

# **Wah Lee Industrial Corporation**

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

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
Wah Lee Industrial Corporation

We have audited the accompanying balance sheets of Wah Lee Industrial Corporation (the "Corporation") as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit certain investee companies' financial statements which were the bases for the reported investments under equity method. Such financial statements were audited by other auditors whose reports have been furnished to us. Accordingly, our opinion insofar as it relates to the financial data of those investee companies as included in the accompanying financial statements is solely based on the other auditors' reports. The carrying value of those investments as of December 31, 2009 and 2008 amounted to NT\$1,131,338 thousand and NT\$1,048,204 thousand representing 9.0% and 9.2% , respectively, of the Corporation's total assets, and the investment income recognized under equity method amounted to NT\$125,668 thousand and NT\$91,900 thousand representing 13.0% and 9.1% of the Corporation's income before income tax for the years ended December 31, 2009 and 2008, respectively.

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 (ROC). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the other auditors' reports provide a reasonable basis for our opinion.

In our opinion, based on our audits and the other auditors' reports, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

As stated in Note 3 to the accompanying financial statements, starting January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories". In addition, starting January 1, 2008, the Corporation adopted Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation (ARDF) in March 2007.

March 17, 2010

Notice to Readers

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

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

# WAH LEE INDUSTRIAL CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

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

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,022,647	8	\$ 957,830	9	Short-term loans (Note 12)	\$ 1,000,416	8	\$ 2,238,275	20
Available-for-sale financial assets (Notes 2 and 5)	449,647	4	-	-	Short-term bills payable (Note 13)	-	-	250,000	2
Notes receivable (Notes 2 and 23)	395,894	3	365,405	3	Notes payable	449,609	4	417,233	4
Accounts receivable, net (Notes 2 and 6)	3,023,979	24	2,654,188	23	Notes payable - related parties (Note 23)	173,364	1	178,041	2
Accounts receivable - related parties, net (Notes 2, 6 and 23)	446,054	4	208,596	2	Accounts payable	1,888,098	15	964,599	8
Other receivables	19,904	-	21,861	-	Accounts payable - related parties (Note 23)	156,723	1	108,498	1
Other receivables - related parties (Note 23)	46,850	-	1,676	-	Income tax payable	116,725	1	103,787	1
Inventories (Notes 2, 3 and 7)	1,223,068	10	1,789,102	16	Accrued expenses (Note 14)	372,584	3	269,415	2
Prepayments and others	170,063	1	136,299	1	Other payables	22,595	-	33,260	-
Deferred income tax assets (Note 19)	61,979	1	84,562	1	Current portion of long-term debt (Notes 15 and 24)	9,034	-	33,333	-
					Others (Note 23)	75,822	1	75,577	1
Total current assets	6,860,085	55	6,219,519	55	Total current liabilities	4,264,970	34	4,672,018	41
<b>LONG-TERM INVESTMENTS (Notes 2, 5, 8 and 9)</b>					<b>LONG-TERM DEBT (Notes 15 and 24)</b>	1,048,926	8	158,334	1
Available-for-sale financial assets - noncurrent	150,770	1	57,310	-	<b>RESERVE FOR LAND VALUE INCREMENT TAX (Note 10)</b>	13,713	-	13,713	-
Financial assets carried at cost	119,585	1	117,850	1	<b>OTHER LIABILITIES</b>				
Investments accounted for by the equity method	4,415,741	35	3,971,490	35	Accrued pension cost (Note 16)	86,852	1	39,505	1
Total long-term investments	4,686,096	37	4,146,650	36	Guarantee deposits received	2,202	-	2,229	-
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10 and 24)</b>					Deferred income tax liabilities (Note 19)	242,279	2	250,130	2
Land	312,698	3	315,645	3	Total other liabilities	331,333	3	291,864	3
Buildings and improvements	259,273	2	262,646	2	Total liabilities	5,658,942	45	5,135,929	45
Machinery and equipment	365	-	365	-	<b>COMMON STOCK - \$10 per value; Authorized - 300,000 thousand shares;</b>				
Transportation equipment	67,383	1	67,581	1	Issued - 234,409 thousand shares and 230,134 thousand shares at				
Miscellaneous equipment	161,925	1	159,979	1	December 31, 2009 and 2008, respectively	2,344,091	19	2,301,340	20
Leasehold improvements	52,769	-	51,698	1	<b>CAPITAL SURPLUS (Note 17)</b>				
Total cost	854,413	7	857,914	8	Additional paid -in capital	1,175,661	9	1,158,727	10
Land revaluation increment	39,290	-	39,290	-	Donations	11,867	-	11,867	-
Cost and revaluation increment	893,703	7	897,204	8	Long-term investments	112,121	1	111,007	1
Less: Accumulated depreciation	243,630	2	203,965	2	Total capital surplus	1,299,649	10	1,281,601	11
Prepayments for equipment	1,115	-	772	-	<b>RETAINED EARNINGS (Note 17)</b>				
Net property, plant and equipment	651,188	5	694,011	6	Legal reserve	932,960	7	860,113	7
<b>INTANGIBLE ASSETS</b>					Unappropriated earnings	2,126,487	17	1,775,516	16
Deferred pension cost (Note 16)	11,038	-	12,878	-	Total retained earnings	3,059,447	24	2,635,629	23
<b>OTHER ASSETS</b>					<b>OTHER EQUITY ITEMS (Notes 2, 10, 16, 17 and 18)</b>				
Rental assets (Notes 2, 11 and 24)	121,797	1	116,781	1	Cumulative translation adjustments	207,207	2	265,154	3
Refundable deposits (Note 25)	52,321	1	57,443	1	Net loss not recognized as pension cost	(51,001)	-	(6,785)	-
Deferred charges (Note 2)	150,289	1	163,057	1	Unrealized gains (losses) on financial instruments	219,985	2	(8,887)	-
Restricted assets - pledged time deposits (Note 24)	12,184	-	320	-	Unrealized revaluation increment	9,338	-	9,338	-
Total other assets	336,591	3	337,601	3	Treasury stock - 3,019 thousand shares	(202,660)	(2)	(202,660)	(2)
					Total other equity	182,869	2	56,160	1
<b>TOTAL</b>	<b>\$ 12,544,998</b>	<b>100</b>	<b>\$ 11,410,659</b>	<b>100</b>	Total stockholders' equity	6,886,056	55	6,274,730	55
					<b>TOTAL</b>	<b>\$ 12,544,998</b>	<b>100</b>	<b>\$ 11,410,659</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 17, 2010)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 23)				
Net sales	\$ 12,530,361	97	\$ 16,940,820	97
Commission revenue	301,702	2	402,218	2
Other operating revenue	<u>133,490</u>	<u>1</u>	<u>81,752</u>	<u>1</u>
Total operating revenue	<u>12,965,553</u>	<u>100</u>	<u>17,424,790</u>	<u>100</u>
OPERATING COSTS (Notes 3 and 23)				
Cost of goods sold	11,388,077	88	15,284,447	88
Other operating cost	<u>128,016</u>	<u>1</u>	<u>85,941</u>	<u>-</u>
Total operating costs	<u>11,516,093</u>	<u>89</u>	<u>15,370,388</u>	<u>88</u>
GROSS PROFIT	1,449,460	11	2,054,402	12
ADD: REALIZED INTER-COMPANY GAIN	<u>6,153</u>	<u>-</u>	<u>2,948</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>1,455,613</u>	<u>11</u>	<u>2,057,350</u>	<u>12</u>
OPERATING EXPENSES (Notes 20 and 23)				
Selling	881,447	7	1,020,603	6
General and administrative	<u>243,538</u>	<u>2</u>	<u>283,480</u>	<u>2</u>
Total operating expenses	<u>1,124,985</u>	<u>9</u>	<u>1,304,083</u>	<u>8</u>
OPERATING INCOME	<u>330,628</u>	<u>2</u>	<u>753,267</u>	<u>4</u>
NON-OPERATING INCOME AND GAINS				
Interest income	957	-	3,405	-
Investment income recognized under equity method (Note 9)	446,964	3	355,151	2
Gain on reversal of bad debts (Note 6)	110,703	1	-	-
Exchange gains, net	17,075	-	28,464	-
Others (Notes 11 and 23)	<u>99,806</u>	<u>1</u>	<u>52,931</u>	<u>1</u>
Total nonoperating income and gains	<u>675,505</u>	<u>5</u>	<u>439,951</u>	<u>3</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	40,344	-	93,355	1
Impairment loss (Note 8)	-	-	85,000	-
Others	<u>2,081</u>	<u>-</u>	<u>2,012</u>	<u>-</u>
Total nonoperating expenses and losses	<u>42,425</u>	<u>-</u>	<u>180,367</u>	<u>1</u>

