

**Shihlin Electric & Engineering Corp.**

**Financial Statements for the  
Years Ended December 31, 2011 and 2010 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, 2011 and 2010, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

March 2, 2012

### Notice to Readers

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

*For the convenience of readers, the 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, 2011 AND 2010

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

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 285,598	1	\$ 430,276	2	Short-term loans (Notes 13 and 23)	\$ 1,957,991	7	\$ 2,295,202	9
Financial assets at fair value through profit or loss - current (Note 5)	2,233	-	17	-	Short-term bills payable (Note 13)	-	-	300,000	1
Notes receivable (Note 3)	976,489	3	821,900	3	Financial liabilities at fair value through profit or loss - current (Note 5)	17,834	-	41,001	-
Notes receivable from related parties (Notes 3 and 22)	1,932	-	1,309	-	Notes payable	62,027	-	1,164	-
Accounts receivable, net (Notes 3 and 6)	2,171,891	8	2,385,426	9	Accounts payable	1,963,626	7	1,982,116	8
Accounts receivable from related parties (Notes 3 and 22)	307,751	1	184,224	1	Accounts payable to related parties (Note 22)	433,659	2	536,149	2
Other receivables	3,471	-	3,005	-	Income tax payable, net of prepaid income tax	71,276	-	272,629	1
Other receivables from related parties (Note 22)	7,715	-	18,387	-	Accrued expenses	695,220	3	618,175	2
Inventories (Note 7)	3,096,647	11	3,035,957	12	Other payables to related parties (Note 22)	30,378	-	21,197	-
Construction in progress, net of collection in advance for construction (Notes 14 and 18)	130,262	1	-	-	Other payables	80,894	-	73,248	-
Deferred income tax assets - current (Note 17)	33,775	-	102,174	-	Collections in advance	357,222	1	192,984	1
Restricted assets - current (Note 23)	55,714	-	69,979	-	Collections in advance for construction, net of construction in progress (Notes 14 and 18)	-	-	125,365	1
Other current assets (Note 22)	238,597	1	206,158	1	Other current liabilities	328,963	1	288,534	1
<b>Total current assets</b>	<b>7,312,075</b>	<b>26</b>	<b>7,258,812</b>	<b>28</b>	<b>Total current liabilities</b>	<b>5,999,090</b>	<b>21</b>	<b>6,747,764</b>	<b>26</b>
<b>LONG-TERM INVESTMENTS</b>					<b>LONG-TERM LIABILITIES</b>				
Available-for-sale financial assets - noncurrent (Note 8)	2,528,706	9	3,559,667	14	Financial liabilities at fair value through profit or loss - noncurrent (Note 5)	-	-	2,535	-
Financial assets carried at cost - noncurrent (Note 9)	365,156	1	375,658	2	Long-term debt (Notes 15 and 23)	850,000	3	300,000	1
Investments accounted for under equity method (Note 10)	5,079,345	18	4,982,483	19	<b>Total long-term liabilities</b>	<b>850,000</b>	<b>3</b>	<b>302,535</b>	<b>1</b>
<b>Total long-term investments</b>	<b>7,973,207</b>	<b>28</b>	<b>8,917,808</b>	<b>35</b>	<b>RESERVES</b>				
<b>PROPERTIES AND PROPERTIES FOR LEASE</b>					Reserve for land value increment tax (Note 11)	1,175,718	4	950,717	4
Properties (Notes 11 and 23)					<b>OTHER LIABILITIES</b>				
Cost					Accrued pension cost (Note 16)	996,545	4	964,003	4
Land	444,174	2	444,174	2	Deposits received	79,658	-	89,260	-
Buildings and equipment	2,684,591	9	2,662,117	10	Deferred income tax liabilities - noncurrent (Note 17)	184,784	1	164,684	1
Machinery and equipment	2,879,492	10	2,785,539	11	<b>Total other liabilities</b>	<b>1,260,987</b>	<b>5</b>	<b>1,217,947</b>	<b>5</b>
Other equipment	1,476,902	5	1,431,580	5	<b>Total liabilities</b>	<b>9,285,795</b>	<b>33</b>	<b>9,218,963</b>	<b>36</b>
Total cost	7,485,159	26	7,323,410	28	<b>STOCKHOLDERS' EQUITY (Note 19)</b>				
Revaluation increment	2,006,549	7	1,929,072	8	Common stock, \$10 par value, authorized - 580,000,000 shares; issued - 520,972,223 shares	5,209,722	18	5,209,722	20
Total cost and revaluation increment	9,491,708	33	9,252,482	36	Capital surplus				
Less: Accumulated depreciation	(5,221,880)	(18)	(5,045,282)	(19)	Additional paid-in capital on issuance of common stock	1,441,424	5	1,441,424	6
Prepayments	29,270	-	7,272	-	Additional paid-in capital on conversion of bonds	970,457	4	970,457	4
Total properties, net	4,299,098	15	4,214,472	17	Treasury stock transactions	70,059	-	70,059	-
Properties for lease					Long-term stock investments	74,783	-	74,783	-
Cost					Total capital surplus	2,556,723	9	2,556,723	10
Land	24,651	-	24,651	-	Retained earnings				
Buildings and equipment	5,671,919	20	5,671,919	22	Legal reserve	1,589,950	5	1,504,944	6
Total cost	5,696,570	20	5,696,570	22	Unappropriated earnings	4,771,524	17	4,381,763	17
Revaluation increment	4,768,356	17	1,067,477	4	Total retained earnings	6,361,474	22	5,886,707	23
Total cost and revaluation increment	10,464,926	37	6,764,047	26	Other equity items				
Less: Accumulated depreciation	(1,749,008)	(6)	(1,565,226)	(6)	Cumulative translation adjustments	132,031	-	(57,696)	-
Total properties for lease, net	8,715,918	31	5,198,821	20	Net loss not recognized as pension cost	(150,230)	-	(127,944)	(1)
<b>Total properties and properties for lease, net</b>	<b>13,015,016</b>	<b>46</b>	<b>9,413,293</b>	<b>37</b>	Unrealized gain (loss) on available-for-sale financial assets	(427,435)	(1)	1,129,567	4
<b>INTANGIBLE ASSETS</b>					Unrealized revaluation increment (Note 11)	5,496,797	19	1,943,442	8
Deferred pension cost (Note 16)	55,625	-	69,395	-	Total other equity items	5,051,163	18	2,887,369	11
<b>OTHER ASSETS</b>					<b>Total stockholders' equity</b>	<b>19,179,082</b>	<b>67</b>	<b>16,540,521</b>	<b>64</b>
Restricted assets - noncurrent (Note 23)	5,453	-	6,542	-	<b>TOTAL</b>	<b>\$ 28,464,877</b>	<b>100</b>	<b>\$ 25,759,484</b>	<b>100</b>
Miscellaneous assets (Note 12)	103,501	-	93,634	-					
<b>Total other assets</b>	<b>108,954</b>	<b>-</b>	<b>100,176</b>	<b>-</b>					
<b>TOTAL</b>	<b>\$ 28,464,877</b>	<b>100</b>	<b>\$ 25,759,484</b>	<b>100</b>					

