

**Shihlin Electric & Engineering Corp.**

**Financial Statements for the  
Years Ended December 31, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009, 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.

February 24, 2011

### 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, 2010 AND 2009

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

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 430,276	2	\$ 358,016	2	Short-term loans (Notes 13 and 24)	\$ 2,295,202	9	\$ 2,525,866	10
Financial assets at fair value through profit or loss - current (Note 5)	17	-	537	-	Short-term bills payable (Note 13)	300,000	1	350,000	2
Notes receivable	821,900	3	733,583	3	Financial liabilities at fair value through profit or loss - current (Note 5)	41,001	-	-	-
Notes receivable from related parties (Note 23)	1,309	-	5,284	-	Notes payable	1,164	-	2,899	-
Accounts receivable, net (Note 6)	2,385,426	9	2,531,547	10	Accounts payable	1,982,116	8	1,656,189	7
Accounts receivable from related parties (Note 23)	184,224	1	202,195	1	Accounts payable to related parties (Note 23)	536,149	2	279,441	1
Other receivables	3,005	-	4,414	-	Income tax payable, net of prepaid income tax	272,629	1	19,748	-
Other receivables from related parties (Note 23)	18,387	-	38,177	-	Accrued expenses	618,175	2	576,461	2
Inventories (Notes 3 and 7)	3,035,957	12	2,556,792	10	Other payables to related parties (Note 23)	21,197	-	27,170	-
Deferred income tax assets - current (Note 18)	102,174	-	90,039	-	Other payables	73,248	-	189,627	1
Restricted assets - current (Note 24)	69,979	-	55,906	-	Collections in advance	192,984	1	679,351	3
Other current assets (Note 23)	206,158	1	374,846	2	Collections in advance for construction, net of construction in progress (Notes 14 and 19)	125,365	1	-	-
Total current assets	7,258,812	28	6,951,336	28	Other current liabilities	288,534	1	257,314	1
<b>LONG-TERM INVESTMENTS</b>					Total current liabilities	6,747,764	26	6,564,066	27
Financial assets at fair value through profit or loss - noncurrent (Note 5)	-	-	12,824	-	<b>LONG-TERM LIABILITIES</b>				
Available-for-sale financial assets - noncurrent (Note 8)	3,559,667	14	2,923,498	12	Financial liabilities at fair value through profit or loss - noncurrent (Note 5)	2,535	-	-	-
Financial assets carried at cost - noncurrent (Note 9)	375,658	2	396,009	1	Long-term debt (Notes 15 and 24)	300,000	1	250,000	1
Investments accounted for under equity method (Note 10)	4,982,483	19	4,596,684	19	Total long-term liabilities	302,535	1	250,000	1
Total long-term investments	8,917,808	35	7,929,015	32	<b>RESERVES</b>				
<b>PROPERTIES AND PROPERTIES FOR LEASE</b>					Reserve for land value increment tax (Note 11)	950,717	4	950,717	4
Properties (Notes 11 and 24)					<b>OTHER LIABILITIES</b>				
Cost					Accrued pension cost (Note 16)	964,003	4	920,439	4
Land	444,174	2	444,174	2	Deposits received	89,260	-	89,501	-
Buildings and equipment	2,662,117	10	2,657,814	11	Deferred income tax liabilities - noncurrent (Note 18)	164,684	1	106,722	-
Machinery and equipment	2,785,539	11	2,695,211	11	Total other liabilities	1,217,947	5	1,116,662	4
Other equipment	1,431,580	5	1,417,559	5	Total liabilities	9,218,963	36	8,881,445	36
Total cost	7,323,410	28	7,214,758	29	<b>STOCKHOLDERS' EQUITY (Note 20)</b>				
Revaluation increment	1,929,072	8	1,929,072	8	Common stock, \$10 par value, authorized - 580,000,000 shares; issued - 520,972,223 shares	5,209,722	20	5,209,722	21
Total cost and revaluation increment	9,252,482	36	9,143,830	37	Capital surplus				
Less: Accumulated depreciation	(5,045,282)	(19)	(4,848,772)	(20)	Additional paid-in capital on issuance of common stock	1,441,424	6	1,441,424	6
Prepayments	7,272	-	11,639	-	Additional paid-in capital on conversion of bonds	970,457	4	970,457	4
Total properties, net	4,214,472	17	4,306,697	17	Treasury stock transactions	70,059	-	70,059	-
Properties for lease (Notes 12 and 22)					Long-term stock investments	74,783	-	74,783	-
Cost					Total capital surplus	2,556,723	10	2,556,723	10
Land	24,651	-	24,651	-	Retained earnings				
Buildings and equipment	5,671,919	22	5,601,829	23	Legal reserve	1,504,944	6	1,204,556	5
Total cost	5,696,570	22	5,626,480	23	Unappropriated earnings	4,381,763	17	4,457,258	18
Revaluation increment	1,067,477	4	1,067,477	4	Total retained earnings	5,886,707	23	5,661,814	23
Total cost and revaluation increment	6,764,047	26	6,693,957	27	Other equity items				
Less: Accumulated depreciation	(1,565,226)	(6)	(1,381,060)	(5)	Cumulative translation adjustments	(57,696)	-	173,598	1
Total properties for lease, net	5,198,821	20	5,312,897	22	Net loss not recognized as pension cost	(127,944)	(1)	(102,740)	-
Total properties and properties for lease, net	9,413,293	37	9,619,594	39	Unrealized gain on available-for-sale financial assets	1,129,567	4	353,957	1
<b>INTANGIBLE ASSETS</b>					Unrealized revaluation increment (Note 11)	1,943,442	8	1,943,442	8
Deferred pension cost	69,395	-	83,165	-	Total other equity items	2,887,369	11	2,368,257	10
<b>OTHER ASSETS</b>					Total stockholders' equity	16,540,521	64	15,796,516	64
Restricted assets - noncurrent (Note 24)	6,542	-	7,421	-	<b>TOTAL</b>	<b>\$ 25,759,484</b>	<b>100</b>	<b>\$ 24,677,961</b>	<b>100</b>
Miscellaneous assets (Note 12)	93,634	-	87,430	1					
Total other assets	100,176	-	94,851	1					
<b>TOTAL</b>	<b>\$ 25,759,484</b>	<b>100</b>	<b>\$ 24,677,961</b>	<b>100</b>					

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

(With Deloitte & Touche audit report dated February 24, 2011)