(Continued)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 963,708	7	\$ 1,012,851	6
INCOME TAX (Notes 2 and 19)	<u>153,794</u>	<u>1</u>	<u>284,374</u>	<u>2</u>
NET INCOME	<u>\$ 809,914</u>	<u>6</u>	<u>\$ 728,477</u>	<u>4</u>
	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 21)				
Basic	\$ 4.17	\$ 3.51	\$ 4.39	\$ 3.16
Diluted	\$ 4.11	\$ 3.46	\$ 4.26	\$ 3.06

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

(With Deloitte & Touche audit report dated March 17, 2010)

(Concluded)

# WAH LEE INDUSTRIAL CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

	Common Stock	Capital Surplus	Retained Earnings		Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Other Items		Treasury Stock	Total Stockholders' Equity
			Legal Reserve	Unappropriated			Unrealized Gain (Loss) on Financial Instruments	Unrealized Asset Revaluation		
BALANCE, JANUARY 1, 2008	\$ 2,196,355	\$ 1,300,048	\$ 714,910	\$ 2,183,820	\$ 124,799	\$ (146)	\$ 41,211	\$ 9,338	\$ (202,660)	\$ 6,367,675
Appropriations of 2007 earnings (Note 17)										
Legal reserve	-	-	145,203	(145,203)	-	-	-	-	-	-
Bonus to directors and supervisors	-	-	-	(23,232)	-	-	-	-	-	(23,232)
Bonus to employees										
Cash	-	-	-	(105,203)	-	-	-	-	-	(105,203)
Stock	40,000	-	-	(40,000)	-	-	-	-	-	-
Dividends on common stock										
Cash - 35%	-	-	-	(758,158)	-	-	-	-	-	(758,158)
Stock - 3%	64,985	-	-	(64,985)	-	-	-	-	-	-
Adjustment arising from changes in percentage of ownership in investees	-	(18,447)	-	-	-	-	-	-	-	(18,447)
Change in translation adjustments	-	-	-	-	140,355	-	-	-	-	140,355
Change in net loss not recognized as pension cost	-	-	-	-	-	(6,639)	-	-	-	(6,639)
Change in unrealized gains on available-for-sale financial assets (Note 17)	-	-	-	-	-	-	(50,098)	-	-	(50,098)
Net income for the year ended December 31, 2008	-	-	-	728,477	-	-	-	-	-	728,477
BALANCE, DECEMBER 31, 2008	2,301,340	1,281,601	860,113	1,775,516	265,154	(6,785)	(8,887)	9,338	(202,660)	6,274,730
Appropriations of 2008 earnings (Note 17)										
Legal reserve	-	-	72,847	(72,847)	-	-	-	-	-	-
Bonus to employees										
Stock	8,684	16,934	-	-	-	-	-	-	-	25,618
Dividends on common stock										
Cash - 15.5%	-	-	-	(352,029)	-	-	-	-	-	(352,029)
Stock - 1.5%	34,067	-	-	(34,067)	-	-	-	-	-	-
Adjustment arising from changes in percentage of ownership in investees	-	1,114	-	-	-	-	-	-	-	1,114
Change in translation adjustments	-	-	-	-	(57,947)	-	-	-	-	(57,947)
Net loss not recognized as pension cost of investees	-	-	-	-	-	(44,216)	-	-	-	(44,216)
Change in unrealized gains on available-for-sale financial assets (Note 17)	-	-	-	-	-	-	228,872	-	-	228,872
Net income for the year ended December 31, 2009	-	-	-	809,914	-	-	-	-	-	809,914
BALANCE, DECEMBER 31, 2009	<u>\$ 2,344,091</u>	<u>\$ 1,299,649</u>	<u>\$ 932,960</u>	<u>\$ 2,126,487</u>	<u>\$ 207,207</u>	<u>\$ (51,001)</u>	<u>\$ 219,985</u>	<u>\$ 9,338</u>	<u>\$ (202,660)</u>	<u>\$ 6,886,056</u>

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

(With Deloitte & Touche audit report dated March 17, 2010)

# WAH LEE INDUSTRIAL CORPORATION

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

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 809,914	\$ 728,477
Adjustments to reconcile net income to net cash provided by operating activities		
Provision (reversal of provision) for doubtful accounts	(110,703)	104,727
Depreciation	44,067	43,300
Amortization	34,591	26,027
Provision for (recovery of) loss on inventories	(40,209)	97,578
Loss on inventories	12,808	26,928
Realized gross profit	(6,153)	(2,948)
Deferred income tax expense	14,732	19,917
Cash dividends received from equity method investees	81,386	169,417
Investment income recognized under equity method	(446,964)	(355,151)
Impairment loss	-	85,000
Pension	5,268	11,551
Others	955	104
Changes in operating assets and liabilities:		
Notes receivable (including related parties)	(30,489)	113,548
Accounts receivable (including related parties)	(496,546)	1,317,942
Other receivables (including related parties)	(43,217)	6,527
Inventories	593,435	135,869
Prepayments and other current assets	(33,764)	28,074
Notes payable (including related parties)	27,699	(79,073)
Accounts payable (including related parties)	971,724	(1,501,243)
Income tax payable	12,938	(119,671)
Accrued expenses	128,787	94,399
Other payables	(12,111)	(6,798)
Other current liabilities	6,398	(38,473)
Net cash provided by operating activities	<u>1,524,546</u>	<u>906,028</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(500,038)	(67,598)
Proceeds from disposal of available-for-sale financial assets	50,037	18,004
Acquisition of investments accounted for by equity method	-	(27,284)
Acquisition of financial assets carried at cost	(1,735)	(71,604)
Proceeds from disposal of financial assets carried at cost	-	71,604
Acquisitions of property, plant and equipment	(4,820)	(42,510)
Increase in deferred charges	(12,823)	(113,624)
Increase in restricted assets	(11,864)	-
Others	(3,814)	1,852
Net cash used in investing activities	<u>(485,057)</u>	<u>(231,160)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		

(Continued)

# WAH LEE INDUSTRIAL CORPORATION

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

	2009	2008
Increase (decrease) in short-term loans	\$ (1,237,859)	\$ 429,875
Increase (decrease) in short-term bills payable	(250,000)	200,000
Proceeds from long-term debt	1,156,910	-
Repayment of long-term debt	(291,667)	(8,333)
Increase (decrease) in guarantee deposits received	(27)	190
Cash dividends	(352,029)	(758,158)
Cash bonus to directors and supervisors	-	(23,232)
Cash bonus to employees	-	(105,203)
	<u>(974,672)</u>	<u>(264,861)</u>
Net cash used in financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	64,817	410,007
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>957,830</u>	<u>547,823</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,022,647</u>	<u>\$ 957,830</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	\$ 42,972	\$ 95,700
Income tax paid	126,124	384,128
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term debt	\$ 9,034	\$ 33,333
Rental assets transferred from property	5,723	22,828
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisitions of property, plant and equipment	\$ 6,266	\$ 42,041
Decrease (increase) in payable for equipment purchased (included in other payables)	<u>(1,446)</u>	<u>469</u>
Cash paid for acquisition of property, plant and equipment	<u>\$ 4,820</u>	<u>\$ 42,510</u>

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

(With Deloitte & Touche audit report dated March 17, 2010)

(Concluded)

# WAH LEE INDUSTRIAL CORPORATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

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### 1. ORGANIZATION AND OPERATIONS

Wah Lee Industrial Corporation (the "Corporation") was incorporated in October 1968, and is mainly engaged in the import/export and agency business of composite materials, engineering plastic, printed circuit board, semiconductor, computer related manufacturing materials and equipment.