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

# SHIHLIN ELECTRIC & ENGINEERING CORP.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Gross sales	\$ 15,484,495	96	\$ 14,520,086	98
Less: Sales returns	68,350	1	60,555	1
Sales discounts	<u>377,282</u>	<u>2</u>	<u>355,822</u>	<u>2</u>
Net sales (Note 22)	15,038,863	93	14,103,709	95
Leasing revenue (Note 22)	475,938	3	433,376	3
Revenue of construction contract	<u>639,738</u>	<u>4</u>	<u>303,323</u>	<u>2</u>
Total operating revenues	<u>16,154,539</u>	<u>100</u>	<u>14,840,408</u>	<u>100</u>
<b>OPERATING COSTS (Note 21)</b>				
Cost of goods sold (Notes 7 and 22)	12,845,824	80	11,915,555	80
Cost of leasing revenue	245,155	2	247,862	2
Cost of construction contract	<u>556,248</u>	<u>3</u>	<u>260,214</u>	<u>2</u>
Total operating costs	<u>13,647,227</u>	<u>85</u>	<u>12,423,631</u>	<u>84</u>
<b>GROSS PROFIT</b>	<u>2,507,312</u>	<u>15</u>	<u>2,416,777</u>	<u>16</u>
<b>OPERATING EXPENSES (Notes 21 and 22)</b>				
Selling	797,075	5	791,035	5
Administrative	609,022	4	521,332	3
Research and development	<u>393,946</u>	<u>2</u>	<u>390,977</u>	<u>3</u>
Total operating expenses	<u>1,800,043</u>	<u>11</u>	<u>1,703,344</u>	<u>11</u>
<b>INCOME FROM OPERATIONS</b>	<u>707,269</u>	<u>4</u>	<u>713,433</u>	<u>5</u>
<b>NON-OPERATING INCOME AND GAINS</b>				
Interest income	4,751	-	984	-
Investment income recognized under equity method, net	480,172	3	540,655	4
Dividend income	33,038	-	19,839	-
Gain on disposal of properties	2,298	-	1,180	-
Gain on sale of investments, net	253	-	58	-
Foreign exchange gain, net	6,265	-	-	-
Valuation gain on financial instruments, net (Note 5)	28,160	-	-	-
Miscellaneous (Note 22)	<u>57,843</u>	<u>1</u>	<u>56,480</u>	<u>-</u>
Total non-operating income and gains	<u>612,780</u>	<u>4</u>	<u>619,196</u>	<u>4</u>

(Continued)

# SHIHLIN ELECTRIC & ENGINEERING CORP.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Interest expense	\$ 28,006	-	\$ 19,663	-
Loss on disposal of properties	3,889	-	3,560	-
Foreign exchange loss, net	-	-	25,266	-
Impairment loss (Note 9)	-	-	7,700	-
Valuation loss on financial instruments, net (Note 5)	-	-	61,918	1
Miscellaneous	3	-	5,173	-
Total non-operating expenses and losses	<u>31,898</u>	<u>-</u>	<u>123,280</u>	<u>1</u>
INCOME BEFORE INCOME TAX	1,288,151	8	1,209,349	8
INCOME TAX EXPENSE (Note 17)	<u>188,217</u>	<u>1</u>	<u>359,289</u>	<u>2</u>
NET INCOME	<u>\$ 1,099,934</u>	<u>7</u>	<u>\$ 850,060</u>	<u>6</u>
	<b>2011</b>		<b>2010</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 20)				
Basic earnings per share	<u>\$ 2.47</u>	<u>\$ 2.11</u>	<u>\$ 2.32</u>	<u>\$ 1.63</u>
Diluted earnings per share	<u>\$ 2.46</u>	<u>\$ 2.10</u>	<u>\$ 2.31</u>	<u>\$ 1.63</u>

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

(Concluded)

**SHIHLIN ELECTRIC & ENGINEERING CORP.**
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2011 AND 2010  
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)**

	Capital Surplus (Note 19)						Other Equity Items								
	Common Stock (Note 19)	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 19)			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, 2010	\$ 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 to 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	5,209,722	1,441,424	970,457	70,059	74,783	2,556,723	1,504,944	4,381,763	5,886,707	(57,696)	(127,944)	1,129,567	1,943,442	2,887,369	16,540,521
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	85,006	(85,006)	-	-	-	-	-	-	-
Cash dividends - \$1.2 per share	-	-	-	-	-	-	-	(625,167)	(625,167)	-	-	-	-	-	(625,167)
Adjustment to long-term stock investments accounted for under equity method	-	-	-	-	-	-	-	-	-	(12,179)	-	(529,990)	-	(542,169)	(542,169)
Disposal of revalued land	-	-	-	-	-	-	-	-	-	-	-	-	3,553,355	3,553,355	3,553,355
Net income for the year ended December 31, 2011	-	-	-	-	-	-	-	1,099,934	1,099,934	-	-	-	-	-	1,099,934
Change in translation adjustments	-	-	-	-	-	-	-	-	-	201,906	-	-	-	201,906	201,906
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(22,286)	-	-	(22,286)	(22,286)
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(1,027,012)	-	(1,027,012)	(1,027,012)
BALANCE, DECEMBER 31, 2011	<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>\$ 1,589,950</u>	<u>\$ 4,771,524</u>	<u>\$ 6,361,474</u>	<u>\$ 132,031</u>	<u>\$ (150,230)</u>	<u>\$ (427,435)</u>	<u>\$ 5,496,797</u>	<u>\$ 5,051,163</u>	<u>\$ 19,179,082</u>

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

(With Deloitte & Touche audit report dated March 2, 2012)