# SHIHLIN ELECTRIC & ENGINEERING CORP.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Gross sales	\$ 14,520,086	98	\$ 12,524,077	72
Less: Sales returns	60,555	1	48,977	-
Sales discounts	<u>355,822</u>	<u>2</u>	<u>266,713</u>	<u>2</u>
Net sales (Note 23)	14,103,709	95	12,208,387	70
Leasing revenue (Note 23)	433,376	3	339,513	2
Revenue of real estate construction (Note 17)	-	-	4,909,614	28
Revenue of construction contract	<u>303,323</u>	<u>2</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>14,840,408</u>	<u>100</u>	<u>17,457,514</u>	<u>100</u>
<b>OPERATING COSTS (Note 22)</b>				
Cost of goods sold (Notes 3, 7 and 23)	11,915,555	80	10,397,725	59
Cost of leasing revenue	247,862	2	175,865	1
Cost of real estate construction (Note 17)	-	-	2,369,762	14
Cost of construction contract	<u>260,214</u>	<u>2</u>	<u>-</u>	<u>-</u>
Total operating costs	<u>12,423,631</u>	<u>84</u>	<u>12,943,352</u>	<u>74</u>
<b>GROSS PROFIT</b>	<u>2,416,777</u>	<u>16</u>	<u>4,514,162</u>	<u>26</u>
<b>OPERATING EXPENSES (Notes 22 and 23)</b>				
Selling	791,035	5	742,184	4
Administrative	521,332	3	528,272	3
Research and development	<u>390,977</u>	<u>3</u>	<u>343,271</u>	<u>2</u>
Total operating expenses	<u>1,703,344</u>	<u>11</u>	<u>1,613,727</u>	<u>9</u>
<b>INCOME FROM OPERATIONS</b>	<u>713,433</u>	<u>5</u>	<u>2,900,435</u>	<u>17</u>
<b>NON-OPERATING INCOMES AND GAINS</b>				
Interest income	984	-	1,015	-
Investment income recognized under equity method, net	540,655	4	412,598	3
Dividend income	19,839	-	27,708	-
Gain on disposal of properties (Note 23)	1,180	-	4,975	-
Gain on sale of investments, net	58	-	-	-
Foreign exchange gain, net	-	-	1,795	-
Valuation gain on financial instruments, net (Note 5)	-	-	12,000	-
Miscellaneous (Note 23)	<u>56,480</u>	<u>-</u>	<u>49,321</u>	<u>-</u>
Total non-operating incomes and gains	<u>619,196</u>	<u>4</u>	<u>509,412</u>	<u>3</u>

(Continued)

# SHIHLIN ELECTRIC & ENGINEERING CORP.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Interest expense	\$ 19,663	-	\$ 32,840	1
Loss on disposal of properties	3,560	-	1,967	-
Loss on sale of investments, net	-	-	26,004	-
Foreign exchange loss, net	25,266	-	-	-
Impairment loss (Note 9)	7,700	-	20,000	-
Valuation loss on financial instruments, net (Note 5)	61,918	1	-	-
Miscellaneous	5,173	-	307	-
Total non-operating expenses and losses	<u>123,280</u>	<u>1</u>	<u>81,118</u>	<u>1</u>
INCOME BEFORE INCOME TAX	1,209,349	8	3,328,729	19
INCOME TAX EXPENSE (Note 18)	<u>359,289</u>	<u>2</u>	<u>324,847</u>	<u>2</u>
NET INCOME	<u>\$ 850,060</u>	<u>6</u>	<u>\$ 3,003,882</u>	<u>17</u>
	<b>2010</b>		<b>2009</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
EARNINGS PER SHARE (Note 21)				
Basic earnings per share	<u>\$ 2.32</u>	<u>\$ 1.63</u>	<u>\$ 6.39</u>	<u>\$ 5.77</u>
Diluted earnings per share	<u>\$ 2.31</u>	<u>\$ 1.63</u>	<u>\$ 6.37</u>	<u>\$ 5.74</u>

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

(With Deloitte & Touche audit report dated February 24, 2011)

(Concluded)

**SHIHLIN ELECTRIC & ENGINEERING CORP.**
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2010 AND 2009  
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)**

	Capital Surplus (Note 20)						Other Equity Items								
	Common Stock (Note 20)	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	Retained Earnings (Note 20)			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Available- for-sale Financial Assets	Unrealized Revaluation Increment (Note 11)	Total	Total Stockholders' Equity
							Legal Reserve	Unappropriated Earnings	Total						
BALANCE, JANUARY 1, 2009	\$ 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
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	300,388	(300,388)	-	-	-	-	-	-	-
Cash dividends - \$1.2 per share	-	-	-	-	-	-	-	(625,167)	(625,167)	-	-	-	-	-	(625,167)
Adjustment for long-term stock investments accounted for under equity method	-	-	-	-	-	-	-	-	-	(16,785)	-	154,441	-	137,656	137,656
Net income for the year ended December 31, 2010	-	-	-	-	-	-	-	850,060	850,060	-	-	-	-	-	850,060
Change in translation adjustments	-	-	-	-	-	-	-	-	-	(214,509)	-	-	-	(214,509)	(214,509)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(25,204)	-	-	(25,204)	(25,204)
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	621,169	-	621,169	621,169
BALANCE, DECEMBER 31, 2010	<u>\$ 5,209,722</u>	<u>\$ 1,441,424</u>	<u>\$ 970,457</u>	<u>\$ 70,059</u>	<u>\$ 74,783</u>	<u>\$ 2,556,723</u>	<u>\$ 1,504,944</u>	<u>\$ 4,381,763</u>	<u>\$ 5,886,707</u>	<u>\$ (57,696)</u>	<u>\$ (127,944)</u>	<u>\$ 1,129,567</u>	<u>\$ 1,943,442</u>	<u>\$ 2,887,369</u>	<u>\$ 16,540,521</u>

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

(With Deloitte & Touche audit report dated February 24, 2011)

# SHIHLIN ELECTRIC & ENGINEERING CORP.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 850,060	\$ 3,003,882
Depreciation	443,905	404,999
Provision for doubtful accounts	11,086	2,166
Provision for loss on inventories	62,481	93,823
Loss (gain) on disposal of properties, net	2,380	(3,008)
Investment income recognized under equity method, net	(540,655)	(412,598)
Cash dividends from investees accounted for under equity method	106,366	23,426
Loss (gain) on sale of investments, net	(58)	26,004
Impairment loss	7,700	20,000
Deferred income tax	45,827	135,181
Changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss	56,880	(9,850)
Notes receivable	(88,317)	(18,012)
Notes receivable from related parties	3,975	2,196
Accounts receivable	135,035	(156,055)
Accounts receivables from related parties	17,971	(78,703)
Other receivables	1,409	967
Other receivables from related parties	(788)	(3,206)
Inventories	(573,891)	668,947
Real estate in development	-	1,826,148
Other current assets	168,688	(180,960)
Notes payable	(1,735)	1,308
Accounts payable	325,927	163,296
Accounts payable to related parties	256,708	(13,237)
Income tax payable	252,881	19,748
Accrued expenses	41,714	50,440
Other payables to related parties	(5,973)	(667)
Other payables	12,078	1,338
Collections in advance	(486,367)	41,477
Collections in advance for real estate	-	(1,821,064)
Collections in advance for construction	125,365	-
Other current liabilities	31,220	64,034
Accrued pension cost	32,130	(174,837)
	<u>1,294,002</u>	<u>3,677,183</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in other receivables from related parties transferred from accounts receivable from related parties	20,578	11,205
Acquisition of available-for-sale financial assets	(1,185,000)	(1,300,000)
Proceeds from disposal of available-for-sale financial assets	1,170,058	1,366,929
Acquisition of financial assets carried at cost	(15,260)	-
Proceeds from disposal of financial assets carried at cost	27,911	1,096

