used to offset a deficit; also, when the reserve has reached 50% of the capital, up to 50% thereof may be transferred to capital.

The bonus to employees of \$55.1 million and the remuneration to directors and supervisors of \$27.6 million for 2008 were approved in the stockholders' meeting on May 27, 2009. The approved amount of the bonus to employees and the remuneration to directors and supervisors did not differ from the amount reflected in the financial statements for the year ended December 31, 2008.

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

19. EARNINGS PER SHARE

The numerator and denominator used in the calculation of earnings per share were as follows:

	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (In Thousands)</u>	<u>EPS (In New Taiwan Dollars)</u>	
	<u>Before Tax</u>	<u>After Tax</u>		<u>Before Tax</u>	<u>After Tax</u>
<u>Year ended December 31, 2009</u>					
Basic earnings per share					
Earnings belonging to holders of common shares	\$ 3,328,729	\$ 3,003,882	520,972	<u>\$ 6.39</u>	<u>\$ 5.77</u>
Effect of dilutive potential common shares					
Bonus to employees	<u>-</u>	<u>-</u>	<u>1,935</u>		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	<u>\$ 3,328,729</u>	<u>\$ 3,003,882</u>	<u>522,907</u>	<u>\$ 6.37</u>	<u>\$ 5.74</u>
<u>Year ended December 31, 2008</u>					
Basic earnings per share					
Earnings belonging to holders of common shares	\$ 962,073	\$ 788,591	520,972	<u>\$ 1.85</u>	<u>\$ 1.51</u>
Effect of dilutive potential common shares					
Bonus to employees	<u>-</u>	<u>-</u>	<u>1,722</u>		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	<u>\$ 962,073</u>	<u>\$ 788,591</u>	<u>522,694</u>	<u>\$ 1.84</u>	<u>\$ 1.51</u>

Effective January 1, 2008, the Corporation adopted Interpretation 2007-052 that requires companies to record bonuses to employees, directors and supervisors as an expense rather than as an appropriation of earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted earnings per share, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

20. PERSONNEL COST AND DEPRECIATION

	<u>Years Ended December 31</u>					
	<u>2009</u>			<u>2008</u>		
	<u>Operating Costs</u>	<u>Operating Expenses</u>	<u>Total</u>	<u>Operating Costs</u>	<u>Operating Expenses</u>	<u>Total</u>
Personnel cost						
Payroll	\$ 641,878	\$ 735,597	\$ 1,377,475	\$ 785,531	\$ 687,779	\$ 1,473,310
Insurance	39,725	38,902	78,627	43,488	38,588	82,076
Pension	52,219	154,634	206,853	64,968	63,411	128,379
Others	<u>13,009</u>	<u>19,134</u>	<u>32,143</u>	<u>16,156</u>	<u>13,900</u>	<u>30,056</u>
	<u>\$ 746,831</u>	<u>\$ 948,267</u>	<u>\$ 1,695,098</u>	<u>\$ 910,143</u>	<u>\$ 803,678</u>	<u>\$ 1,713,821</u>
Depreciation	<u>\$ 346,938</u>	<u>\$ 58,061</u>	<u>\$ 404,999</u>	<u>\$ 258,367</u>	<u>\$ 58,554</u>	<u>\$ 316,921</u>

21. RELATED PARTY TRANSACTIONS

a. Related parties and relationships:

Name of Related Party	Relationship with the Corporation
Mitsubishi Electric	A director
Mitsubishi Electric Taiwan Co., Ltd. (“Mitsubishi Taiwan”)	A subsidiary of Mitsubishi Electric
SEEC International Holdings	A subsidiary
Vietnam SEEC	A subsidiary
Shihlin Electric USA	A subsidiary
Jeen-Lin	A subsidiary
Rueylin	A subsidiary
Union Power	A subsidiary
Hsin Lin	A subsidiary
Chuan Lin	A subsidiary
Shinlin	A subsidiary
Changzhou Shihlin Electric & Engineering Co., Ltd. (“Changzhou SEEC”)	An indirect subsidiary
Suzhou Shihlin Electric & Engineering Co., Ltd. (“Suzhou SEEC”)	An indirect subsidiary
Wuxi Rotator Electric Company (“Wuxi Rotator”)	An indirect subsidiary
Fuzhou Shihlin Electric & Engineering Co., Ltd. (“Fuzhou SEEC”)	An indirect subsidiary
Shihlin Electric Switch (Suzhou) Co., Ltd. (“Suzhou Switch”)	An indirect subsidiary
Shihlin Electric (Australia) Pty. Ltd. (“Shihlin Electric Australia”)	An indirect subsidiary
Yeangder Entertainment Co., Ltd. (“Yeangder Entertainment”)	An indirect subsidiary
Ting Lin	An investee accounted for under equity method
Mitsubishi Electric Shihlin Automotive Changzhou Co., Ltd. (“Changzhou Mitsubishi Shihlin”)	An investee accounted for under equity method of a subsidiary
Tsubaki International Co., Ltd. (“Tsubaki”)	An investee accounted for under equity method of a subsidiary
Seh International Holdings Ltd. (“Seh International Holdings”)	An investor which accounts for its investment in an indirect subsidiary using equity method
The Ambassador Hotel Co., Ltd. (“Ambassador Hotel”)	Same chairman
Hsinchu Transport Co., Ltd. (“Hsinchu Transport”)	Same chairman
Charter Leisure	Same chairman (a subsidiary before March 4, 2008, see Note 10)
Shihlin Development	Its chairman is one of the directors of the Corporation (a subsidiary before March 4, 2008, see Note 11)

- b. Except those disclosed in other notes, significant balances and transactions with related parties are summarized as follows:

	December 31	
	2009	2008
1) Notes receivable		
Shihlin Development	\$ 5,284	\$ 6,359
Union Power	-	1,098
Others	-	23
	<u>5,284</u>	<u>7,480</u>
	<u>\$ 5,284</u>	<u>\$ 7,480</u>
2) Accounts receivable		
Mitsubishi Taiwan	\$ 44,168	\$ -
Shihlin Electric Australia	37,248	-
SEEC International Holdings	30,743	43,629
Fuzhou SEEC	28,196	24,125
Suzhou SEEC	16,395	17,826
Vietnam SEEC	11,441	2,699
Changzhou SEEC	11,317	2,333
Changzhou Mitsubishi Shihlin	9,712	8,577
Union Power	4,280	-
Rueylin	3,652	9,495
Suzhou Switch	2,859	-
Wuxi Rotator	2,137	633
Ambassador Hotel	-	9,454
Seh International Holdings	-	4,039
Others	47	682
	<u>202,195</u>	<u>123,492</u>
	<u>\$ 202,195</u>	<u>\$ 123,492</u>
3) Other receivables		
Transferred from accounts receivable		
Fuzhou SEEC	\$ 30,801	\$ 42,006
Others		
Hsin Lin	3,776	-
Changzhou Mitsubishi Shihlin	3,250	3,250
Others	350	920
	<u>7,376</u>	<u>4,170</u>
	<u>\$ 38,177</u>	<u>\$ 46,176</u>

	December 31	
	2009	2008
4) Accounts payable		
Hsin Lin	\$ 190,159	\$ 185,365
Rueylin	30,302	35,073
Mitsubishi Taiwan	21,387	34,100
SEEC International Holdings	18,608	14,663
Tsubaki	7,838	1,659
Jeen-Lin	7,327	12,668
Wuxi Rotater	1,076	-
Chuan Lin	758	8,945
Others	<u>1,986</u>	<u>205</u>
	<u>\$ 279,441</u>	<u>\$ 292,678</u>
5) Other payables		
Mitsubishi Electric	\$ 17,075	\$ 20,756
Shinlin	8,287	4,046
Hsinchu Transport	805	1,113
Mitsubishi Taiwan	331	368
Others	<u>672</u>	<u>1,554</u>
	<u>\$ 27,170</u>	<u>\$ 27,837</u>
	Years Ended December 31	
	2009	2008
6) Purchases		
Hsin Lin	\$ 1,229,410	\$ 1,531,398
Mitsubishi Electric	347,480	444,063
Rueylin	109,289	160,993
Chuan Lin	97,205	74,814
SEEC International Holdings	75,663	343,759
Mitsubishi Taiwan	52,002	107,815
Jeen-Lin	32,808	37,794
Suzhou SEEC	25,361	37,623
Wuxi Rotator	18,825	19,647
Tsubaki	16,077	1,580
Fuzhou SEEC	8,511	6,147
Changzhou SEEC	7,248	37,566
Ting Lin	6,738	900
Union Power	3,439	-
Vietnam SEEC	<u>2,581</u>	<u>750</u>
	<u>\$ 2,032,637</u>	<u>\$ 2,804,849</u>