# SHIHLIN ELECTRIC & ENGINEERING CORP.

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

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,099,934	\$ 850,060
Depreciation	420,833	443,905
Provision for (recovery of) doubtful accounts	(150)	11,086
Provision for loss on inventories	41,318	62,481
Loss on disposal of properties, net	1,591	2,380
Investment income recognized under equity method, net	(480,172)	(540,655)
Cash dividends from investees accounted for under equity method	118,746	106,366
Gain on sale of investments, net	(253)	(58)
Impairment loss	-	7,700
Deferred income tax	129,015	45,827
Changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss	(27,918)	56,880
Notes receivable	(154,589)	(88,317)
Notes receivable from related parties	(623)	3,975
Accounts receivable	213,685	135,035
Accounts receivables from related parties	(123,527)	17,971
Other receivables	(466)	1,409
Other receivables from related parties	449	(788)
Inventories	(136,576)	(573,891)
Construction in progress	(130,262)	-
Other current assets	(32,439)	168,688
Notes payable	60,863	(1,735)
Accounts payable	(18,490)	325,927
Accounts payable to related parties	(102,490)	256,708
Income tax payable	(201,353)	252,881
Accrued expenses	77,045	41,714
Other payables to related parties	9,181	(5,973)
Other payables	7,646	12,078
Collections in advance	164,238	(486,367)
Collections in advance for construction	(125,365)	125,365
Other current liabilities	40,429	31,220
Accrued pension cost	24,026	32,130
	<u>874,326</u>	<u>1,294,002</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	10,223	20,578
Acquisition of available-for-sale financial assets	(1,251,053)	(1,185,000)
Proceeds from disposal of available-for-sale financial assets	1,190,253	1,170,058
Acquisition of financial assets carried at cost	-	(15,260)
Proceeds from disposal of financial assets carried at cost	10,502	27,911
Acquisition of investments accounted for under equity method	(51,213)	(68,810)

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# SHIHLIN ELECTRIC & ENGINEERING CORP.

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

	2011	2010
Proceeds from disposal of investments accounted for under equity method	\$ -	\$ 40,447
Acquisition of properties and properties for lease	(221,083)	(343,089)
Proceeds from disposal of properties	9,860	6,893
Decrease (increase) in restricted assets	15,354	(13,194)
Increase in miscellaneous assets	<u>(9,867)</u>	<u>(6,204)</u>
Net cash used in investing activities	<u>(297,024)</u>	<u>(365,670)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net decrease in short-term loans	(337,211)	(230,664)
Net decrease in short-term bills payable	(300,000)	(50,000)
Additions to long-term debt	900,000	300,000
Repayments of long-term debt	(350,000)	(250,000)
Decrease in deposits received	(9,602)	(241)
Cash dividends	<u>(625,167)</u>	<u>(625,167)</u>
Net cash used in financing activities	<u>(721,980)</u>	<u>(856,072)</u>
NET INCREASE (DECREASE) IN CASH	(144,678)	72,260
CASH, BEGINNING OF YEAR	<u>430,276</u>	<u>358,016</u>
CASH, END OF YEAR	<u>\$ 285,598</u>	<u>\$ 430,276</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 27,751</u>	<u>\$ 19,496</u>
Income tax paid	<u>\$ 260,555</u>	<u>\$ 60,581</u>
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of properties and properties for lease	\$ 221,083	\$ 214,632
Add: Payable for properties and properties for lease purchased (included in other payables), beginning of year	<u>-</u>	<u>128,457</u>
Cash paid for acquisition of properties and properties for lease	<u>\$ 221,083</u>	<u>\$ 343,089</u>
<b>NON-CASH INVESTING ACTIVITIES</b>		
Transfer of inventories to properties	<u>\$ 34,568</u>	<u>\$ 32,245</u>

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

(Concluded)



# SHIHLIN ELECTRIC & ENGINEERING CORP.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

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### 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, 2011 and 2010, the number of employees of the Corporation was 1,688 and 1,574, 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"). Significant accounting policies are summarized as follows:

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.

#### Foreign Currencies

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 period of settlement.

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

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

#### Accounting 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 hedge 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.

## **Impairment of Accounts Receivable**

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable before and on December 31, 2010.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

## **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.

## **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 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.

### **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 the Equity Method**

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

Unrealized profits and losses arising from transactions with investees are 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, had no impairment loss 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 still in use, its carrying amount is further depreciated over the new 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.

### **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.

## **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 which are not certain of realization. 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 retention 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.

## **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.

## **Research and Development Expenses**

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.

### **3. ACCOUNTING CHANGES**

#### **Financial Instruments**

On January 1, 2011, the Corporation adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include receivables originated by the Corporation under SFAS No. 34. This accounting change did not have a material effect on the financial statements of the Corporation as of and for the year ended December 31, 2011.

#### **Operating Segments**

On January 1, 2011, the Corporation adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Corporation that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." For this accounting change, the Corporation restated the segment information as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

#### 4. CASH

	<u>December 31</u>	
	<b>2011</b>	<b>2010</b>
Cash on hand	\$ 1,055	\$ 1,487
Checking account deposits and demand deposits	252,887	342,155
Time deposits	<u>31,656</u>	<u>86,634</u>
	<u>\$ 285,598</u>	<u>\$ 430,276</u>

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

	<u>December 31</u>	
	<b>2011</b>	<b>2010</b>
<u>Financial assets held for trading - current</u>		
Forward exchange contracts	<u>\$ 2,233</u>	<u>\$ 17</u>
<u>Financial assets held for trading - current</u>		
Forward exchange contracts	<u>\$ 17,834</u>	<u>\$ 41,001</u>
<u>Financial assets held for trading - noncurrent</u>		
Forward exchange contracts	<u>\$ -</u>	<u>\$ 2,535</u>

The Corporation entered into forward exchange contracts during the years ended December 31, 2011 and 2010 mainly to manage exposures 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, 2011 and 2010, outstanding forward contracts were as follows:

<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2011</u>		
Buy NTD/Sell USD	April 2012	NTD91,546/USD3,050
Buy JPY/Sell USD	January 2012 to June 2012	JPY1,060,445/USD13,678
Buy EUR/Sell NTD	January 2012 to October 2012	EUR9,303/NTD379,562
<u>December 31, 2010</u>		
Buy USD/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

Net gains (losses) from financial instruments held for trading for the years ended December 31, 2011 and 2010 were \$28.2 million and \$(61.9) million, respectively.