(Continued)

# SHIHLIN ELECTRIC & ENGINEERING CORP.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
Acquisition of investments accounted for under equity method	\$ (68,810)	\$ (19,809)
Proceeds from disposal of investments accounted for under equity method	40,447	-
Acquisition of properties and properties for lease	(343,089)	(586,001)
Proceeds from disposal of properties	6,893	5,219
Decrease (increase) in restricted assets	(13,194)	1,950
Decrease (increase) in miscellaneous assets	<u>(6,204)</u>	<u>104</u>
Net cash used in investing activities	<u>(365,670)</u>	<u>(519,307)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net decrease in short-term loans	(230,664)	(153,972)
Net increase (decrease) in short-term bills payable	(50,000)	150,000
Additions to long-term debt	300,000	400,000
Repayments of long-term debt	(250,000)	(3,352,590)
Increase (decrease) in deposits received	(241)	70,605
Cash dividends	<u>(625,167)</u>	<u>(312,583)</u>
Net cash used in financing activities	<u>(856,072)</u>	<u>(3,198,540)</u>
NET INCREASE (DECREASE) IN CASH	72,260	(40,664)
CASH, BEGINNING OF YEAR	<u>358,016</u>	<u>398,680</u>
CASH, END OF YEAR	<u>\$ 430,276</u>	<u>\$ 358,016</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 19,496</u>	<u>\$ 36,612</u>
Income tax paid	<u>\$ 60,581</u>	<u>\$ 169,918</u>
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of properties and properties for lease	\$ 214,632	\$ 714,458
Add: Payable for properties and properties for lease purchased (included in other payables), beginning of year	128,457	-
Less: Payable for properties and properties for lease purchased (included in other payables), end of year	<u>-</u>	<u>(128,457)</u>
Cash paid for acquisition of properties and properties for lease	<u>\$ 343,089</u>	<u>\$ 586,001</u>
<b>NON-CASH INVESTING ACTIVITIES</b>		
Transfer of inventories to properties	<u>\$ 32,245</u>	<u>\$ 12,755</u>
Transfer of properties to real estate in development	<u>\$ -</u>	<u>\$ 3,490</u>

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

(With Deloitte & Touche audit report dated February 24, 2011)

(Concluded)



# SHIHLIN ELECTRIC & ENGINEERING CORP.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(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, 2010 and 2009, the number of employees of the Corporation was 1,574 and 1,539, 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 and construction contract is longer than one year. Accordingly, assets and liabilities relating to the construction operations 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, work in process and finished goods. 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. 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.

Revenue of construction contract is recognized based on the percentage of completion method.

### **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 charged 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, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2010.

### 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.

### 4. CASH

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 1,487	\$ 887
Checking account deposits and demand deposits	342,155	356,890
Time deposits	<u>86,634</u>	<u>239</u>
	<u>\$ 430,276</u>	<u>\$ 358,016</u>

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

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
<u>Financial assets held for trading - current</u>		
Forward exchange contracts	<u>\$ 17</u>	<u>\$ 537</u>
<u>Financial assets held for trading - noncurrent</u>		
Forward exchange contracts	<u>\$ -</u>	<u>\$ 12,824</u>
<u>Financial assets held for trading - current</u>		
Forward exchange contracts	<u>\$ 41,001</u>	<u>\$ -</u>
<u>Financial assets held for trading - noncurrent</u>		
Forward exchange contracts	<u>\$ 2,535</u>	<u>\$ -</u>

The Corporation entered into forward exchange contracts in the years ended December 31, 2010 and 2009 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, 2010 and 2009, outstanding forward contracts were as follows:

<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2010</u>		
Buy NTD/Sell NTD	February 2011	USD2,000/NTD60,125
Buy JPY/Sell NTD	January 2011 to April 2011	JPY446,513/NTD162,657
Buy JPY/Sell USD	February 2011	JPY163,973/USD2,000
Buy EUR/Sell NTD	January 2011 to March 2012	EUR9,279/NTD398,741
<u>December 31, 2009</u>		
Buy NTD/Sell USD	January 2010	NTD32,567/USD1,000
Buy EUR/Sell NTD	January 2011	EUR4,175 /NTD177,746

Net gains (losses) arising from financial instruments held for trading for the years ended December 31, 2010 and 2009 were \$(61.9) million and \$12.0 million, respectively.

## 6. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	<b>2010</b>	<b>2009</b>
Accounts receivable	\$ 2,475,395	\$ 2,624,605
Less: Allowance for doubtful accounts	<u>(89,969)</u>	<u>(93,058)</u>
	<u>\$ 2,385,426</u>	<u>\$ 2,531,547</u>

## 7. INVENTORIES

	<u>December 31</u>	
	<b>2010</b>	<b>2009</b>
Finished goods	\$ 1,189,761	\$ 918,017
Work in process	1,107,790	1,017,823
Raw materials and supplies	<u>1,032,120</u>	<u>869,179</u>
	3,329,671	2,805,019
Less: Allowance for loss	<u>(293,714)</u>	<u>(248,227)</u>
	<u>\$ 3,035,957</u>	<u>\$ 2,556,792</u>

The cost of goods sold for the years ended December 31, 2010 and 2009 included \$62.5 million and \$93.8 million loss on write-downs of inventories, respectively; and \$48.1 million and \$68.7 million of unallocated overheads, respectively.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	December 31	
	2010	2009
Quoted stocks	\$ 2,145,400	\$ 1,760,266
Open-end funds	<u>1,414,267</u>	<u>1,163,232</u>
	<u>\$ 3,559,667</u>	<u>\$ 2,923,498</u>