The Corporation's stock has been listed and traded on the Taiwan Stock Exchange since July 22, 2002.

As of December 31, 2009 and 2008, the Corporation's number of employees was 489 and 532, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The 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"). Under these guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of property, amortization of deferred charges, impairment on assets, income tax, pension cost and bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. However, the Corporation's financial statements do not include the English translation of additional disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

Significant accounting policies are summarized as follows:

#### **Current and Noncurrent Assets and Liabilities**

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within 12 months from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within 12 months from the balance sheet date. All other liabilities are classified as noncurrent.

#### **Cash Equivalents**

Cash equivalents are commercial papers with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

## **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The Corporation recognizes a financial asset on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial assets.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

## **Revenue Recognition, Trade Receivable and Allowance for Doubtful Accounts**

Revenue from sales of goods is recognized when the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. Commission revenues are recognized when products are shipped to customers, according to the contracted percentage.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Corporation assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables. Allowances for sales discounts are estimated on the basis of past experience.

## **Factoring of Accounts Receivable**

The following conditions must be met to recognize factoring of accounts receivable:

- a. The transferred assets have been isolated from the transferor - put presumptively beyond the reach of the transferor and its creditors.
- b. Each transferee has the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

- c. The Corporation does not maintain effective control over the transferred assets through either (1) an agreement that makes the transferor have both the rights and obligations to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets.

The difference between the proceeds and the carrying value of accounts receivable is recognized as a loss and recorded as nonoperating expenses.

### **Inventories**

Before January 1, 2009, inventories were stated at the lower of cost or market value. Any write-down was made on a total inventory basis. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item by item basis. Net realizable value is the estimated selling price of inventories less all expenses necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

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

Investments in equity instruments with no quoted price in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

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

Investments in which the Corporation holds 20% or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

Prior to January 1, 2006, the difference between the acquisition cost and the Corporation's proportionate share in the investee's equity was amortized by the straight-line method over five years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard ("SFAS") No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is analyzed, and the acquisition cost in excess of the Corporation's share of the fair value of the identifiable net assets acquired is recognized as goodwill. Such goodwill is not amortized but instead is tested for impairment annually or whenever there are indications that the investments are impaired. The excess of the Corporation's share of the fair value of the net identifiable assets acquired over the cost of acquisition is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, deferred income tax assets, or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

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

When the Corporation subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Corporation records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

### **Property, Plant and Equipment**

Land is stated at cost or cost plus revaluation increment, and other properties are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions and improvements to property, plant and equipment are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over estimated useful lives as follows: buildings, 5 to 50 years; machinery and equipment, 10 years; transportation equipment, 5 years; miscellaneous equipment, 3 to 7 years; leasehold improvements, 5 years. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

The related cost (including revaluation increment), accumulated depreciation, and any unrealized revaluation increment of an item of property, plant and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

### **Rental Assets**

Rental assets are stated at the lower of cost less accumulated depreciation or recoverable amount. Depreciation of buildings is calculated by the straight-line method over the estimated useful lives of 50 years.

Operating lease rentals are reported as non-operating income.

### **Deferred Charges**

Deferred charges, including the costs of telephone installation and computer software, are amortized over 2 to 8 years.

### **Impairment of Assets**

If the recoverable amount of an asset (mainly property, plant and equipment, rental assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

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

For long term equity investments in which the Corporation has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

## **Pension Cost**

Pension cost under a defined benefit plan is determined by actuarial valuations. The difference between the actuarial pension cost and the amount appropriated to a special fund is recognized as accrued pension liability. Unamortized net transition assets and actuarial gains or loss are amortized over 15 years and the average remaining service life of existing employees, respectively. Curtailment or settlement gains or losses are recognized as part of the net pension cost for the year.

At the balance sheet date, accumulated benefit obligation in excess of the fair value of pension funds is recognized as minimum pension liabilities. If accrued pension cost is lower than the minimum amount, the balance should be supplemented. When the amount to be supplemented is less than the unamortized net transition assets, the supplementary amount is recorded as deferred pension cost that is classified as intangible assets. When the supplemented amount exceeded the balance of unamortized net transition assets, the excess should be charged to unrecognized net loss on pension costs and presented as reduction of stockholders' equity.

Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

## **Treasury Stock**

When the Corporation repurchases its outstanding common stock, the cost of the acquired stock is recorded as treasury stock and deducted from stockholders' equity.

## **Income Tax**

The Corporation applies inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for personnel training expenditures are recognized using the flow-through method.

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

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

## **Foreign Currencies**

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates and the exchange differences are recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity. Foreign-currency nonmonetary assets that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Corporation. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

### **Reclassifications**

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

## **3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES**

### **Accounting for Inventories**

On January 1, 2009, the Corporation adopted the newly revised SFAS 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; (2) write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption resulted in a decrease of NT\$16,875 thousand in net income and a decrease of NT\$0.07 in after income tax basic earnings per share for the year ended December 31, 2009. For comparison purposes, the Corporation also reclassified nonoperating losses of NT\$124,506 thousand to cost of goods sold for the year ended December 31, 2008.

### **Accounting for Bonuses to Employees, Directors and Supervisors**

In March 2007, the ARDF issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT\$108,269 thousand in net income and a decrease in after income tax basic earnings per share of NT\$0.47 for the year ended December 31, 2008.

## **4. CASH AND CASH EQUIVALENTS**

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Cash on hand	\$ 746	\$ 968
Checking accounts	2,112	1,958
Demand deposits	641,721	606,963
Foreign-currency account	78,427	347,941
Cash equivalents - commercial papers maturing within three months	<u>299,641</u>	<u>-</u>
	<u>\$ 1,022,647</u>	<u>\$ 957,830</u>

## 5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Stock listed on the Taiwan Stock Exchange	\$ 15,630	\$ 15,630
Mutual funds	450,038	-
Overseas quoted stocks	<u>49,598</u>	<u>49,598</u>
	515,266	65,228
Valuation adjustments	<u>85,151</u>	<u>(7,918)</u>
	600,417	57,310
Less: Current portion	<u>449,647</u>	<u>-</u>
Noncurrent portion	<u>\$ 150,770</u>	<u>\$ 57,310</u>

## 6. ACCOUNTS RECEIVABLE, NET

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Accounts receivable - unrelated parties	\$ 3,073,726	\$ 2,810,048
Less: Allowance for doubtful accounts	23,021	137,959
Allowance for sales discounts	<u>26,726</u>	<u>17,901</u>
	<u>\$ 3,023,979</u>	<u>\$ 2,654,188</u>
Accounts receivable - related parties	\$ 446,906	\$ 209,220
Less: Allowance for doubtful accounts	<u>852</u>	<u>624</u>
	<u>\$ 446,054</u>	<u>\$ 208,596</u>

Movements of allowance for doubtful accounts were as follows:

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	
	<b>Accounts Receivable</b>	<b>Accounts Receivable</b>	<b>Overdue Receivable</b>
Balance, beginning of year	\$ 138,583	\$ 82,502	\$ 4,592
Add (deduct): Provision (reversal of provision) for doubtful accounts	(110,703)	104,727	-
Deduct: Amounts written off	<u>4,007</u>	<u>48,646</u>	<u>4,592</u>
Balance, end of year	<u>\$ 23,873</u>	<u>\$ 138,583</u>	<u>\$ -</u>

Factored accounts receivable were as follows:

Counter-parties	Subject	Receivable Sold at Year-end	Derecognized at Year-end	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line (Hundred Million)
<u>Year ended December 31, 2009</u>						
Bank SinoPac	Largan Precision	\$ 87,049	\$ 87,049	\$ -	-	\$1.5
Taishin Bank Ltd. (Taishin)	Sintek	1,394	1,394	-	-	0.4
Chinatrust Commercial Bank	Unimicron	193,703	193,703	-	-	2.5
<u>Year ended December 31, 2008</u>						
Ta Chong Bank Ltd. (TCB)	Chunghwa Picture Tubes	130,840	130,840	5,069	2.94-3.5	6.0
Taishin Bank Ltd. (Taishin)	Sintek	2,702	2,702	-	-	0.4
Taipei Fubon Bank Ltd.	Promos, Powerchip	606,245	606,245	106,729	2.8192-5.4037	8.0

The above credit lines may be used on a revolving basis.

The Corporation factored accounts receivable (without recourse) of NT\$282,146 thousand and NT\$739,787 thousand as of December 31, 2009 and 2008, respectively, and offered TCB and Taishin the equivalent promissory note (Note 25). Under the contracts, the banks paid the Corporation for the factored accounts receivable less related expenses. The Corporation does not bear the risk of uncollectible accounts.

## 7. INVENTORIES

	<u>December 31</u>	
	<u>2009</u>	<u>2008</u>
Merchandise	\$ 1,208,586	\$ 1,745,420
Merchandise in transit	<u>14,482</u>	<u>43,682</u>
	<u>\$ 1,223,068</u>	<u>\$ 1,789,102</u>

As of December 31, 2009 and 2008, the allowance for inventory devaluation was NT\$103,223 thousand and NT\$143,432 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2009 and 2008 was NT\$11,388,077 thousand and NT\$15,284,447 thousand, respectively, which included the following:

	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
Provision for (recovery of) loss on inventories	\$ (40,209)	\$ 97,578
Loss on physical inventories	1,154	118
Loss on disposal of inventories	11,643	26,494
Other	<u>11</u>	<u>316</u>
	<u>\$ (27,401)</u>	<u>\$ 124,506</u>

## 8. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2009		2008	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Yuen Technology Holding Limited	\$ 71,604	1.80	\$ 71,604	3.63
Tetrahedron Technology Corp.	14,778	16.95	14,778	17.04
Asahi Kasei Wahlee Hi-Tech Corp.	11,735	0.59	10,000	0.60
Onano Industrial Corp.	11,468	19.38	11,468	19.38
High Power Opto. Inc.	10,000	14.24	10,000	14.24
Forcera Materials Co., Ltd. (originally named SIC Electronics Corp. )	-	8.21	-	18.52
	<u>\$ 119,585</u>		<u>\$ 117,850</u>	

The above equity investments, which had no quoted price in an active market and of which fair values could not be reliably measured, were carried at cost.

Because of objective evidence which indicated impairment the Corporation recognized loss on permanent decline in value of equity investments in Onano Industrial Corp. and Forcera Materials Co., Ltd., originally named SIC Electronics Corp. before March 2009, of NT\$15,000 thousand and NT\$70,000 thousand, respectively, for the year ended December 2008.

## 9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2009		2008	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Lee Holding Ltd.	\$ 1,342,575	100.00	\$ 1,242,856	100.00
Raycong Industrial (H.K.) Ltd.	996,587	100.00	916,842	100.00
Chang Wah Electromaterials Inc.	863,404	28.33	654,630	28.33
Nagase Wahlee Plastics Corp.	557,887	40.00	528,995	40.00
Wah Hong Industrial Corp.	470,248	16.99	438,694	16.99
Orc Technology Corp.	164,439	35.00	159,101	35.00
Wah Lee Japan Corp.	<u>20,601</u>	100.00	<u>30,372</u>	100.00
	<u>\$ 4,415,741</u>		<u>\$ 3,971,490</u>	

Fair values of listed equity-method investments calculated at their closing price as of December 31, 2009 and 2008 were as follows:

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Chang Wah Electromaterials Inc.	\$ 2,942,177	\$ 674,970
Wah Hong Industrial Corp.	<u>945,756</u>	<u>166,005</u>
	<u>\$ 3,887,933</u>	<u>\$ 840,975</u>

Movements of the aforementioned difference allocated to goodwill for the years ended December 31, 2009 and 2008 were as follows:

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ 47,630	\$ 36,274
Amount acquired from the investee	-	11,024
Translation adjustments	<u>(831)</u>	<u>332</u>
Balance, end of year	<u>\$ 46,799</u>	<u>\$ 47,630</u>

Investment income (loss) under equity method based on the audited financial statements of investee companies for the years ended December 31, 2009 and 2008 were as follows:

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Wah Lee Holding Ltd.	\$ 134,007	\$ 162,738
Raycong Industrial (H.K.) Ltd.	90,674	73,858
Chang Wah Electromaterials Inc.	122,161	13,476
Nagase Wahlee Plastics Corp.	59,813	80,994
Wah Hong Industrial Corp.	40,368	1,867
Orc Technology Corp.	8,488	20,665
Wah Lee Japan Corp.	<u>(8,547)</u>	<u>1,553</u>
	<u>\$ 446,964</u>	<u>\$ 355,151</u>

Brief description of long-term investments is summarized as follows:

- a. In May 1989, the Corporation invested in Chang Wah Electromaterials Inc., which is mainly engaged in IC assembly and the agency of selling equipment. In February 2008, the Corporation increased the investment by NT\$12,138 thousand, and the cumulative investment amounted to NT\$211,974 thousand as of December 31, 2009.
- b. In June 1990, the Corporation invested in Wah Hong Industrial Corp. (Wah Hong) which is engaged in the manufacture of LCD, BMC materials and finished goods. The cumulative investment amounted to NT\$273,322 thousand as of December 31, 2009. The Corporation's shareholding of Wah Hong was less than 20%, however, the representative of the Corporation was elected as board chairman; accordingly the Corporation has significant influence on the operations of Wah Hong and accounts for the investment by equity method.
- c. In December 2003, the Corporation invested in Wah Lee Holding Ltd., and increased the investment by NT\$15,146 thousand (US\$500 thousand) in April 2008, and the cumulative investment amounted to NT\$430,666 thousand (US\$13,070 thousand) with 100% shareholding as of December 31, 2009. Wah

Lee Holding Ltd. is mainly engaged in international investment business.

- d. According to the amended SFAS No. 7 and the regulations issued by the government authority, the Corporation prepared its consolidated financial statements including Wah Lee Holding Ltd., Raycong Industrial (H.K.) Ltd., and Wah Lee Japan Corp.

## 10. PROPERTIES

- a. In September 1997, the Corporation revalued its land as follows:

Appreciation increment	\$ 39,290
Less: Reserve for land value increment tax	<u>13,713</u>
Net increment accounted for as unrealized revaluation increment	25,577
Less: Unrealized revaluation increment transferred to capital	<u>16,239</u>
Unrealized revaluation increment reported in stockholders' equity	<u>\$ 9,338</u>

- b. Accumulated depreciation

	<u>December 31</u>	
	<b>2009</b>	<b>2008</b>
Buildings and improvements	\$ 61,468	\$ 54,574
Machinery and equipment	330	287
Transportation equipment	46,692	42,635
Miscellaneous equipment	101,106	82,352
Leasehold improvements	<u>34,034</u>	<u>24,117</u>
	<u>\$ 243,630</u>	<u>\$ 203,965</u>

## 11. RENTAL ASSETS

	<u>December 31</u>	
	<b>2009</b>	<b>2008</b>
Land	\$ 89,545	\$ 86,598
Buildings and improvements	<u>38,051</u>	<u>34,591</u>
	127,596	121,189
Less: Accumulated depreciation	<u>5,799</u>	<u>4,408</u>
	<u>\$ 121,797</u>	<u>\$ 116,781</u>

The Corporation has rented out part of land and buildings under an operating lease agreement until March 31, 2010. The rental rate was based on market demand and supply.