## 6. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	<b>2011</b>	<b>2010</b>
Accounts receivable	\$ 2,260,099	\$ 2,475,395
Less: Allowance for doubtful accounts	<u>(88,208)</u>	<u>(89,969)</u>
	<u>\$ 2,171,891</u>	<u>\$ 2,385,426</u>

Movements of the allowance for doubtful accounts were as follows:

	<u>Years Ended December 31</u>			
	<u>2011</u>		<u>2010</u>	
	<b>Accounts Receivable</b>	<b>Overdue Receivable</b>	<b>Accounts Receivable</b>	<b>Overdue Receivable</b>
Balance, beginning of year	\$ 89,969	\$ 65	\$ 93,058	\$ 65
Amounts written off	(1,611)	-	(14,175)	-
Allowance (reversal of the allowance) for doubtful accounts	<u>(150)</u>	<u>-</u>	<u>11,086</u>	<u>-</u>
Balance, end of year	<u>\$ 88,208</u>	<u>\$ 65</u>	<u>\$ 89,969</u>	<u>\$ 65</u>

## 7. INVENTORIES

	<u>December 31</u>	
	<b>2011</b>	<b>2010</b>
Finished goods	\$ 988,161	\$ 1,086,566
Work in process	1,096,574	1,029,557
Raw materials and supplies	1,008,262	919,834
Goods in transit	<u>3,650</u>	<u>-</u>
	<u>\$ 3,096,647</u>	<u>\$ 3,035,957</u>

As of December 31, 2011 and 2010, the allowance for inventory devaluation was \$326.5 million and \$293.7 million, respectively.

The cost of goods sold for the year ended December 31, 2011 included \$41.3 million loss on write-downs of inventories; cost for the year ended December 31, 2010 included \$62.5 million loss on write-downs of inventories and \$48.1 million unallocated overheads.

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

	<u>December 31</u>	
	<b>2011</b>	<b>2010</b>
Quoted stocks	\$ 1,464,319	\$ 2,145,400
Open-end funds	<u>1,064,387</u>	<u>1,414,267</u>
	<u>\$ 2,528,706</u>	<u>\$ 3,559,667</u>

## 9. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
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	33,061
Jine De Sheng Co., Ltd.	30,318	30,318
Noble Tech Venture Capital Corporation	27,944	32,111
Pac-Link Opportunity Venture Capital Co.	11,616	13,200
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
Power World Capital Management Inc.	9,100	9,100
Der Shin Venture Capital Co.	8,345	10,874
Hsinchu Transport Co., Ltd. (“Hsinchu Transport”)	7,608	7,608
Super Tech Venture Capital Co.	6,338	6,338
Sycamore Venture Capital, L.P.	5,728	5,728
Hsinchu Venture Capital Co.	5,608	7,830
Innocom Telecom Corp.	3,105	3,105
Formosa Capital Holdings Corporation	566	566
TSC Finance.Com	51	51
Chinese Products Promotion Center	50	50
Normpacific Automation Corp.	40	40
Windance Co., Ltd.	26	26
Asia Technology 3 Limited	<u>12</u>	<u>12</u>
	<u>\$ 365,156</u>	<u>\$ 375,658</u>

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

	<b>Year Ended December 31, 2010</b>
Unquoted stocks	
Hsinchu Venture Capital Co.	\$ 2,400
TSC Finance.Com	2,600
Normpacific Automation Corp.	1,700
Asia Technology 3 Limited	<u>1,000</u>
	<u>\$ 7,700</u>

## 10. INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD

	December 31			
	2011		2010	
	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”)	\$ 2,910,962	100.0	\$ 2,430,010	100.0
Yuh Lin Investment Co., Ltd.	351,516	93.7	489,330	93.7
Hwo Lin Investment Co., Ltd.	341,117	94.8	448,329	94.8
Shihlin Electrical Engineering Ltd. of Vietnam (“Vietnam SEEC”)	321,479	100.0	290,028	100.0
Ji Lin Investment Co., Ltd.	184,274	99.9	231,966	99.9
Jeng Lin Investment Co., Ltd.	158,848	87.4	223,803	87.4
SEEC International Trading Ltd. of the British Virgin Islands	137,599	100.0	115,406	100.0
Cheng Lin Investment Co., Ltd.	133,666	99.3	165,872	99.3
Hsin Lin Electric Machinery Co., Ltd. (“Hsin Lin”)	125,986	60.0	114,884	60.0
Rueylin Electric & Engineering Corp. (“Rueylin”)	116,892	70.4	126,032	70.4
Shang Lin Investment Co., Ltd.	91,750	99.3	108,939	99.3
Jeen-Lin Industrial Co., Ltd. (“Jeen-Lin”)	64,111	78.4	63,588	78.1
Shihlin Electric USA Company Limited (“Shihlin Electric USA”)	42,097	100.0	48,342	100.0
Chan Der Investment Co.	27,350	8.1	34,331	8.1
Yu Der Investment Co.	19,099	4.8	25,913	4.8
Union Power Industrial Corporation (“Union Power”)	17,437	72.5	18,093	72.5
Shinlin Enterprise Co., Ltd. (“Shinlin”)	10,327	72.0	9,012	72.0
Cheng Der Investment Co.	10,140	3.6	12,826	3.6
Chuan Lin Technology Corporation (“Chuan Lin”)	9,288	31.5	9,657	31.5
Shihlin Electric (Australia) Pty. Ltd. (“Shihlin Electric Australia”)	2,952	100.0	9,711	100.0
Ting Lin Enterprise Co. (“Ting Lin”)	2,455	21.1	2,397	21.1
Yuan-Gu Light & Electricity Co., Ltd.	-	25.2	4,014	25.2
	<u>\$ 5,079,345</u>		<u>\$ 4,982,483</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>2011</u>	<u>2010</u>
Properties		
Revaluation increment		
Land	<u>\$ 2,006,549</u>	<u>\$ 1,929,072</u>
Accumulated depreciation		
Cost		
Buildings and equipment	\$ 1,549,564	\$ 1,497,798
Machinery and equipment	2,445,451	2,374,026
Other equipment	<u>1,226,865</u>	<u>1,173,458</u>
	<u>\$ 5,221,880</u>	<u>\$ 5,045,282</u>
Properties for lease		
Revaluation increment		
Land	<u>\$ 4,768,356</u>	<u>\$ 1,067,477</u>
Accumulated depreciation		
Buildings and equipment	<u>\$ 1,749,008</u>	<u>\$ 1,565,226</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. In addition, the Corporation revalued its land in 2011, which resulted in total revaluation increments of \$3,778 million. The net revaluation amount of \$3,553 million after deducting the reserve for land value increment tax of \$225 million was credited to equity as unrealized revaluation increment. As of December 31, 2011, the balance of the reserve for land value increment tax had decreased to \$1,175 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 \$5,497 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.