## 9. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2010	2009
Unquoted stocks or funds		
The Industrial Bank of Taiwan Co., Ltd.	\$ 100,000	\$ 100,000
AmTrust Capital I Corp.	82,000	82,000
Arch Meter Corp.	33,061	23,080
Noble Tech Venture Capital Corporation	32,111	46,000
Jine De Sheng Co., Ltd.	30,318	30,318
Pac-Link Opportunity Venture Capital Co.	13,200	15,000
Charter Leisure Co., Ltd. ("Charter Leisure")	11,574	11,574
Global Securities Finance Corporation	11,566	11,566
Der Shin Venture Capital Co.	10,874	18,200
Tan Xi Photronic Corp.	10,500	10,500
Power World Capital Management Inc.	9,100	9,100
Hsinchu Venture Capital Co.	7,830	12,221
Hsinchu Transport Co., Ltd. ("Hsinchu Transport")	7,608	7,608
Super Tech Venture Capital Co.	6,338	9,243
Sycamore Venture Capital, L.P.	5,728	449
Innocom Telecom Corp.	3,105	3,105
Formosa Capital Holdings Corporation	566	566
TSC Finance.Com	51	2,651
Chinese Products Promotion Center	50	50
Normpacific Automation Corp.	40	1,740
Windance Co., Ltd.	26	26
Asia Technology 3 Limited	<u>12</u>	<u>1,012</u>
	<u>\$ 375,658</u>	<u>\$ 396,009</u>

Impairment losses on the abovementioned financial assets recognized by the Corporation for the years ended December 31, 2010 and 2009 were as follows:

	Years Ended December 31	
	2010	2009
Unquoted stocks		
Hsinchu Venture Capital Co.	\$ 2,400	\$ 10,000
TSC Finance.Com	2,600	-
Normpacific Automation Corp.	1,700	-
Asia Technology 3 Limited	1,000	-
Power World Capital Management Inc.	-	5,000
Sycamore Venture Capital, L.P.	<u>-</u>	<u>5,000</u>
	<u>\$ 7,700</u>	<u>\$ 20,000</u>

## 10. INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD

	December 31			
	2010		2009	
	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”)	\$ 2,430,010	100.0	\$ 2,246,509	100.0
Yuh Lin Investment Co., Ltd.	489,330	93.7	435,323	93.7
Hwo Lin Investment Co., Ltd.	448,329	94.8	410,290	94.8
Shihlin Electrical Engineering Ltd. of Vietnam (“Vietnam SEEC”)	290,028	100.0	272,408	100.0
Ji Lin Investment Co., Ltd.	231,966	99.9	216,573	99.9
Jeng Lin Investment Co., Ltd.	223,803	87.4	196,640	87.4
Cheng Lin Investment Co., Ltd.	165,872	99.3	152,142	99.3
Rueylin Electric & Engineering Corp. (“Rueylin”)	126,032	70.4	129,366	70.4
SEEC International Trading Ltd. of the British Virgin Islands	115,406	100.0	107,249	100.0
Hsin Lin Electric Machinery Co., Ltd. (“Hsin Lin”)	114,884	60.0	100,535	60.0
Shang Lin Investment Co., Ltd.	108,939	99.3	101,502	99.3
Jeen-Lin Industrial Co., Ltd. (“Jeen-Lin”)	63,588	78.1	62,982	78.1
Shihlin Electric USA Company Limited (“Shihlin Electric USA”)	48,342	100.0	54,035	100.0
Chan Der Investment Co.	34,331	8.1	32,797	8.1
Yu Der Investment Co.	25,913	4.8	23,642	4.8
Union Power Industrial Corporation (“Union Power”)	18,093	72.5	18,681	72.5
Cheng Der Investment Co.	12,826	3.6	12,773	3.6
Shihlin Electric (Australia) Pty. Ltd. (“Shihlin Electric Australia”)	9,711	100.0	-	-
Chuan Lin Technology Corporation (“Chuan Lin”)	9,657	31.5	8,331	31.5
Shinlin Enterprise Co., Ltd. (“Shinlin”)	9,012	72.0	7,814	72.0
Yuan-Gu Light & Electricity Co., Ltd.	4,014	25.2	5,472	25.2
Ting Lin Enterprise Co. (“Ting Lin”)	<u>2,397</u>	21.1	<u>1,620</u>	21.1
	<u>\$ 4,982,483</u>		<u>\$ 4,596,684</u>	

Due to the change of investment structure, Chuan Lin transferred its 100% equity interest in Shihlin Electric Australia to the Corporation in May 2010.



## 11. PROPERTIES AND PROPERTIES FOR LEASE, NET

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Properties		
Revaluation increment		
Land	<u>\$ 1,929,072</u>	<u>\$ 1,929,072</u>
Accumulated depreciation		
Cost		
Buildings and equipment	\$ 1,497,798	\$ 1,438,435
Machinery and equipment	2,374,026	2,272,425
Other equipment	<u>1,173,458</u>	<u>1,137,912</u>
	<u>\$ 5,045,282</u>	<u>\$ 4,848,772</u>
Properties for lease		
Revaluation increment		
Land	<u>\$ 1,067,477</u>	<u>\$ 1,067,477</u>
Accumulated depreciation		
Buildings and equipment	<u>\$ 1,565,226</u>	<u>\$ 1,381,060</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, 2010, 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 the interest rates used in computing capitalized interest were 0.97%-1.76% for the year ended December 31, 2009.

## 12. MISCELLANEOUS ASSETS

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Refundable deposits	\$ 3,390	\$ 5,995
Loans to employees for purchase of cars or motorcycles	10,934	12,829
Overdue receivables, net of allowance for loss of \$65 thousand	-	-
Others	<u>79,310</u>	<u>68,606</u>
	<u>\$ 93,634</u>	<u>\$ 87,430</u>

### 13. SHORT-TERM LOANS AND SHORT-TERM BILLS PAYABLE

	<u>December 31</u>	
	<b>2010</b>	<b>2009</b>
Short-term loans		
Usance L/C (JPY): Due 90-180 days after sight, interest at 0.583%-0.949% in 2010 and 0.59%-1.142% in 2009	\$ 45,202	\$ 71,027
Usance L/C (USD): Due 90 days after sight, interest at 0.656%	-	4,839
Unsecured loans (NTD): Interest at 0.54%-0.7% in 2010 and 0.57%-0.68% in 2009	1,600,000	2,350,000
Mortgage loans (NTD): Interest at 0.7% in 2010 and 0.69% in 2009	<u>650,000</u>	<u>100,000</u>
	<u>\$ 2,295,202</u>	<u>\$ 2,525,866</u>
Short-term bills payable		
Commercial papers (NTD): Interest at 0.678%-0.698% in 2010 and 0.638% in 2009	<u>\$ 300,000</u>	<u>\$ 350,000</u>

### 14. COLLECTIONS IN ADVANCE FOR CONSTRUCTION, NET OF CONSTRUCTION IN PROGRESS

Name of Construction	Expected Year of Completion	Contract Price	Estimated Total Cost	Percentage of Completion	Accumulated Profit	Construction in Progress	Collections in Advance for Construction	Collections in Advance for Construction, Net of Construction in Progress
<u>December 31, 2010</u>								
SE10001	2013	<u>\$ 1,525,000</u>	<u>\$ 1,308,263</u>	19.89%	<u>\$ 43,109</u>	<u>\$ 303,323</u>	<u>\$ 428,688</u>	<u>\$ 125,365</u>

### 15. LONG-TERM DEBT

	<u>December 31</u>	
	<b>2010</b>	<b>2009</b>
Unsecured loans (NTD)		
Repayable in January 2012, interest at 0.75%	\$ 50,000	\$ -
Repayable in October 2012, interest at 0.9%	100,000	-
Repaid before its original maturity in December 2010, interest at 0.675%	-	150,000
Mortgage loans (NTD)		
Repaid before its original maturity in March 2010, interest at 0.675%	-	100,000
Revolving unsecured loans (NTD)		
Due in October 2013, interest at 0.85%	100,000	-
Revolving mortgage loans (NTD)		
Due in December 2012, interest at 0.88%	<u>50,000</u>	<u>-</u>
	<u>\$ 300,000</u>	<u>\$ 250,000</u>

Under several credit facility agreements, the Corporation may obtain loans within a total credit line limit of \$600 million before the expiry dates of the agreements, which range from December 2012 to October 2013.