For the years ended December 31, 2009 and 2008, the rental income amounted to NT\$11,132 thousand and NT\$10,923 thousand, respectively, and was recognized as nonoperating income.

## 12. SHORT-TERM BANK LOANS

	December 31	
	2009	2008
Foreign currency loans, interest rate at 0.81%-1.49% and 1.29%-5.93% as of December 31, 2009 and 2008, respectively	\$ 862,550	\$ 1,267,709
Credit loan, interest rate at 1.2% and 1.6%-2.81% as of December 31, 2009 and 2008, respectively	50,000	870,000
Letters of credit, interest rate at 0.81% -1.23% and 1.35%-3.41 as of December 31, 2009 and 2008, respectively	73,899	96,915
Loans for procurement of materials, interest rate at 1.21% and 2.32% as of December 31, 2009 and 2008, respectively	<u>13,967</u>	<u>3,651</u>
	<u>\$ 1,000,416</u>	<u>\$ 2,238,275</u>

## 13. SHORT-TERM BILLS PAYABLE

Commercial bills payable to China Bills Finance Corporation bore interest at 1.45%-2.072% as of December 31, 2008.

## 14. ACCRUED EXPENSES

	December 31	
	2009	2008
Salary and bonus	\$ 179,716	\$ 73,978
Bonus to employees, directors and supervisors	140,099	136,869
Commission	9,107	16,232
Others	<u>43,662</u>	<u>42,336</u>
	<u>\$ 372,584</u>	<u>\$ 269,415</u>

## 15. LONG-TERM DEBT

	December 31	
	2009	2008
Syndicated bank loans (led by Bank SinoPac)	\$ 900,000	\$ -
Less: Syndicated loan fee	<u>3,150</u>	<u>-</u>
	<u>896,850</u>	<u>-</u>
Hua Nan Bank		
Mortgage loan repayment in 2009, interest rate at 2.045%-2.095%	-	191,667
Mortgage loan repayable in 214 installments from December 2009 to October 2027, NT\$753 thousand per installment, interest rate at 1.53%	161,110	-
Less: Current portion	<u>9,034</u>	<u>33,333</u>
	<u>152,076</u>	<u>158,334</u>
	<u>\$ 1,048,926</u>	<u>\$ 158,334</u>

The Corporation signed a syndicated loan agreement with seven banks led by Bank SinoPac in April 2009. The contents of the syndicated loan agreement were as follows:

- a. The loan is a 3-year mid-term revolving credit line up to NT\$1.4 billion that commences from the initial drawdown date. From the beginning of third year, the maximum credit line should be reduced in 3 consecutive installments by NT\$0.5 billion each for the first two installments and by NT\$0.4 billion or the remaining balance, if higher, for the third installment. Under the borrowing limit, the Corporation could exercise revolving credit facility and choose borrowing terms of 90 days or 180 days. Each drawdown shall be repaid at the end of each interest period, but shall be available for redrawing on a revolving basis not less than 5 business days from original loan's maturity date subject to no occurrence of event of default. As of December 31, 2009, the interest rate was 1.685% per annum.
- b. Pursuant to the above loan agreement, the Corporation should maintain certain financial ratios as follows:
  - 1) Current ratio should not be less than 100%.
  - 2) Debt ratio should not be more than 175%.
  - 3) Interest coverage ratio should not be less than 800%.
  - 4) Tangible net worth, the balance after deducting intangible assets from stockholders' equity, should not be less than NT\$5.75 billion.

Pursuant to the above loan agreement, the Corporation should maintain aforementioned financial ratios. Such financial ratios should be calculated based on annual audited consolidated financial statement and semi-annual reviewed consolidated financial statements. If the Corporation is not in compliance with aforementioned financial ratios or other terms of the loan agreement, the syndicated banks have the right to suspend or cancel all or portion of credit line, declare the entire unpaid principal amount of the advances, all accrued and unpaid interest, fee and all other sums payable to be due immediately, and/or declare the commitment amount to be cancelled and reduced to zero.

- c. As of December 31, 2009, the Corporation had met the conditions of the loan agreement based on the annual reviewed consolidated financial statements as of and for the year ended December 31, 2009.

## **16. PENSION PLANS**

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$13,683 thousand and NT\$14,318 thousand for the years ended December 31, 2009 and 2008, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 8% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited with the Bank of Taiwan in the committee's name. The Corporation recognized pension costs of NT\$22,066 thousand and NT\$31,055 thousand for the years ended December 31, 2009 and 2008, respectively.

Information about the defined benefit plan was as follows:

a. Components of net periodic pension cost

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Service cost	\$ 13,777	\$ 17,277
Interest cost	7,714	10,842
Projected return on plan assets	(4,853)	(4,839)
Amortization of net transition obligation	1,840	1,840
Amortization of pension loss	<u>3,588</u>	<u>5,935</u>
	<u>\$ 22,066</u>	<u>\$ 31,055</u>

b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2009 and 2008.

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Benefit obligation		
Vested	\$ 128,971	\$ 139,889
Nonvested	<u>126,939</u>	<u>107,917</u>
Accumulated	255,910	247,806
Additional benefits based on future salaries	<u>104,239</u>	<u>83,782</u>
Projected	360,149	331,588
Fair value of plan assets	<u>(169,058)</u>	<u>(208,301)</u>
Funded status	191,091	123,287
Unrecognized transitional obligation	(11,038)	(12,878)
Unamortized net loss	(154,943)	(90,567)
Deferred pension cost	11,038	12,878
Net loss not recognized as pension cost	<u>50,704</u>	<u>6,785</u>
Accrued pension cost	<u>\$ 86,852</u>	<u>\$ 39,505</u>
Vested benefit	<u>\$ 147,970</u>	<u>\$ 159,269</u>

c. Actuarial assumptions

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Discount rate used in determining present values	2.25%	2.50%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.00%	2.50%

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
d. Contributions to the fund	\$ 16,800	\$ 19,503
e. Payments from the fund	57,135	7,683

## 17. STOCKHOLDERS' EQUITY

### Capital Surplus

Under the Company Law, capital surplus from the premium on issued stock (including premium on convertible bonds converted) may be transferred to capital once a year and up to a certain limit if the Corporation has no deficit. Capital surplus from assets received as donation may only be used to offset a deficit and capital surplus from long-term investments may not be used for any purpose.

### Other Equity Items

Unrealized revaluation increment may not be used for any purpose.

### Appropriation of Retained Earnings and Dividend Policy

The Corporation's Articles of Incorporation provide that the annual net income, less any deficit, shall be appropriated as follows:

- a. 10% as legal reserve, until its balance equals to the Corporation's paid-in capital.
- b. The remainder will be appropriated by resolution of the Corporation's stockholders' in their meeting with not more than 3% shall be bonus to directors and supervisors, and not less than 1% shall be bonus to employees.

The Corporation shall undertake aggressive business plan to keep the Corporation operating as a going concern and in stable prosperity in view of the economic environment and the trend of industry growth. Dividend policy is mainly based on a residual dividend concept, i.e. the Corporation shall measure its annual cash requirement in accordance with its capital budget and regular operational cash requirement to determine the amounts of dividends either in cash and/or in stock, but cash dividend shall not be less than 50% of the total amount of dividends.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost and cumulative translation adjustments, excluding treasury stock) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under the Company Law, legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. When the reserve has reached 50% of the Corporation's paid-in capital, up to 50% thereof may be appropriated to dividends if the Corporation has no earnings, or transferred to paid-in capital if the Corporation has no deficit.