## 12. MISCELLANEOUS ASSETS

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Refundable deposits	\$ 14,466	\$ 3,390
Loans to employees for purchase of cars or motorcycles	9,503	10,934
Overdue receivables, net of allowance for loss of \$65 thousand	-	-
Others	<u>79,532</u>	<u>79,310</u>
	<u>\$ 103,501</u>	<u>\$ 93,634</u>

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

	<u>December 31</u>	
	<b>2011</b>	<b>2010</b>
Short-term loans		
Usance L/C (JPY): Due 90-180 days after sight, interest at 0.68%-1.057% in 2011 and 0.583%-0.949% in 2010	\$ 142,888	\$ 45,202
Usance L/C (USD): Due 180 days after sight, interest at 0.846%-1.797%	65,103	-
Unsecured loans (NTD): Interest at 0.82%- 0.95% in 2011 and 0.54%-0.7% in 2010	950,000	1,600,000
Mortgage loans (NTD): Interest at 0.93% in 2011 and 0.7% in 2010	<u>800,000</u>	<u>650,000</u>
	<u>\$ 1,957,991</u>	<u>\$ 2,295,202</u>
Short-term bills payable		
Commercial papers (NTD): Interest at 0.678%-0.698%	<u>\$ -</u>	<u>\$ 300,000</u>

### 14. CONSTRUCTION IN PROGRESS (COLLECTIONS IN ADVANCE FOR CONSTRUCTION), NET

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	Construction in Progress, Net of Collections in Advance for Construction
<u>December 31, 2011</u>								
SE10001	2013	<u>\$ 1,525,000</u>	<u>\$ 1,320,280</u>	61.84%	<u>\$ 126,599</u>	<u>\$ 943,060</u>	<u>\$ (812,798)</u>	<u>\$ 130,262</u>
<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>2011</b>	<b>2010</b>
Unsecured loans (NTD)		
Repayable in January 2013, interest at 0.86%	300,000	-
Repayable in January 2013, interest at 0.86%	250,000	-
Repayable in January 2013, interest at 0.86%	100,000	-
Revolving unsecured loans (NTD)		
Due in December 2013, interest at 1.09%	100,000	-
Repaid in March 2011, interest at 0.75%	-	50,000
Repaid in July 2011, interest at 0.9%	-	100,000
Revolving mortgage loans (NTD)		
Due in December 2013, interest at 1.09% in 2011 and 0.88% in 2010	100,000	50,000
Revolving unsecured loans (NTD)		
Due in October 2013, interest at 0.85%	<u>-</u>	<u>100,000</u>
	<u>\$ 850,000</u>	<u>\$ 300,000</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 October 2013 to December 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 \$34.4 million and \$30.8 million under the plan for the years ended December 31, 2011 and 2010, 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>2011</b>	<b>2010</b>
Service cost	\$ 24,617	\$ 28,190
Interest cost	25,281	23,683
Actual return on plan assets	\$ (275)	\$ (141)
Loss on plan assets	<u>(158)</u>	<u>(119)</u>
Projected return on plan assets	(433)	(260)
Amortization	<u>32,210</u>	<u>29,890</u>
Net periodic pension cost	<u>\$ 81,675</u>	<u>\$ 81,503</u>

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

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
Benefit obligation		
Vested benefit obligation	\$ 411,206	\$ 376,947
Nonvested benefit obligation	<u>619,741</u>	<u>605,306</u>
Accumulated benefit obligation	1,030,947	982,253
Additional benefit based on future salaries	<u>293,611</u>	<u>294,804</u>
Projected benefit obligation	1,324,558	1,277,057
Fair value of plan assets	<u>(34,402)</u>	<u>(18,250)</u>
Funded status	1,290,156	1,258,807
Unrecognized net transition obligation	(55,625)	(69,395)
Unamortized net loss	(443,841)	(422,748)
Additional liability	<u>205,855</u>	<u>197,339</u>
Accrued pension cost	<u>\$ 996,545</u>	<u>\$ 964,003</u>
Vested benefit	<u>\$ 558,489</u>	<u>\$ 514,112</u>

Actuarial assumptions:

	<b>December 31</b>	
	<b>2011</b>	<b>2010</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%
	<b>Years Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
Contributions to the fund	<u>\$ 18,078</u>	<u>\$ 16,830</u>
Payments from the fund	<u>\$ 2,200</u>	<u>\$ 9,597</u>

## 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:

	<b>Years Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
Income tax expense based on income before income tax at statutory rates	\$ 218,986	\$ 205,589
Tax effect on adjusting items		
Permanent differences	(2,431)	(8,685)
Temporary differences	(69,817)	(48,412)
Loss carryforwards used	-	(8,795)
Additional income tax at 10% of undistributed earnings	13,989	207,833
Less: Investment tax credits used	<u>(19,000)</u>	<u>(57,666)</u>
Current income tax	141,727	289,864
Deferred income tax		
Loss carryforwards	-	20,874
Investment tax credits	-	43,505
Pension cost not funded	(7,873)	(5,462)
Depreciation difference	14,032	19,520
Provision for warranty reserve	(927)	(6,839)
Deferred sales discounts	1,601	(3,596)
Adjustment of unrealized exchange gain or loss	12,602	(16,107)
Temporary differences relating to recognition of foreign investment income under equity method	54,369	59,868
Excess provisions for doubtful accounts	122	(1,366)
Allowance for loss on inventories	(5,573)	(7,733)
Others	1,464	10,127
Effect of tax law changes on deferred income tax	-	(9,028)
Adjustment to valuation allowance	59,199	(57,936)
Adjustments to prior years' income tax	<u>(82,526)</u>	<u>23,598</u>
Income tax expense	<u>\$ 188,217</u>	<u>\$ 359,289</u>

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.