Parts of the loan agreements, among other things, require the Corporation to maintain certain financial ratios.

## 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 \$30.8 million and \$24.1 million under the plan for the years ended December 31, 2010 and 2009, 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:

	<b>Years Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Service cost	\$ 28,190	\$ 29,432
Interest cost	23,683	34,118
Actual return on plan assets	\$ (141)	(36)
Loss on plan assets	<u>(119)</u>	<u>(37)</u>
Projected return on plan assets	(260)	(73)
Vested prior service cost	-	97,179
Amortization	<u>29,890</u>	<u>22,079</u>
Net periodic pension cost	<u>\$ 81,503</u>	<u>\$ 182,735</u>

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

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
Benefit obligation		
Vested benefit obligation	\$ 376,947	\$ 346,207
Nonvested benefit obligation	<u>605,306</u>	<u>585,106</u>
Accumulated benefit obligation	982,253	931,313
Additional benefit based on future salaries	<u>294,804</u>	<u>293,819</u>
Projected benefit obligation	1,277,057	1,225,132
Fair value of plan assets	<u>(18,250)</u>	<u>(10,874)</u>
Funded status	1,258,807	1,214,258
Unrecognized net transition obligation	(69,395)	(83,165)
Unamortized net loss	(422,748)	(396,559)
Additional liability	<u>197,339</u>	<u>185,905</u>
Accrued pension cost	<u>\$ 964,003</u>	<u>\$ 920,439</u>
Vested benefit	<u>\$ 514,112</u>	<u>\$ 472,825</u>

Actuarial assumptions:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
Discount rate used in determining present values	2.00%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

## 17. CONSTRUCTION REVENUE AND COST OF REAL ESTATE

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.

## 18. 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:

	<u>Years Ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Income tax expense based on income before income tax at statutory rates	\$ 205,589	\$ 832,172
Tax effect on adjusting items		
Permanent differences		
Tax-exempt income on disposal of land	-	(703,008)
Others	(8,685)	(34,109)
Temporary differences	(48,412)	(125,753)
Loss carryforwards generated	-	30,698
Loss carryforwards used	(8,795)	-
Additional income tax at 10% of undistributed earnings	207,833	39,946
Less: Investment tax credits used	<u>(57,666)</u>	<u>(19,973)</u>
Current income tax	289,864	19,973
Deferred income tax		
Loss carryforwards	20,874	(30,698)
Investment tax credits	43,505	(31,280)
Pension cost not funded	(5,462)	43,710
Depreciation difference	19,520	29,478
Provision for warranty reserve	(6,839)	(5,820)
Deferred sales discounts	(3,596)	640
Temporary differences relating to recognition of foreign investment income under equity method	59,868	66,113
Excess provisions for doubtful accounts	(1,366)	19,603
Allowance for loss on inventories	(7,733)	(23,070)
Others	(5,980)	(4,901)
Effect of tax law changes on deferred income tax	(9,028)	20,225
Adjustment in valuation allowance	(57,936)	51,181
Adjustments of prior years' income tax	<u>23,598</u>	<u>169,693</u>
Income tax expense	<u>\$ 359,289</u>	<u>\$ 324,847</u>

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law (the "ITL") which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. In May 2010, the Legislative Yuan passed another amendment of Article 5 of the ITL to reduce further the profit-seeking enterprise's income tax rate from 20% to 17%, 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 or benefit.

Deferred income tax assets (liabilities) comprised:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Current</b>		
Deferred income tax assets		
Loss carryforwards	\$ -	\$ 24,558
Investment tax credits	-	43,505
Excess provisions for doubtful accounts	9,374	9,421
Allowance for loss on inventories	49,931	49,645
Provision for warranty reserve	37,295	35,831
Deferred sales discounts	6,352	3,242
Unrealized foreign exchange loss	13,557	-
Others	<u>1,391</u>	<u>13,498</u>
	117,900	179,700
Less: Valuation allowance	<u>(15,726)</u>	<u>(86,661)</u>
	102,174	93,039
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>-</u>	<u>(3,000)</u>
	<u>\$ 102,174</u>	<u>\$ 90,039</u>
<b>Noncurrent</b>		
Deferred income tax assets		
Pension cost not funded	\$ 130,333	\$ 146,907
Temporary differences relating to recognition of loss of foreign equity instruments	9,284	10,922
Others	<u>686</u>	<u>860</u>
	140,303	158,689
Less: Valuation allowance	<u>(9,284)</u>	<u>(10,922)</u>
	131,019	147,767
Deferred income tax liabilities		
Depreciation difference	(98,676)	(93,125)
Temporary differences relating to recognition of foreign investment income under equity method	<u>(197,027)</u>	<u>(161,364)</u>
	<u>(295,703)</u>	<u>(254,489)</u>
	<u>\$ (164,684)</u>	<u>\$ (106,722)</u>

The Corporation's income tax returns have been examined by the tax authority through 2008.

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:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
Unappropriated earnings generated before January 1, 1998	\$ 387,158	\$ 387,158
Unappropriated earnings generated on and after January 1, 1998	<u>3,994,605</u>	<u>4,070,100</u>
	<u>\$ 4,381,763</u>	<u>\$ 4,457,258</u>

The balance of the ICA as of December 31, 2010 and 2009 was \$375.2 million and \$417.3 million, respectively.

The creditable ratio for distribution of earnings of 2010 and 2009 was 16.22% (estimate) and 10.74%, respectively.

## **19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The Corporation classified its assets and liabilities of the construction operations, which have an operating cycle of over one year, as current and noncurrent according to the length of the operating cycle of the construction operation. The Corporation's current assets and current liabilities of the construction operations are expected to be due within one year.