	Years Ended December 31	
	2009	2008
7) Sales		
Union Power	\$ 111,936	\$ 97,780
SEEC International Holdings	100,414	125,287
Mitsubishi Taiwan	99,860	117,018
Fuzhou SEEC	96,405	38,577
Shihlin Electric Australia	75,204	-
Changzhou SEEC	44,436	37,352
Changzhou Mitsubishi Shihlin	35,835	31,434
Suzhou SEEC	24,288	27,631
Vietnam SEEC	23,639	20,686
Suzhou Switch	13,937	-
Wuxi Rotator	7,843	5,363
Rueylin	4,933	21,753
Seh International Holdings	1,219	28,343
Ting Lin	330	7,050
Ambassador Hotel	326	17,962
Others	<u>164</u>	<u>172</u>
	<u>\$ 640,769</u>	<u>\$ 576,408</u>
8) Leasing revenue		
Charter Leisure	\$ 25,383	\$ 24,125
Mitsubishi Taiwan	18,318	18,324
Hsinchu Transport	12,232	12,273
Hsin Lin	12,126	12,626
Shihlin Development	5,782	6,651
Rueylin	1,126	1,566
Orhwe	<u>148</u>	<u>-</u>
	<u>\$ 75,115</u>	<u>\$ 75,565</u>
9) Royalty expense		
Mitsubishi Electric	<u>\$ 18,154</u>	<u>\$ 21,305</u>
10) Service expense		
Shinlin	<u>\$ 95,419</u>	<u>\$ 54,906</u>
11) Fee for consultation on and management of construction		
Shihlin Development	<u>\$ 21,167</u>	<u>\$ 28,360</u>
12) Freight expense		
Hsinchu Transport	<u>\$ 10,284</u>	<u>\$ 13,625</u>

	Years Ended December 31	
	2009	2008
13) Fee for consultation on logistics management		
Hsinchu Transport	\$ 41,520	\$ 40,678
14) Maintenance expense		
Mitsubishi Taiwan	\$ 1,290	\$ 2,301
15) Commission expense		
Shihlin Electric USA	\$ 26,611	\$ -
Hsin Lin	<u>2,150</u>	<u>559</u>
	<u>\$ 28,761</u>	<u>\$ 559</u>
16) Advertising expense		
Yeangder Entertainment	\$ 2,333	\$ -
17) Service revenue (included in miscellaneous income)		
Changzhou Mitsubishi Shihlin	\$ 3,250	\$ 3,250
Hsin Lin	<u>1,200</u>	<u>1,200</u>
	<u>\$ 4,450</u>	<u>\$ 4,450</u>
18) Acquisition of properties		
Rueylin	\$ 907	\$ -
19) Proceeds from sale of properties		
Suzhou SEEC	\$ 114	\$ -
Vietnam Shihlin	-	1,474
Fuzhou SEEC	<u>-</u>	<u>106</u>
	<u>\$ 114</u>	<u>\$ 1,580</u>
20) Gain on sale of properties		
Suzhou SEEC	\$ 114	\$ -
Vietnam Shihlin	-	850
Fuzhou SEEC	<u>-</u>	<u>37</u>
	<u>\$ 114</u>	<u>\$ 887</u>

The transactions with related parties were made at prices and terms comparable to those that would be obtained in similar transactions with non-related parties, except the collection terms for sales to SEEC International Holdings, Changzhou SEEC, Suzhou SEEC, Fuzhou SEEC, Wuxi Rotator, and Suzhou Switch, which were determined based on their status of working capital.