Deferred income tax assets (liabilities) comprised:

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
<b>Current</b>		
Deferred income tax assets		
Excess provisions for doubtful accounts	\$ 9,252	9,374
Allowance for loss on inventories	55,504	49,931
Provision for warranty reserve	38,222	37,295
Deferred sales discounts	4,751	6,352
Unrealized foreign exchange loss	955	13,557
Others	<u>16</u>	<u>1,391</u>
	108,700	117,900
Less: Valuation allowance	<u>(74,925)</u>	<u>(15,726)</u>
	<u>\$ 33,775</u>	<u>\$ 102,174</u>
<b>Noncurrent</b>		
Deferred income tax assets		
Pension cost not funded	\$ 138,206	\$ 130,333
Temporary differences relating to recognition of loss of foreign equity instruments	9,284	9,284
Unrealized measurement loss on foreign financial assets	65,003	-
Others	<u>597</u>	<u>686</u>
	213,090	140,303
Less: Valuation allowance	<u>(9,284)</u>	<u>(9,284)</u>
	203,806	131,019
Deferred income tax liabilities		
Depreciation difference	(112,708)	(98,676)
Cumulative translation adjustments	(24,486)	-
Temporary differences relating to recognition of foreign investment income under equity method	<u>(251,396)</u>	<u>(197,027)</u>
	<u>(388,590)</u>	<u>(295,703)</u>
	<u>\$ (184,784)</u>	<u>\$ (164,684)</u>

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

For distribution of earnings generated on and after January 1, 1998 under the ITL, the rate of credit from imputed tax 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>2011</b>	<b>2010</b>
Unappropriated earnings generated before January 1, 1998	\$ 387,158	\$ 387,158
Unappropriated earnings generated on and after January 1, 1998	<u>4,384,366</u>	<u>3,994,605</u>
	<u>\$ 4,771,524</u>	<u>\$ 4,381,763</u>

The balance of the ICA as of December 31, 2011 and 2010 was \$525.0 million and \$375.2 million, respectively.

The rate of credit from imputed tax on distribution of earnings of 2011 and 2010 was 13.60% (estimate) and 16.40%, respectively.

## **18. 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.

## **19. 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); under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus also may be distributed in cash.
- 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, 2011 and 2010, the bonus to employees was \$79.0 million and \$61.2 million, respectively, and the remuneration to directors and supervisors was \$39.5 million and \$30.6 million, respectively. The bonus to employees represented 8% of the net income for the years ended December 31, 2011 and 2010, minus the legal reserve to be appropriated; the remuneration to directors and supervisors represented 4% of the net income for the years ended December 31, 2011 and 2010, 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.

Legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2010 and 2009 had been approved in the stockholders' meetings on May 27, 2011 and May 27, 2010, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (In NT\$)</b>	
	<b>For Year 2010</b>	<b>For Year 2009</b>	<b>For Year 2010</b>	<b>For Year 2009</b>
Legal reserve	\$ 85,006	\$ 300,388		
Cash dividends	625,167	625,167	\$ 1.2	\$ 1.2

The bonus to employees and the remuneration to directors and supervisors for the years ended December 31, 2010 and 2009 approved in the stockholders' meetings on May 27, 2011 and May 27, 2010, respectively, were as follows:

	<b>Years Ended December 31</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Bonus to Employees</b>	<b>Remuneration to Directors and Supervisors</b>	<b>Bonus to Employees</b>	<b>Remuneration to Directors and Supervisors</b>
Amounts approved in shareholders' meetings	\$ 61,200	\$ 30,600	\$ 55,000	\$ 27,500
Amounts recognized in respective financial statements	<u>61,200</u>	<u>30,600</u>	<u>55,000</u>	<u>27,500</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2010 and 2009, respectively.

The appropriations of earnings for 2011 had been proposed by the board of directors on March 2, 2012. The proposed appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 109,993	
Cash dividends	625,167	\$ 1.2

The appropriations of 2011 earnings for reserve and dividend, and the amounts of bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled for May 25, 2012.

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.

## 20. 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 NT\$)</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, 2011</u>					
Basic earnings per share					
Earnings belonging to holders of common shares	\$ 1,288,151	\$ 1,099,934	520,972	<u>\$ 2.47</u>	<u>\$ 2.11</u>
Effect of dilutive potential common shares					
Bonus to employees	<u>-</u>	<u>-</u>	<u>3,259</u>		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	<u>\$ 1,288,151</u>	<u>\$ 1,099,934</u>	<u>524,231</u>	<u>\$ 2.46</u>	<u>\$ 2.10</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>-</u>	<u>-</u>	<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>

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.

## 21. PERSONNEL COST AND DEPRECIATION

	<u>Years Ended December 31</u>					
	<u>2011</u>			<u>2010</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	\$ 859,841	\$ 904,367	\$ 1,764,208	\$ 754,018	\$ 822,941	\$ 1,576,959
Insurance	52,134	44,517	96,651	44,830	42,350	87,180
Pension	57,400	58,634	116,034	54,022	58,279	112,301
Others	<u>16,361</u>	<u>14,234</u>	<u>30,595</u>	<u>14,594</u>	<u>13,493</u>	<u>28,087</u>
	<u>\$ 985,736</u>	<u>\$ 1,021,752</u>	<u>\$ 2,007,488</u>	<u>\$ 867,464</u>	<u>\$ 937,063</u>	<u>\$ 1,804,527</u>
Depreciation	<u>\$ 374,034</u>	<u>\$ 46,799</u>	<u>\$ 420,833</u>	<u>\$ 390,401</u>	<u>\$ 53,504</u>	<u>\$ 443,905</u>



## 22. 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
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
Xiamen Shihlin Electrical & Engineering Co., Ltd. (“Xiamen SEEC”)	An indirect subsidiary
Shihlin Electric (Suzhou) Power Equipment Co., Ltd. (“Suzhou Power Equipment”, formerly Shihlin Electric Switch (Suzhou) Co., Ltd.)	An indirect subsidiary
Yangde Trading Shanghai Co., Ltd. (“Shanghai Yangde”)	An indirect subsidiary
Shihlin Technology (Shenzhen) Co., Ltd. (“Shenzhen Shihlin Technology”)	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 Logistics	Same chairman
Charter Leisure	Same chairman
Shihlin Development Co. (“Shihlin Development”)	Its chairman is one of the directors of the Corporation