## **20. 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 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. Remuneration to directors and supervisors and bonus 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, 2010 and 2009, the bonus to employees was \$61.2 million and \$55.0 million, respectively, and the remuneration to directors and supervisors was \$30.6 million and \$27.5 million, respectively. The bonus to employees represented 8% and 2.03% of the net income for the years ended December 31, 2010 and 2009, respectively, minus the legal reserve to be appropriated; the remuneration to directors and supervisors represented 4% and 1.02% of the net income for the years ended December 31, 2010 and 2009, 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 appropriations of earnings for 2009 and 2008 had been approved in the stockholders' meetings on May 27, 2010 and May 27, 2009, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (In New Taiwan Dollars)</u>	
	<u>For</u>	<u>For</u>	<u>For</u>	<u>For</u>
	<u>Year 2009</u>	<u>Year 2008</u>	<u>Year 2009</u>	<u>Year 2008</u>
Legal reserve	\$ 300,388	\$ 76,549		
Cash dividends	625,167	312,583	\$ 1.2	\$ 0.6

The bonus to employees and the remuneration to directors and supervisors for the years ended December 31, 2009 and 2008 approved in the stockholders' meetings on May 27, 2010 and May 27, 2009, respectively, were as follows:

	<u>Years Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
Bonus to employees - cash	\$ 55,000	\$ 55,115
Remuneration to directors and supervisors	27,500	27,558

The approved amounts of the bonus to employees and the remuneration to directors and supervisors did not differ from the accrual amounts reflected in the financial statements for the years ended December 31, 2009 and 2008, respectively.

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

## 21. 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>Earnings Per Share (In New Taiwan Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2010</u>					
Basic earnings per share					
Earnings belonging to holders of common shares	\$ 1,209,349	\$ 850,060	520,972	<u>\$ 2.32</u>	<u>\$ 1.63</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	<u>2,141</u>		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	<u>\$ 1,209,349</u>	<u>\$ 850,060</u>	<u>523,113</u>	<u>\$ 2.31</u>	<u>\$ 1.63</u>

(Continued)

	Amount (Numerator)		Shares (Denominator) (In Thousands)	Earnings Per Share (In New Taiwan Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<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>

(Concluded)

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.

## 22. PERSONNEL COST AND DEPRECIATION

	Years Ended December 31					
	2010			2009		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel cost						
Payroll	\$ 754,018	\$ 822,941	\$ 1,576,959	\$ 641,878	\$ 735,597	\$ 1,377,475
Insurance	44,830	42,350	87,180	39,725	38,902	78,627
Pension	54,022	58,279	112,301	52,219	154,634	206,853
Others	<u>14,594</u>	<u>13,493</u>	<u>28,087</u>	<u>13,009</u>	<u>19,134</u>	<u>32,143</u>
	<u>\$ 867,464</u>	<u>\$ 937,063</u>	<u>\$ 1,804,527</u>	<u>\$ 746,831</u>	<u>\$ 948,267</u>	<u>\$ 1,695,098</u>
Depreciation	<u>\$ 390,401</u>	<u>\$ 53,504</u>	<u>\$ 443,905</u>	<u>\$ 346,938</u>	<u>\$ 58,061</u>	<u>\$ 404,999</u>

## 23. RELATED PARTY TRANSACTIONS

### a. Related parties and relationships:

Name of Related Party	Relationship with the Corporation
Mitsubishi Electric	A 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

(Continued)



Name of Related Party	Relationship with the Corporation
Rueylin	A subsidiary
Union Power	A subsidiary
Hsin Lin	A subsidiary
Chuan Lin	A subsidiary
Shinlin	A subsidiary
Shihlin Electric Australia	A subsidiary (an indirect subsidiary before May 2010, see Note 10)
Vietnam Rueylin Electrical engineering Ltd. (“Vietnam Rueylin”)	An indirect 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 (Suzhou) Power Equipment Co., Ltd. (“Suzhou Power Equipment”, formerly Shihlin Electric Switch (Suzhou) Co., Ltd.)	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
Mitsuba Shihlin Electric (Wuhan) Co., Ltd. (“Wuhan Mitsuba 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	Same chairman
Charter Leisure	Same chairman
Shihlin Development Co. (“Shihlin Development”)	Its chairman is one of the directors of the Corporation

(Concluded)

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

	December 31	
	2010	2009
1) Notes receivable		
Shihlin Development	\$ 1,306	\$ 5,284
Others	<u>3</u>	<u>-</u>
	<u>\$ 1,309</u>	<u>\$ 5,284</u>

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
2) Accounts receivable		
Shihlin Electric Australia	\$ 28,398	\$ 37,248
SEEC International Holdings	24,139	30,743
Changzhou SEEC	21,702	11,317
Suzhou Power Equipment	20,747	2,859
Vietnam Rueylin	18,941	-
Suzhou SEEC	18,696	16,395
Fuzhou SEEC	16,460	28,196
Changzhou Mitsubishi Shihlin	14,148	9,712
Vietnam SEEC	9,261	11,441
Wuxi Rotator	5,929	2,137
Union Power	4,120	4,280
Mitsubishi Taiwan	898	44,168
Rueylin	-	3,652
Others	785	47
	<u>\$ 184,224</u>	<u>\$ 202,195</u>
3) Other receivables		
Transferred from accounts receivable		
Fuzhou SEEC	\$ 10,223	\$ 30,801
Others		
Changzhou Mitsubishi Shihlin	\$ 6,496	\$ 3,250
Hsin Lin	1,242	3,776
Others	426	350
	<u>8,164</u>	<u>7,376</u>
	<u>\$ 18,387</u>	<u>\$ 38,177</u>
4) Prepayments (included in other current assets)		
Shihlin Electric USA	\$ 7,394	\$ -
5) Accounts payable		
Hsin Lin	\$ 325,027	\$ 190,159
SEEC International Holdings	67,328	18,608
Mitsubishi Taiwan	46,685	21,387
Mitsubishi Electric	39,019	-
Rueylin	29,137	30,302
Chuan Lin	9,623	758
Jeen-Lin	8,262	7,327
Tsubaki	7,699	7,838
Wuxi Rotater	1,859	1,076
Others	1,510	1,986
	<u>\$ 536,149</u>	<u>\$ 279,441</u>