Except for non-ROC resident stockholders', all stockholders' receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

For the years ended December 31, 2009 and 2008, the bonus to employees was NT\$126,971 thousand and NT\$125,618 thousand, respectively, and the remuneration to directors and supervisors was NT\$13,128 thousand and NT\$11,251 thousand, respectively. The bonus to employees and remuneration to directors and supervisors were planned at 15% and 1.55%, but the Corporation reconsidered stockholders' and employees' welfare, and determined to adjust the estimated ratio of bonus to employees, thus the rates after adjustment were 17.3% and 1.55%, respectively, of net income (net of the bonus to employees and remuneration to directors and supervisors). Material differences between estimated amounts and the amounts proposed by the board of directors in the following year are adjusted for in the current year. 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 bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing

the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the stockholders' meeting.

The appropriations of earnings for 2008 and 2007 had been approved in the stockholders' meetings in June 2009 and June 2008, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share</b>	
	<b>For Year 2008</b>	<b>For Year 2007</b>	<b>For Year 2008</b>	<b>For Year 2007</b>
Legal reserve	\$ 72,847	\$ 145,203	\$ -	\$ -
Dividends on common stock				
Cash dividends	352,029	758,158	1.55	3.50
Stock dividends	34,067	64,985	0.15	0.30
Bonus to employees				
Cash	-	105,203	-	-
Stock	-	40,000	-	-
Bonus to directors and supervisors	<u>-</u>	<u>23,232</u>	<u>-</u>	<u>-</u>
	<u>\$ 458,943</u>	<u>\$ 1,136,781</u>	<u>\$ 1.70</u>	<u>\$ 3.80</u>

The bonus to employees of NT\$125,618 thousand and bonus to directors and supervisors of NT\$11,251 thousand for 2008 were approved in the stockholders' meeting on June 3, 2009. The bonus to employees included a cash bonus of NT\$100,000 thousand and a share bonus of NT\$25,618 thousand. The number of shares of 868 thousand was determined by dividing the amount of 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.

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

### **Unrealized Gain (Loss) on Financial Instruments**

For the years ended December 31, 2009 and 2008, movements of unrealized gain (loss) on financial instruments were as follows:

	<b>Available-for- sale Financial Assets</b>	<b>Equity-method Investment</b>	<b>Total</b>
<u>Year ended December 31, 2009</u>			
Balance, beginning of year	\$ (7,918)	\$ (969)	\$ (8,887)
Recognized in stockholders' equity	93,106	135,803	228,909
Transferred to profit or loss	<u>(37)</u>	<u>-</u>	<u>(37)</u>
Balance, end of year	<u>\$ 85,151</u>	<u>\$ 134,834</u>	<u>\$ 219,985</u>

(Continued)

	<b>Available-for- sale Financial Assets</b>	<b>Equity-method Investment</b>	<b>Total</b>
<u>Year ended December 31, 2008</u>			
Balance, beginning of year	\$ 40,597	\$ 614	\$ 41,211
Recognized in stockholders' equity	(48,511)	(1,583)	(50,094)
Transferred to profit or loss	<u>(4)</u>	<u>-</u>	<u>(4)</u>
Balance, end of year	<u>\$ (7,918)</u>	<u>\$ (969)</u>	<u>\$ (8,887)</u> (Concluded)

## 18. TREASURY STOCK

For transferring to employees, the Corporation acquired its own outstanding common stocks that totaled 3,019 thousand shares at the repurchase cost of NT\$202,660 thousand in 2007. As of December 31, 2009, the repurchased common stocks have not been transferred to employees yet.

Under the Securities and Exchange Act, the Corporation's share repurchase is restricted to not more than 10% of total issued shares, and the total purchase amount should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. The treasury stock purchased for transferring to employees should be transferred within three years. Otherwise, the stocks will be nullified.

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury stock nor exercise stockholders' rights on these shares, such as rights to dividends and to vote.

## 19. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax at the 25% statutory rate and income tax expense was as follows:

	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
Income tax expense at the 25% statutory rate	\$ <u>240,917</u>	\$ <u>253,203</u>
Permanent differences:		
Domestic investment income under equity method	(57,707)	(29,251)
Impairment loss	-	21,250
Realized investment loss	(16,964)	-
Others	<u>769</u>	<u>9,846</u>
	<u>(73,902)</u>	<u>1,845</u>
Temporary differences:		
Provision (reversal of provision) for doubtful accounts	(26,184)	16,539
Provision for (recovery of) loss on inventories	(10,052)	24,395
Foreign investment income under equity method	(54,033)	(59,537)
Unaccrued (accrued) bonuses paid	29,379	(7,789)
Others	<u>1,453</u>	<u>6,475</u>
	<u>(59,437)</u>	<u>(19,917)</u>
Income tax under the Income Tax Law	107,578	235,131
Investment tax credits	(3,049)	(2,006)

(Continued)

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Additional 10% income tax on unappropriated earnings	\$ 26,953	\$ 31,525
Others	<u>3,662</u>	<u>-</u>
Current income tax expense	<u>135,144</u>	<u>264,650</u>
Deferred income tax expense(benefit)		
Temporary differences	55,531	19,917
Effect of tax law changes on deferred income tax	<u>(40,799)</u>	<u>-</u>
	<u>14,732</u>	<u>19,917</u>
Adjustments of prior years' tax	<u>3,918</u>	<u>(193)</u>
	<u>\$ 153,794</u>	<u>\$ 284,374</u>
		(Concluded)

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

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

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Deferred income tax assets - current		
Unrealized allowance for loss on inventories	\$ 20,645	\$ 35,859
Accrued bonuses	32,248	10,931
Intercompany unrealized gains	5,790	8,775
Allowance for doubtful accounts exceeded limit	-	26,184
Allowance for sales discounts	5,345	4,475
Others	<u>154</u>	<u>713</u>
	<u>64,182</u>	<u>86,937</u>
Deferred income tax liabilities - current		
Unrealized exchange gains	(2,203)	(2,225)
Others	<u>-</u>	<u>(150)</u>
	<u>(2,203)</u>	<u>(2,375)</u>
Net deferred income tax assets - current	<u>61,979</u>	<u>84,562</u>
Deferred income tax assets - noncurrent		
Permanent decline in value of foreign long-term investments	32,434	40,542
Others	<u>1,373</u>	<u>401</u>
	<u>33,807</u>	<u>40,943</u>
Deferred income tax liabilities - noncurrent		
Investment income recognized on overseas equity method investment	<u>(276,086)</u>	<u>(291,073)</u>
Net deferred income tax liabilities - noncurrent	<u>(242,279)</u>	<u>(250,130)</u>
Total deferred income tax liabilities-net	<u>\$ (180,300)</u>	<u>\$ (165,568)</u>

- c. The tax returns through 2006 have been assessed by the tax authorities.

d. Information about integrated income tax was as follows:

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Unappropriated earnings generated before January 1, 1998	\$ 3,808	\$ 3,808
Unappropriated earnings generated on and after January 1, 1998	<u>2,122,679</u>	<u>1,771,708</u>
	<u>\$ 2,126,487</u>	<u>\$ 1,775,516</u>

As of December 31, 2009 and 2008, the balance of the imputation credits which can be allocated to the stockholders' amounted to NT\$459,890 thousand and NT\$458,080 thousand, respectively.