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

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
1) Notes receivable		
Shihlin Development	\$ 1,932	\$ 1,306
Others	<u>-</u>	<u>3</u>
	<u>\$ 1,932</u>	<u>\$ 1,309</u>
2) Accounts receivable		
Shihlin Electric Australia	\$ 108,883	\$ 28,398
Xiamen SEEC	64,035	-
Fuzhou SEEC	42,526	16,460
SEEC International Holdings	29,586	24,139
Suzhou Power Equipment	21,824	20,747
Suzhou SEEC	10,432	18,696
Changzhou Mitsubishi Shihlin	7,504	14,148
Vietnam SEEC	6,803	9,261
Wuxi Rotator	6,612	5,929
Vietnam Rueylin	5,089	18,941
Union Power	2,421	4,120
Mitsubishi Taiwan	1,984	898
Changzhou SEEC	-	21,702
Others	<u>52</u>	<u>785</u>
	<u>\$ 307,751</u>	<u>\$ 184,224</u>
3) Other receivables		
Transferred from accounts receivable		
Fuzhou SEEC	\$ -	\$ 10,223
Others		
Wuhan Mitsuba Shilin	6,400	-
Hsin Lin	812	1,242
Changzhou Mitsubishi Shihlin	-	6,496
Others	<u>503</u>	<u>426</u>
	<u>7,715</u>	<u>8,164</u>
	<u>\$ 7,715</u>	<u>\$ 18,387</u>
4) Prepayments (included in other current assets)		
Shihlin Electric USA	<u>\$ 18,896</u>	<u>\$ 7,394</u>

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
5) Accounts payable		
Hsin Lin	\$ 217,356	\$ 325,027
SEEC International Holdings	57,943	67,328
Rueylin	44,875	29,137
Mitsubishi Taiwan	29,896	46,685
Mitsubishi Electric	26,296	39,019
Chuan Lin	20,873	9,623
Tsubaki	19,476	7,699
Jeen-Lin	6,527	8,262
Changzhou SEEC	4,050	-
Suzhou SEEC	3,000	-
Vietnam SEEC	1,387	-
Union Power	1,143	-
Wuxi Rotater	534	1,859
Fuzhou SEEC	303	-
Others	-	1,510
	<u>\$ 433,659</u>	<u>\$ 536,149</u>
6) Other payables		
Mitsubishi Electric	\$ 19,449	\$ 17,310
Hsinchu Logistics	7,409	832
Shinlin	2,303	1,661
Mitsubishi Taiwan	390	856
Others	827	538
	<u>\$ 30,378</u>	<u>\$ 21,197</u>
	<b>Years Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
7) Purchases		
Hsin Lin	\$ 1,304,943	\$ 1,205,397
Mitsubishi Electric	590,425	588,768
SEEC International Holdings	151,712	130,471
Rueylin	137,364	109,502
Mitsubishi Taiwan	103,169	107,509
Chuan Lin	75,810	69,636
Suzhou SEEC	45,672	49,024
Tsubaki	39,919	20,430
Jeen-Lin	38,541	38,571
Wuxi Rotator	24,212	29,356
Changzhou SEEC	21,174	13,042
Ting Lin	8,158	9,810
Union Power	4,873	-
Fuzhou SEEC	4,294	9,298
Vietnam SEEC	3,967	3,315
Suzhou Power Equipment	3,115	-
	<u>\$ 2,557,348</u>	<u>\$ 2,384,129</u>

	<b>Years Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
8) Sales		
Xiamen SEEC	\$ 207,273	\$ -
Shihlin Electric Australia	184,828	108,536
SEEC International Holdings	152,261	184,828
Fuzhou SEEC	97,243	87,034
Suzhou Power Equipment	53,458	39,572
Changzhou Mitsubishi Shihlin	39,042	38,212
Vietnam SEEC	35,644	33,713
Vietnam Rueylin	34,621	30,919
Suzhou SEEC	32,684	41,444
Union Power	25,343	41,016
Mitsubishi Taiwan	21,058	13,808
Wuxi Rotator	14,991	19,345
Changzhou SEEC	9,627	92,283
Shenzhen Shihlin Technology	5,332	-
Seh International Holdings	2,384	1,648
Ambassador Hotel	1,540	8,249
Others	<u>657</u>	<u>218</u>
	<u>\$ 917,986</u>	<u>\$ 740,425</u>
9) Leasing revenue		
Charter Leisure	\$ 25,598	\$ 25,383
Mitsubishi Taiwan	18,316	18,318
Hsinchu Logistics	14,917	14,592
Hsin Lin	12,158	12,126
Shihlin Development	5,639	5,762
Others	<u>200</u>	<u>270</u>
	<u>\$ 76,828</u>	<u>\$ 76,451</u>
10) Royalty expense		
Mitsubishi Electric	<u>\$ 21,284</u>	<u>\$ 20,447</u>
11) Service expense		
Shinlin	<u>\$ 142,833</u>	<u>\$ 140,011</u>
12) Fee for consultation on and management of construction		
Shihlin Development	<u>\$ 600</u>	<u>\$ 977</u>
13) Freight expense		
Hsinchu Logistics	<u>\$ 49,590</u>	<u>\$ 21,193</u>

	<b>Years Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
14) Fee for consultation on logistics management		
Hsinchu Logistics	\$ <u>17,050</u>	\$ <u>35,315</u>
15) Maintenance expense		
Mitsubishi Taiwan	\$ <u>2,871</u>	\$ <u>1,760</u>
16) Commission expense		
Shihlin Electric USA	\$ <u>11,502</u>	\$ <u>18,056</u>
17) Leasing expense		
Hsinchu Logistics	\$ 2,305	\$ 2,306
Others	<u>660</u>	<u>-</u>
	<u>\$ 2,965</u>	<u>\$ 2,306</u>
18) Advertising expense		
Yeangder Entertainment	\$ <u>8,000</u>	\$ <u>4,000</u>
19) Service revenue (included in miscellaneous income)		
Wuhan Mitsuba Shihlin	\$ 6,725	\$ 4,160
Changzhou SEEC	6,223	-
Xiamen SEEC	6,088	-
Fuzhou SEEC	3,067	-
Suzhou SEEC	2,373	-
Hsin Lin	1,200	1,200
Shanghai Yangde	608	-
Changzhou Mitsubishi Shihlin	<u>-</u>	<u>7,661</u>
	<u>\$ 26,284</u>	<u>\$ 13,021</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, Suzhou Power Equipment, Shenzhen Shihlin Technology, and Shihlin Electric Australia, which were determined based on the status of their working capital.