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
6) Other payables		
Mitsubishi Electric	\$ 17,310	\$ 17,075
Shinlin	1,661	8,287
Mitsubishi Taiwan	856	331
Hsinchu Transport	832	805
Others	<u>538</u>	<u>672</u>
	<u>\$ 21,197</u>	<u>\$ 27,170</u>
	<b>Years Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
7) Purchases		
Hsin Lin	\$ 1,205,397	\$ 1,229,410
Mitsubishi Electric	588,768	347,480
SEEC International Holdings	130,471	75,663
Rueylin	109,502	109,289
Mitsubishi Taiwan	107,509	52,002
Chuan Lin	69,636	97,205
Suzhou SEEC	49,024	25,361
Jeen-Lin	38,571	32,808
Wuxi Rotator	29,356	18,825
Tsubaki	20,430	16,077
Changzhou SEEC	13,042	7,248
Ting Lin	9,810	6,738
Fuzhou SEEC	9,298	8,511
Vietnam SEEC	3,315	2,581
Union Power	<u>-</u>	<u>3,439</u>
	<u>\$ 2,384,129</u>	<u>\$ 2,032,637</u>
8) Sales		
SEEC International Holdings	\$ 184,428	\$ 100,414
Shihlin Electric Australia	108,536	75,204
Changzhou SEEC	92,283	44,436
Fuzhou SEEC	87,034	96,405
Suzhou SEEC	41,444	24,288
Union Power	41,016	111,936
Suzhou Power Equipment	39,572	13,937
Changzhou Mitsubishi Shihlin	38,212	35,835
Vietnam SEEC	33,713	23,639
Vietnam Rueylin	30,919	-
Wuxi Rotator	19,345	7,843
Mitsubishi Taiwan	13,808	99,860
Ambassador Hotel	8,249	326
Seh International Holdings	1,648	1,219
Rueylin	-	4,933
Others	<u>218</u>	<u>494</u>
	<u>\$ 740,425</u>	<u>\$ 640,769</u>

	<b>Years Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
9) Leasing revenue		
Charter Leisure	\$ 25,383	\$ 25,383
Mitsubishi Taiwan	18,318	18,318
Hsinchu Transport	14,592	12,232
Hsin Lin	12,126	12,126
Shihlin Development	5,762	5,782
Others	<u>270</u>	<u>1,274</u>
	<u>\$ 76,451</u>	<u>\$ 75,115</u>
10) Royalty expense		
Mitsubishi Electric	<u>\$ 20,447</u>	<u>\$ 18,154</u>
11) Service expense		
Shinlin	<u>\$ 140,011</u>	<u>\$ 95,419</u>
12) Fee for consultation on and management of construction		
Shihlin Development	<u>\$ 977</u>	<u>\$ 21,167</u>
13) Freight expense		
Hsinchu Transport	<u>\$ 21,193</u>	<u>\$ 10,284</u>
14) Fee for consultation on logistics management		
Hsinchu Transport	<u>\$ 35,315</u>	<u>\$ 41,520</u>
15) Maintenance expense		
Mitsubishi Taiwan	<u>\$ 1,760</u>	<u>\$ 1,290</u>
16) Commission expense		
Shihlin Electric USA	\$ 18,056	\$ 26,611
Hsin Lin	<u>-</u>	<u>2,150</u>
	<u>\$ 18,056</u>	<u>\$ 28,761</u>
17) Leasing expense		
Hsinchu Transport	<u>\$ 2,306</u>	<u>\$ 1,807</u>
18) Advertising expense		
Yeangder Entertainment	<u>\$ 4,000</u>	<u>\$ 2,333</u>

	<b>Years Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
19) Service revenue (included in miscellaneous income)		
Changzhou Mitsubishi Shihlin	\$ 7,661	\$ 3,250
Wuhan Mitsuba Shihlin	4,160	-
Hsin Lin	<u>1,200</u>	<u>1,200</u>
	<u>\$ 13,021</u>	<u>\$ 4,450</u>
20) Acquisition of properties		
Rueylin	<u>\$ -</u>	<u>\$ 907</u>
21) Proceeds from sale of properties		
Suzhou SEEC	<u>\$ -</u>	<u>\$ 114</u>
22) Gain on sale of properties		
Suzhou SEEC	<u>\$ -</u>	<u>\$ 114</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 Power Equipment, 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, 2010 and 2009 to other receivables. The ages of the accounts receivable were as follows:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
Over 12 months	<u>\$ 10,223</u>	<u>\$ 30,801</u>

The rentals collected or paid monthly were based on normal commercial rates.

c. Compensation of directors, supervisors and management personnel:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
Salaries, incentives and special compensation	\$ 32,334	\$ 25,675
Allowances	7,265	7,502
Remuneration and bonus	<u>38,612</u>	<u>34,700</u>
	<u>\$ 78,211</u>	<u>\$ 67,877</u>

## 24. 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:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
Demand deposits (included in restricted assets)	\$ 25,718	\$ 25,718
Pledged time deposits (included in restricted assets)	50,803	37,609
Land	2,869,521	2,036,944
Buildings and equipment, net	202,013	224,114
Machinery and equipment, net	<u>1,230</u>	<u>1,606</u>
	<u>\$ 3,149,285</u>	<u>\$ 2,325,991</u>

## 25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2010, the Corporation had the following significant commitments and contingencies:

- a. Under technical cooperation agreements with several foreign companies expiring on various dates between January 2011 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, 2010 and 2009 were \$22.3 million and \$22.5 million, respectively.
- b. Unused letters of credit of approximately \$449 million.
- c. Commitments for purchase of properties and construction in progress of approximately \$1,042 million.
- d. The Corporation rents out its office building under several operating lease agreements expiring on various dates between March 2011 and August 2020. Future lease revenues were as follows:

<b>Year</b>	<b>Amount</b>
2011	\$ 118,191
2012	86,201
2013	24,692
2014	16,832
2015	16,832
2016 to 2020	79,885 (present value of \$36,930 thousand)

- 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
2011	\$ 319,872
2012	319,872
2013	319,872
2014	338,231
2015	350,052
2016 to 2020	1,755,354 (present value of \$769,650 thousand)
2021 to 2025	1,771,239 (present value of \$460,883 thousand)
2026 to 2029	1,208,844 (present value of \$201,258 thousand)

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

	Amount
Kingdom Trading Shanghai Co., Ltd.	\$ 209,228
Xiamen Shihlin Electric & Engineering Co., Ltd.	195,435
Changzhou Mitsubishi Shinlin	116,363
Suzhou Power Equipment	46,033
Shihlin Electric Australia	19,050
Wuhan Mitsuba Shihlin	21,139
Suzhou SEEC	19,068

## 26. FAIR VALUES OF FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments were as follows:

	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash	\$ 430,276	\$ 430,276	\$ 358,016	\$ 358,016
Financial assets at fair value through profit and loss - current				
Forward exchange contracts	17	17	537	537
Notes receivable	821,900	821,900	733,583	733,583
Notes receivable from related parties	1,309	1,309	5,284	5,284
Accounts receivable	2,385,426	2,385,426	2,531,547	2,531,547
Accounts receivable from related parties	184,224	184,224	202,195	202,195
Other receivables	3,005	3,005	4,414	4,414
Other receivables from related parties	18,387	18,387	38,177	38,177

(Continued)