The creditable ratio for distribution of earnings of 2009 and 2008 was 27.16% (estimate) and 33.49%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders' of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2009 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

## 20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<b>Operating Expenses</b>	
	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Personnel		
Salary	\$ 644,306	\$ 605,114
Labor and health insurance	27,136	28,219
Pension	35,749	45,373
Others	<u>17,955</u>	<u>31,523</u>
	<u>\$ 725,146</u>	<u>\$ 710,229</u>
Depreciation	\$ 43,360	\$ 42,752
Amortization	34,591	26,027

The difference between the amount of depreciation above and the depreciation in the statement of cash flows is the depreciation of the rental assets booked as nonoperating expenses and losses.

## 21. EARNINGS PER SHARE (“EPS”)

The numerator and denominator for calculating basic EPS was as follows:

- a. Numerator - current net income

	<b>Year Ended December 31</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
Basic EPS (NT\$)				
Income for the year attributable to common stockholders	<u>\$ 963,708</u>	<u>\$ 809,914</u>	<u>\$ 1,012,851</u>	<u>\$ 728,477</u>

- b. Denominator - shares in thousand

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Weighted average issued common stock	230,134	230,134
Add: Retroactive adjustments for capitalization of retained earnings	3,407	3,407
Add: Bonus to employees in stock, 2008	506	-
Less: Acquisition of treasury stock	<u>3,019</u>	<u>3,019</u>
Number of shares for calculating basic EPS	231,028	230,522
Add: Dilutive potential common stock - bonus to employees	<u>3,369</u>	<u>7,477</u>
	<u>234,397</u>	<u>237,999</u>

The ARDF issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders’ resolve the number of shares to be distributed to employees at their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of employee stock bonuses distributed out of earnings for the year ended December 31, 2008 and stock dividends. This adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2008 to decrease from NT\$3.21 to NT\$3.16 and from NT\$3.11 to NT\$3.06, respectively.

## 22. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments:

Nondervivative Financial Instruments	December 31			
	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Available-for-sale financial assets	\$ 600,417	\$ 600,417	\$ 57,310	\$ 57,310
Financial assets carried at cost	119,585	-	117,850	-
Refundable deposits	52,321	52,321	57,443	57,443
<u>Financial liabilities</u>				
Long-term debt (including current portion)	1,057,960	1,057,960	191,667	191,667
Guarantee deposits	2,202	2,202	2,229	2,229

- b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

- 1) Cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including related parties), restricted assets, short-term loan, short-term bills payable, notes and accounts payable (including related parties), accrued expenses and other payables are excluded from those financial instruments mentioned above. The carrying amounts of those financial instruments approximate their fair value because of their short maturities.
  - 2) The fair value of available-for-sale financial assets is based on their quoted price in an active market.
  - 3) Financial assets carried at cost are investments in unquoted shares, which have no quoted price in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
  - 4) The fair value of refundable (guarantee) deposits is determined at the carrying value.
  - 5) Fair value of long-term debt is estimated using the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar loans (e.g. similar maturities). The long-term debt has floating rate and its carrying amount approximates its fair value.
- c. As of December 31, 2009 and 2008, financial assets exposed to cash flow interest rate risk amounted to NT\$732,332 thousand and NT\$955,224 thousand, respectively; financial liabilities exposed to cash flow interest rate risk amounted to NT\$1,181,546 thousand and NT\$1,021,522 thousand respectively.
- d. As of December 31, 2009 and 2008, the interest income and expense associated with financial assets (liabilities) other than those at fair value through profit or loss were as follows:

	Year Ended December 31	
	2009	2008
Total interest income	\$ 957	\$ 3,405
Total interest expense	40,344	93,355

e. Information about financial risks

1) Market risk

The Corporation invested in domestic and overseas listed stocks and mutual funds. There are no significant risk on foreign exchange rate fluctuations and changes in prevailing interest rate. A change of 1% in market price will bring the risk of price variation of financial instrument of NT\$6,004 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Corporation's exposure to default by those parties to be material. The maximum credit risk (the fair value of guarantees is excluded) follows:

	<b>December 31</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Book value</b>	<b>Maximum Credit risk</b>	<b>Book value</b>	<b>Maximum Credit risk</b>
Off-balance-sheet commitments and guarantees	\$ -	\$ 1,807,524	\$ -	\$ 1,798,867

3) Liquidity risk

The Corporation's operation funds are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

The Corporation's investments in domestic and overseas listed stocks and mutual funds are traded in active market and can be disposed of quickly at close to their fair values. The Corporation's investments in unlisted equity instruments have no active market; therefore, the liquidity risk is expected to be high.

4) Cash flow risk on interest rate changes

The Corporation's current deposit, partial short-term loans and long-term loan are floating rate bank accounts or debt. Changes in market interest rate accompany changes in effective rate of them and affect the future cash flow. When the market interest rates increase by one percentage point, the Corporation's cash outflow will increase by NT\$4,492 thousand a year.

## 23. SIGNIFICANT RELATED PARTY TRANSACTIONS

### a. Related parties and their relationship with the Corporation

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
Chang Wah Electromaterials Inc. (Chang Wah)	Equity-method investee
Nagase Wahlee Plastics Corp. (Nagase Wahlee)	Equity-method investee
Wah Hong Industrial Corp. (Wah Hong)	Equity-method investee
Orc Technology Corp. (Orc)	Equity-method investee
Shanghai Hua Chang Trading Co., Ltd. (Shanghai Hua Chang)	Equity-method investee
NWP International Trading (Shenzhen) (NWP International)	Equity-method investee
Raycong Industrial (H.K.) Ltd. (Raycong)	Subsidiary
Wah Fu International Trading (Shenzhen) Corp. (Wah Fu)	Subsidiary
Nilee Optronics, Ltd. (Nilee)	Subsidiary
Dong Guan Hua Gang International Trading Co., Ltd. (Dong Guan Hua Gang)	Subsidiary
Wah Lee Japan Corp. (Wah Lee Japan)	Subsidiary
Wah Lee Holding Ltd. (Wah Lee Holding)	Subsidiary
SHC Holding Ltd. (SHC)	Subsidiary
Wah Lee Machinery Trading Ltd. (Wah Lee Machinery)	Subsidiary
Wah Lee Tech (Singapore) Pte., Ltd.	Subsidiary
Global SYK Holding Ltd. (SYK)	Subsidiary
Shanghai Yikang Chemicals and Industries Co., Ltd. (Shanghai Yikang)	Subsidiary
Daily Polymer Corp. (Daily)	Chairman's relative
Raycon Industrial Inc. (Raycon)	Chairman's relative
NcKu Venture Capital Co., Ltd.	The same chairman
Asahi Kasei Wahlee Hi-Tech Corp. (Asahi Kasei Wahlee)	As director
Tetrahedron Technology Corp.	As director
Forcera Materials Co., Ltd. (Forcera Materials, which was changed from SIC Electronics Corp. in April 2009)	As director
Bau-Guang Investment Ltd. (Bau-Guang)	As director

### b. Significant transactions with related parties:

- 1) For the years ended December 31, 2009 and 2008, purchases from related parties were NT\$1,021,757 thousand (9%) and NT\$1,652,049 thousand (11%), and individual related party transaction amount was less than 10% of the amount of total purchases of the Corporation.

Purchases from related parties were made under arm's length terms and did not have similar transactions in the market for comparison. Terms of payment to related parties were similar to those with third parties.

- 2) For the years ended December 31, 2009 and 2008, sales to related parties were NT\$1,837,196 thousand (15%) and NT\$1,586,588 thousand (9%), and individual related party transaction amount was less than 10% of the amount of total net sales of the Corporation.

The selling prices and collection terms for products sold to related parties were similar to those for products sold to third parties, except for Raycong which pays on the 30<sup>th</sup> - 120<sup>th</sup> day after the month of shipment.