The Corporation had transferred accounts receivable from related parties which were older than normal collection terms as of December 31, 2011 and 2010 to other receivables. The ages of the accounts receivable were as follows:

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
Over 12 months	\$ <u>-</u>	\$ <u>10,223</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>2011</b>	<b>2010</b>
Salaries, incentives and special compensation	\$ 43,384	\$ 32,334
Allowances	7,362	7,265
Remuneration and bonus	<u>51,182</u>	<u>38,612</u>
	<u>\$ 101,928</u>	<u>\$ 78,211</u>

**23. 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>2011</b>	<b>2010</b>
Demand deposits (included in restricted assets)	\$ 25,718	\$ 25,718
Pledged time deposits (included in restricted assets)	35,449	50,803
Land	6,635,862	2,869,521
Buildings and equipment, net	187,759	202,013
Machinery and equipment, net	<u>1,026</u>	<u>1,230</u>
	<u>\$ 6,885,814</u>	<u>\$ 3,149,285</u>

**24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

As of December 31, 2011, the Corporation had the following significant commitments and contingencies:

- a. Under technical cooperation agreements with several foreign companies expiring on various dates between May 2012 and February 2016, 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, 2011 and 2010 were \$22.3 million and \$22.3 million, respectively.
- b. Unused letters of credit of approximately \$225 million.
- c. Commitments for purchase of properties and construction in progress of approximately \$593 million.
- d. The Corporation rents out its office building under several operating lease agreements expiring on various dates between March 2012 and August 2020. Future lease revenues were as follows:

<b>Year</b>	<b>Amount</b>
2012	\$110,111
2013	45,301
2014	26,403
2015	16,560
2016	16,686
2017 to 2020	63,199 (present value of \$28.4 million)

- 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
2012	\$ 319,872
2013	319,872
2014	338,260
2015	350,099
2016	350,099
2017 to 2021	1,760,903 (present value of \$701.2 million)
2022 to 2026	1,780,973 (present value of \$416.6 million)
2027 to 2029	856,515 (present value of \$133.4 million)

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

	Amount
Xiamen Shihlin Electric & Engineering Co., Ltd.	\$ 237,025
Yangde Trading Shanghai Co., Ltd.	235,937
Changzhou Mitsubishi Shinlin	185,144
Suzhou Power Equipment	58,070
Suzhou SEEC	48,008
Wuxi Rotator	45,188
Shihlin Electric Australia	23,277
Wuhan Mitsuba Shihlin	21,139

- g. On November 25, 2011, the board of directors made a resolution to invest in Mitsubishi Electric Xiamen Co., Ltd. the amount of US\$1.9 million for a 30% interest. Until December 31, 2011, the investment was not yet made.
- h. A construction company accused the Corporation of not making construction payment of \$5.2 million. The Corporation stands on the fact that the construction company has not completed the construction work. The litigation is in Taiwan Shihlin local court. The Corporation measured this litigation would not cause significant loss.

## 25. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	December 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash	\$ 285,598	\$ 285,598	\$ 430,276	\$ 430,276
Financial assets at fair value through profit and loss - current				
Forward exchange contracts	2,233	2,233	17	17

(Continued)

	<b>December 31</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Notes receivable	\$ 976,489	\$ 976,489	\$ 821,900	\$ 821,900
Notes receivable from related parties	1,932	1,932	1,309	1,309
Accounts receivable	2,171,891	2,171,891	2,385,426	2,385,426
Accounts receivable from related parties	307,751	307,751	184,224	184,224
Other receivables	3,471	3,471	3,005	3,005
Other receivables from related parties	7,715	7,715	18,387	18,387
Available-for-sale financial assets - noncurrent	2,528,706	2,528,706	3,559,667	3,559,667
Financial assets carried at cost - noncurrent	365,156		375,658	
<b>Liabilities</b>				
Short-term loans	1,957,991	1,957,991	2,295,202	2,295,202
Short-term bills payable	-	-	300,000	300,000
Financial liabilities at fair value through profit and loss - current				
Forward exchange contracts	17,834	17,834	41,001	41,001
Notes payable	62,027	62,027	1,164	1,164
Accounts payable	1,963,626	1,963,626	1,982,116	1,982,116
Accounts payable to related parties	433,659	433,659	536,149	536,149
Other payables to related parties	30,378	30,378	21,197	21,197
Other payables	80,894	80,894	73,248	73,248
Financial assets at fair value through profit and loss - noncurrent				
Forward exchange contracts	-	-	2,535	2,535
Long-term debt	850,000	850,000	300,000	300,000

(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, 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, 2011 and 2010, financial assets exposed to fair value interest rate risk were \$31.7 million and \$86.6 million, respectively; financial liabilities exposed to fair value interest rate risk were \$1,958.0 million and \$2,595.2 million, respectively; financial liabilities exposed to cash flow interest rate risk were \$850 million and \$300 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, 2011 and 2010 were as follows:

	<b>Credit (Debit)</b>	
	<b>Years Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
Balance, beginning of year	\$ 1,129,567	\$ 353,957
Recognized directly in stockholders' equity	(1,026,759)	621,227
Removed from stockholders' equity and recognized in earnings	(253)	(58)
Recognized in stockholders' equity for the change in unrealized gain or loss on available-for-sale financial assets held by equity method investees	<u>(529,990)</u>	<u>154,441</u>
Balance, end of year	<u>\$ (427,435)</u>	<u>\$ 1,129,567</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 counterparties 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, 2011, the Corporation's long-term debts of \$850 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 \$8.5 million a year.

## 26. OTHERS

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

	December 31					
	2011			2010		
	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	\$ 25,110	30.28	\$ 760,194	\$ 25,425	29.13	\$ 740,637
JPY	9,842	0.3906	3,844	62,355	0.3582	22,335
AUD	3,674	30.74	112,918	1,008	29.68	29,920
CAD	310	29.67	9,201	716	29.15	20,871
EUR	143	39.18	5,584	3	38.92	113
PHP	1	0.71	1	270	0.68	184
Non-monetary items						
USD	34,759	30.28	1,052,327	48,009	29.13	1,398,517
JPY	5,717	0.3906	2,233	48	0.3582	17
Investments accounted for under equity method						
USD	103,154	30.28	3,122,986	90,144	29.13	2,625,909
VND	232,991,635	0.00139	323,841	203,854,362	0.00144	293,529
AUD	96	30.74	2,952	327	29.68	9,711
<u>Financial liabilities</u>						
Monetary items						
USD	5,368	30.28	162,502	3,669	29.13	106,878
JPY	396,243	0.3906	154,772	324,430	0.3582	116,211
EUR	96	39.18	3,758	116	38.92	4,524
SEK	517	4.38	2,264	358	4.34	1,555
SGD	16	23.31	375	11	22.73	253
CHF	18	32.18	563	-	-	-
GBP	6	46.73	268	-	-	-
Non-monetary items						
USD	19	30.28	586	66	29.13	1,922
JPY	5,027	0.3906	1,963	7,499	0.3582	2,686
EUR	390	39.18	15,285	1,000	38.92	38,928