	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets at fair value through profit and loss - noncurrent				
Forward exchange contracts	\$ -	\$ -	\$ 12,824	\$ 12,824
Available-for-sale financial assets - noncurrent	3,559,667	3,559,667	2,923,498	2,923,498
Financial assets carried at cost - noncurrent	375,658		396,009	
Investments accounted for under equity method	4,982,483		4,596,684	
Liabilities				
Short-term loans	2,295,202	2,295,202	2,525,866	2,525,866
Short-term bills payable	300,000	300,000	350,000	350,000
Financial liabilities at fair value through profit and loss - current				
Forward exchange contracts	41,001	41,001	-	-
Notes payable	1,164	1,164	2,899	2,899
Accounts payable	1,982,116	1,982,116	1,656,189	1,656,189
Accounts payable to related parties	536,149	536,149	279,441	279,441
Other payables to related parties	21,197	21,197	27,170	27,170
Other payables	73,248	73,248	189,627	189,627
Financial assets at fair value through profit and loss - noncurrent				
Forward exchange contracts	2,535	2,535	-	-
Long-term debt	300,000	300,000	250,000	250,000

(Concluded)

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, 2010 and 2009, financial assets exposed to fair value interest rate risk were \$86.6 million and \$0.2 million, respectively; financial liabilities exposed to fair value interest rate risk were \$2,595.2 million and \$2,875.9 million, respectively; financial liabilities exposed to cash flow interest rate risk were \$300 million and \$250 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, 2010 and 2009 were as follows:

	<b>Credit (Debit)</b>	
	<b>Years Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 353,957	\$ (449,109)
Recognized directly in stockholders' equity	621,227	485,913
Removed from stockholders' equity and recognized in earnings	(58)	26,004
Recognized in stockholders' equity for the change in unrealized gain or loss on available-for-sale financial assets held by equity method investees	<u>154,441</u>	<u>291,149</u>
Balance, end of year	<u>\$ 1,129,567</u>	<u>\$ 353,957</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, 2010, the Corporation's long-term debts of \$300 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 \$3.0 million a year.

## 27. OTHERS

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31					
	2010			2009		
	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 25,425	29.13	\$ 740,637	\$ 20,687	31.99	\$ 661,773
JPY	62,355	0.3582	22,335	127,177	0.3472	44,156
AUD	1,008	29.68	29,920	1,561	28.79	44,928
CAD	716	29.15	20,871	-	-	-
EUR	3	38.92	113	24	46.10	1,086
PHP	270	0.68	184	-	-	-
SGD	-	-	-	639	22.84	14,603
Non-monetary items						
USD	48,009	29.13	1,398,517	36,379	31.99-32.03	1,163,769
JPY	48	0.3582	17	-	-	-
EUR	-	-	-	281	45.65	12,824
Investments accounted for under equity method						
USD	90,144	29.13	2,625,909	75,883	31.99	2,427,494
VND	203,854,362	0.00144	293,529	165,453,075	0.001675	277,133
AUD	327	29.68	9,711	-	-	-
<u>Financial liabilities</u>						
Monetary items						
USD	3,669	29.13	106,878	2,472	31.99	79,084
JPY	324,430	0.3582	116,211	451,992	0.3472	156,932
EUR	116	38.92	4,524	4	46.10	192
SEK	358	4.34	1,555	713	4.50	3,207
SGD	11	22.73	253	14	22.84	318
CHF	-	-	-	37	31.03	1,137
Non-monetary items						
USD	66	29.13	1,922	-	-	-
JPY	7,499	0.3582	2,686	-	-	-
EUR	1,000	38.92	38,928	-	-	-

## 28. SEGMENT AND GEOGRAPHIC INFORMATION

### a. Industry information:

	Year Ended December 31, 2010					
	Heavy Electric Equipment	Electric Auto Equipment	Leasing	Construction of Real Estate	Eliminations	Total
Revenues - customers	\$ 6,490,942	\$ 7,916,090	\$ 433,376	\$ -	\$ -	\$ 14,840,408
- inter-segment	83,263	216,127	-	-	(299,390)	-
Total revenues	<u>\$ 6,574,205</u>	<u>\$ 8,132,217</u>	<u>\$ 433,376</u>	<u>\$ -</u>	<u>\$ (299,390)</u>	<u>\$ 14,840,408</u>
Segment operating income	<u>\$ 527,272</u>	<u>\$ 545,930</u>	<u>\$ 185,514</u>	<u>\$ -</u>	<u>\$ (23,951)</u>	\$ 1,234,765
Corporate loss, net						(37,215)
Investment income, net						552,794
Corporate expenses						(521,332)
Interest expense						(19,663)
Income before income tax						<u>\$ 1,209,349</u>

(Continued)

	Year Ended December 31, 2010					
	Heavy Electric Equipment	Electric Auto Equipment	Leasing	Construction of Real Estate	Eliminations	Total
Identifiable assets	\$ 5,600,076	\$ 4,323,399	\$ 5,198,821	\$ -	\$ -	\$ 15,122,296
Corporate assets						1,719,380
Long-term investments						8,917,808
Total assets						\$ 25,759,484
Depreciation	\$ 89,416	\$ 137,032	\$ 184,166	\$ -		
Additions to properties and properties for lease	\$ 49,219	\$ 88,310	\$ 70,090	\$ -		

(Concluded)

	Year Ended December 31, 2009					
	Heavy Electric Equipment	Electric Auto Equipment	Leasing	Construction of Real Estate	Eliminations	Total
Revenues - customers	\$ 6,535,044	\$ 5,673,343	\$ 339,513	\$ 4,909,614	\$ -	\$ 17,457,514
- inter-segment	105,846	87,563	-	-	(193,409)	-
Total revenues	\$ 6,640,890	\$ 5,760,906	\$ 339,513	\$ 4,909,614	\$ (193,409)	\$ 17,457,514
Segment operating income	\$ 567,222	\$ 173,458	\$ 163,648	\$ 2,539,852	\$ (15,473)	\$ 3,428,707
Corporate income, net						40,828
Investment income, net						420,306
Corporate expenses						(528,272)
Interest expense						(32,840)
Income before income tax						\$ 3,328,729
Identifiable assets	\$ 5,960,673	\$ 3,344,498	\$ 5,312,897	\$ 101,478	\$ -	\$ 14,719,546
Corporate assets						2,032,796
Long-term investments						7,929,015
Total assets						\$ 24,681,357
Depreciation	\$ 87,861	\$ 121,829	\$ 139,091	\$ -		
Additions to properties and properties for lease	\$ 43,757	\$ 73,588	\$ 588,792	\$ -		

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	
	2010	2009
Asia	\$ 1,869,624	\$ 1,104,363
America	388,592	466,565
Others	145,298	126,400
	\$ 2,403,514	\$ 1,697,328

d. Major customers:

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

Name of Customer	Years Ended December 31			
	2010		2009	
	Amount	%	Amount	%
Taiwan Power Company	\$ 813,981	\$ 6	\$ 1,208,872	\$ 10