3) Commission Income and Expense

	<u>Commission Income</u>		<u>Commission Expense</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Year ended December 31, 2009</u>				
Wah Lee Machinery	\$ 17,979	6	\$ -	-
Raycon	9,930	3	-	-
Shanghai Yikang	6,759	2	19,373	64
Raycong	2,428	1	546	2
Others	<u>730</u>	<u>-</u>	<u>99</u>	<u>-</u>
	<u>\$ 37,826</u>	<u>12</u>	<u>\$ 20,018</u>	<u>66</u>
<u>Year ended December 31, 2008</u>				
Raycon	\$ 23,834	6	\$ -	-
Shanghai Yikang	13,021	3	28,963	47
Wah Lee Machinery	11,291	3	-	-
Raycong	8,800	2	145	-
Others	<u>1,432</u>	<u>-</u>	<u>2,519</u>	<u>4</u>
	<u>\$ 58,378</u>	<u>14</u>	<u>\$ 31,627</u>	<u>51</u>

- 4) The management services agreements, industry consulting and SAP-use contracts were signed by the Corporation and related parties. According to the agreements and contracts, the Corporation will provide certain management services to related parties. Consulting and service fee earned for the years ended December 31, 2009 and 2008 was recognized as non-operating income as follows:

	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
Raycong	\$ 19,551	\$ 16,573
Wah Hong	1,733	1,691
Shanghai YiKang	<u>30,127</u>	<u>1,240</u>
	<u>\$ 51,411</u>	<u>\$ 19,504</u>

- 5) The Corporation rented partial buildings and computer software to related parties. The leases on the buildings will expire from August 31, 2010 to December 31, 2010, and the lease on computer software will expire on December 31, 2010. The rental income for the years ended December 31, 2009 and 2008 recognized as nonoperating income was as follows:

	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
Orc	\$ 2,040	\$ 2,040
Wah Hong	1,142	1,032
Other	<u>24</u>	<u>43</u>
	<u>\$ 3,206</u>	<u>\$ 3,115</u>

6) The Corporation offered guarantees for the investee companies as follows:

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Nagase Wahlee	\$ 320,000	\$ 360,000
Asahi Kasei Wahlee	9,690	9,690
Raycong	345,492	354,240
	(US\$ 10,800 thousand)	(US\$ 10,800 thousand)
Wah Lee Japan	20,832	10,908
	(JPY 60,000 thousand)	(JPY 30,000 thousand)
Shanghai Yikang	277,247	415,467
	(US\$ 8,667 thousand)	(US\$ 12,667 thousand)
Shanghai Hua Chang	319,900	328,000
	(US\$ 10,000 thousand)	(US\$ 10,000 thousand)
Wah Fu/Dong Guan Hua Gang (Co-guarantees)	223,930	98,400
	(US\$ 7,000 thousand)	(US\$ 3,000 thousand)
Nilee	-	65,600
		(US\$ 2,000 thousand)
Wah Lee Machinery	127,960	65,600
	(US\$ 4,000 thousand)	(US\$ 2,000 thousand)
Wah Lee Tech	134,358	49,200
	(US\$ 4,200 thousand)	(US\$ 1,500 thousand)
NWP International	28,115	25,362
	(RMB 6,000 thousand)	(RMB 6,000 thousand)
	<u>\$ 1,807,524</u>	<u>\$ 1,782,467</u>

The guarantee for US\$3,000 thousand was used by Wah Fu and Dong Guan Hua Gang before July 2008 and only by Dong Guan Hua Gang after August 2008.

7) Payments received by the Corporation on behalf of Raycong for goods sold amounted to NT\$17,085 thousand and NT\$33,492 thousand as of December 31, 2009 and 2008, respectively, and were booked as other current liabilities.

End of the year

	<b>December 31</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Notes receivable				
Nagase Wahlee	<u>\$ -</u>	-	<u>\$ 27</u>	-

(Continued)

	<b>December 31</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Accounts receivable - related parties				
Shanghai Yikang	\$ 235,582	7	\$ 84,171	3
Raycong	155,620	4	54,409	2
Wah Hong	24,938	1	34,427	1
Others	<u>30,766</u>	<u>1</u>	<u>36,213</u>	<u>1</u>
	446,906	13	209,220	7
Less: Allowance for doubtful accounts	<u>852</u>	<u>-</u>	<u>624</u>	<u>-</u>
	<u>\$ 446,054</u>	<u>13</u>	<u>\$ 208,596</u>	<u>7</u>
Other receivable - related parties				
Shanghai Yikang	\$ 25,637	38	\$ -	-
Raycong	20,104	30	-	-
Others	<u>1,109</u>	<u>2</u>	<u>1,676</u>	<u>7</u>
	<u>\$ 46,850</u>	<u>70</u>	<u>\$ 1,676</u>	<u>7</u>
Notes payable - related parties				
Asahi Kasei Wahlee	\$ 169,034	27	\$ 177,035	30
Nagase Wahlee	<u>4,330</u>	<u>1</u>	<u>1,006</u>	<u>-</u>
	<u>\$ 173,364</u>	<u>28</u>	<u>\$ 178,041</u>	<u>30</u>
Accounts payable - related parties				
Asahi Kasei Wahlee	\$ 59,844	3	\$ 34,325	3
Daily	33,453	2	31,263	3
Wah Hong	28,727	1	32,120	3
Forcera Materials	28,727	1	6,298	1
Others	<u>5,972</u>	<u>-</u>	<u>4,492</u>	<u>-</u>
	<u>\$ 156,723</u>	<u>7</u>	<u>\$ 108,498</u>	<u>10</u>
Receipts under custody (included in other current liabilities)				
Raycong	<u>\$ 17,085</u>	<u>77</u>	<u>\$ 33,492</u>	<u>84</u>

(Concluded)

c. Compensation of directors, supervisors and management personnel:

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Salaries and incentives	\$ 20,720	\$ 24,114
Special compensation	550	1,176
Bonus	<u>29,025</u>	<u>32,493</u>
	<u>\$ 50,295</u>	<u>\$ 57,783</u>

## 24. PLEDGED OR MORTGAGED ASSETS

The following assets have been provided as collaterals for bank loans and commitments for vendors:

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Property, plant and equipment		
Land	\$ 258,827	\$ 258,827
Buildings and improvements	<u>185,471</u>	<u>195,427</u>
	<u>444,298</u>	<u>454,254</u>
Rental assets		
Land	17,504	17,504
Buildings and improvements	<u>32,251</u>	<u>30,182</u>
	<u>49,755</u>	<u>47,686</u>
Restricted assets		
Loan reserve deposits	11,864	-
Pledged time deposits	<u>320</u>	<u>320</u>
	<u>12,184</u>	<u>320</u>
	<u>\$ 506,237</u>	<u>\$ 502,260</u>

## 25. COMMITMENTS AND CONTINGENCIES AT DECEMBER 31, 2009

a. Operating lease:

<b>Lessor</b>	<b>Lease Asset</b>	<b>Lease Term and Installment</b>	<b>Rental Payment for the Year Ended December 31, 2009</b>
Yeh Lang Industries Corporation (Hong Siang until April 1, 2008)	Warehouse	From December 1, 2005 to March 31, 2015, NT\$1,322 thousand per month (tax included)	<u>\$15,105</u>

As of December 31, 2009, the Corporation has paid guarantee deposits of \$3,500 thousand. Future lease payments are as follows:

	<b>Amount</b>
2010	\$ 15,860
2011	15,860
2012	15,860
2013	15,860
2014 and thereafter	<u>19,826</u>
	<u>\$ 83,266</u>

b. As of December 31, 2009, the Corporation has outstanding letters of credit aggregating US\$6,938 thousand, JPY11,000 thousand, and NT\$107,176 thousand.

c. The Corporation offered guarantees for investee companies as stated in Note 23.

- d. As stated in Note 6, accounts receivable factored to Taishin Bank amounted to NT\$1,394 thousand. The Corporation has offered the banks the equivalent promissory note.