The Corporation had transferred accounts receivable from related parties which were older than normal collection terms as of December 31, 2009 and 2008 to other receivables. The ages of the accounts receivable were as follows:

	December 31	
	2009	2008
7 to 12 months	\$ -	\$ 12,480
Over 12 months	<u>30,801</u>	<u>29,526</u>
	<u>\$ 30,801</u>	<u>\$ 42,006</u>

The rentals collected monthly from related parties were based on normal commercial rates.

c. Compensation of directors, supervisors and management personnel:

	December 31	
	2009	2008
Salaries, incentives and special compensation	\$ 25,675	\$ 23,804
Allowances	7,502	10,336
Bonus	<u>32,440</u>	<u>30,985</u>
	<u>\$ 65,617</u>	<u>\$ 65,125</u>

22. ASSETS MORTGAGED

The following assets had been mortgaged as collateral for long- and short-term bank credit lines, performance guaranty, and a deposit for management and maintenance of public open space:

	December 31	
	2009	2008
Demand deposits (included in restricted assets)	\$ 25,718	\$ -
Pledged time deposits (included in restricted assets)	37,609	65,277
Land	2,036,944	2,969,735
Buildings and equipment, net	224,114	239,067
Machinery and equipment, net	<u>1,606</u>	<u>2,141</u>
	<u>\$ 2,325,991</u>	<u>\$ 3,276,220</u>

23. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2009, the Corporation had the following significant commitments and contingencies:

- a. Under technical cooperation agreements with several foreign companies expiring on various dates between January 2010 and July 2012, the Corporation, aside from paying upfront royalties, shall pay running royalties at specified percentages of sales (as defined). Royalties for the years ended December 31, 2009 and 2008 were \$22.5 million and \$24.6 million, respectively.
- b. Unused letters of credit of approximately \$390 million.
- c. Pursuant to certain credit line agreements, the Corporation shall maintain certain financial ratios.

- d. The Corporation rents out its office building under several operating lease agreements expiring on various dates between January 2010 and September 2014. Future lease revenues were as follows:

Year	Amount
2010	\$ 97,874
2011	76,325
2012	60,279
2013	1,081
2014	72

- e. The Corporation rents out its market building together with parking places under an operating lease agreement to Pacific SOGO Co., Ltd. for 20 years, expiring in May 2029. Pursuant to the lease agreement, the Corporation can collect a guaranteed minimum monthly rental, no less than 6% of the guaranteed minimum operating revenues, for market building and a rental for parking places. Also, the Corporation can collect an additional rental at 6% of the excess of actual operating revenues over the guaranteed minimum operating revenues at the end of every year. Future minimum lease revenues were as follows:

Year	Amount
2010	\$ 305,772
2011	319,872
2012	319,872
2013	319,872
2014	338,305
2015 to 2019	1,754,091 (present value of \$868,350 thousand)
2020 to 2024	1,780,648 (present value of \$565,352 thousand)
2025 to 2029	1,584,764 (present value of \$330,376 thousand)

- f. The Corporation had provided guarantees to the following companies for their bank credit lines:

	Amount
Kingdom Trading Shanghai Co., Ltd.	\$ 208,942
Xiamen Shihlin Electric & Engineering Co., Ltd.	195,435
Changzhou Mitsubishi Shinlin	92,300
Suzhou Switch	27,863
Suzhou SEEC	19,668
Mitsuba Shinlin Electric (Wuhan) Co., Ltd.	21,139

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash	\$ 358,016	\$ 358,016	\$ 398,680	\$ 398,680
Financial assets at fair value through profit and loss - current				
Forward exchange contracts	537	537	3,511	3,511
Notes receivable	733,583	733,583	715,571	715,571
Notes receivable from related parties	5,284	5,284	7,480	7,480
Accounts receivable	2,534,943	2,534,943	2,377,658	2,377,658
Accounts receivable from related parties	202,195	202,195	123,492	123,492
Other receivables	4,414	4,414	5,381	5,381
Other receivables from related parties	38,177	38,177	46,176	46,176
Financial assets at fair value through profit and loss - noncurrent				
Forward exchange contracts	12,824	12,824	-	-
Available-for-sale financial assets - noncurrent	2,923,498	2,923,498	2,504,514	2,504,514
Financial assets carried at cost - noncurrent	396,009		417,105	
Investments accounted for under equity method	4,596,684		4,018,109	
Liabilities				
Short-term loans	2,525,866	2,525,866	2,679,838	2,679,838
Short-term bills payable	350,000	350,000	200,000	200,000
Notes payable	2,899	2,899	1,591	1,591
Accounts payable	1,656,189	1,656,189	1,386,666	1,386,666
Accounts payable to related parties	279,441	279,441	292,678	292,678
Other payables to related parties	27,170	27,170	27,837	27,837
Other payables	189,627	189,627	59,832	59,832
Long-term debt (including current portion)	250,000	250,000	3,202,590	3,202,590

b. Methods and assumptions used in the estimation of fair values of financial instruments:

- 1) Fair values of short-term financial instruments are determined using their carrying amounts shown on the balance sheet because of their short maturities. This method applies to cash, receivables, short-term loans, short-term bills payable and payables.
- 2) Fair values of financial instruments at fair value through profit or loss, which represent derivative financial instruments, are estimated using valuation techniques because no market prices are available. The estimates and assumptions used in the valuation techniques are consistent with those that market participants would use in setting prices for financial instruments and are attainable by the Corporation.
- 3) Fair value of available-for-sale financial assets is based on their market price.
- 4) Fair value of financial assets carried at cost and investments accounted for under equity method, which represent unquoted stocks and funds, has not been presented because their market prices are not available.

- 5) Fair value of long-term debt, which represents revolving short-term loans, is determined using its carrying amount shown on the balance sheet because of its short maturities. Fair value of other long-term debt is estimated using the present value of the expected future cash flows. The discount rate represents the interest rate for other long-term debt of similar terms and maturities that the Corporation may obtain.
- c. As of December 31, 2009 and 2008, financial assets exposed to fair value interest rate risk were \$0.2 million and \$23.5 million, respectively; financial liabilities exposed to fair value interest rate risk were \$2,875.9 million and \$3,079.8 million, respectively; financial liabilities exposed to cash flow interest rate risk were \$250 million and \$3,002.3 million, respectively.
- d. Movements of the unrealized gain or loss on available-for-sale financial assets of the Corporation for the years ended December 31, 2009 and 2008 were as follows:

	Credit (Debit)	
	Years Ended December 31	
	2009	2008
Balance, beginning of year	\$ (449,109)	\$ (402,952)
Recognized directly in stockholders' equity	485,913	(8,615)
Removed from stockholders' equity and recognized in earnings	26,004	(12,280)
Recognized in stockholders' equity for the change in unrealized gain or loss on available-for-sale financial assets held by equity method investees	<u>291,149</u>	<u>(25,262)</u>
Balance, end of year	<u>\$ 353,957</u>	<u>\$ (449,109)</u>

- e. Information about financial risk

1) Market risk

The Corporation entered into derivative financial instruments to hedge the exchange rate fluctuations of foreign-currency assets and liabilities. Therefore, the market risk of derivatives will be offset by the foreign exchange risk of the hedged assets or liabilities. Available-for-sale financial assets are quoted stocks and open-end funds. Therefore, the fluctuations in prices would result in changes in fair value of these securities.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter parties or third parties breached contracts. The counter parties and third parties are reputable financial institutions and business organizations; thus, no material credit risk is anticipated.

3) Liquidity risk

The Corporation has sufficient operating capital to meet the cash needs upon maturity of derivative financial instruments and long- and short-term loans; thus, liquidity risk is low. The Corporation's available-for-sale financial assets could be sold or redeemed rapidly at prices approximating their fair values because they are traded in an active market or are redeemable; thus, no material liquidity risk is anticipated. There is liquidity risk for the Corporation's financial assets carried at cost because they are not traded in an active market; however, the Corporation had evaluated the risk before making investments.

4) Cash flow interest rate risk

As of December 31, 2009, the Corporation's long-term debts of \$250 million are variable-interest-rate liabilities. Market interest rate changes will affect the effective interest rates of the debts and make the future cash flows fluctuate. If the market interest rates increase by 1%, the Corporation's cash outflow will increase by \$2.5 million a year.

25. SEGMENT AND GEOGRAPHIC INFORMATION

a. Industry information:

	Year Ended December 31, 2009					
	Heavy Electric Equipment	Electric Auto Equipment	Leasing	Construction	Eliminations	Total
Revenues - customers	\$ 6,535,044	\$ 5,673,343	\$ 339,513	\$ 4,909,614	\$ -	\$ 17,457,514
- inter-segment	<u>105,846</u>	<u>87,563</u>	<u>-</u>	<u>-</u>	<u>(193,409)</u>	<u>-</u>
Total revenues	<u>\$ 6,640,890</u>	<u>\$ 5,760,906</u>	<u>\$ 339,513</u>	<u>\$ 4,909,614</u>	<u>\$ (193,409)</u>	<u>\$ 17,457,514</u>
Segment operating income	<u>\$ 567,222</u>	<u>\$ 173,458</u>	<u>\$ 163,648</u>	<u>\$ 2,539,852</u>	<u>\$ (15,473)</u>	\$ 3,428,707
Corporate income, net						40,828
Investment income, net						420,306
Corporate expenses						(528,272)
Interest expense						<u>(32,840)</u>
Income before income tax						<u>\$ 3,328,729</u>
Identifiable assets	<u>\$ 5,960,673</u>	<u>\$ 3,344,498</u>	<u>\$ 5,312,897</u>	<u>\$ 101,478</u>	<u>\$ -</u>	\$ 14,719,546
Corporate assets						2,032,796
Long-term investments						<u>7,929,015</u>
Total assets						<u>\$ 24,681,357</u>
Depreciation	<u>\$ 87,861</u>	<u>\$ 121,829</u>	<u>\$ 139,091</u>	<u>\$ -</u>		
Additions to properties and properties for lease	<u>\$ 43,757</u>	<u>\$ 73,588</u>	<u>\$ 588,792</u>	<u>\$ -</u>		
	Year Ended December 31, 2008					
	Heavy Electric Equipment	Electric Auto Equipment	Leasing	Construction	Eliminations	Total
Revenues- customers	\$ 7,408,381	\$ 7,437,164	\$ 176,526	\$ -	\$ -	\$ 15,022,071
- inter-segment	<u>41,021</u>	<u>88,252</u>	<u>-</u>	<u>-</u>	<u>(129,273)</u>	<u>-</u>
Total revenues	<u>\$ 7,449,402</u>	<u>\$ 7,525,416</u>	<u>\$ 176,526</u>	<u>\$ -</u>	<u>\$ (129,273)</u>	<u>\$ 15,022,071</u>
Segment operating income	<u>\$ 685,410</u>	<u>\$ 458,113</u>	<u>\$ 82,810</u>	<u>\$ -</u>	<u>\$ (10,342)</u>	\$ 1,215,991
Corporate income, net						88,339
Investment income, net						195,533
Corporate expenses						(471,573)
Interest expense						<u>(66,217)</u>
Income before income tax						<u>\$ 962,073</u>
Identifiable assets	<u>\$ 5,980,946</u>	<u>\$ 4,388,397</u>	<u>\$ 4,716,950</u>	<u>\$ 1,806,969</u>	<u>\$ -</u>	\$ 16,893,262
Corporate assets						1,755,835
Long-term investments						<u>6,939,728</u>
Total assets						<u>\$ 25,588,825</u>
Depreciation	<u>\$ 81,877</u>	<u>\$ 123,471</u>	<u>\$ 56,104</u>	<u>\$ -</u>		
Additions to properties and properties for lease	<u>\$ 109,035</u>	<u>\$ 91,343</u>	<u>\$ 1,455,339</u>	<u>\$ -</u>		

The transfer prices of inter-segment sales were in principle based on the cost of product plus 8%. Segment operating income represented segment revenues less costs and operating expenses; operating expenses that could not be directly identified with a segment were allocated to various segments based on budgeted revenues.

b. Geographic information:

The Corporation had no foreign operations.

c. Export sales:

Export Area	Years Ended December 31	
	2009	2008
Asia	\$ 1,104,363	\$ 776,890
America	466,565	167,902
Others	<u>126,400</u>	<u>217,003</u>
	<u>\$ 1,697,328</u>	<u>\$ 1,161,795</u>

d. Major customers:

Sales to customers which individually exceeded 10% of net sales were as follows:

Name of Customer	Years Ended December 31			
	2009		2008	
	Amount	%	Amount	%
Taiwan Power Company	\$ 1,208,872	10	\$ 1,922,912	13