

Wah Lee Industrial Corporation

**Financial Statements for the
Years Ended December 31, 2010 and 2009 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, 2010 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. As stated in note 10, 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, 2010 and 2009 amounted to NT\$1,236,926 thousand and NT\$1,131,338 thousand, respectively, both representing 9% of the Corporation's total assets, and the investment income recognized under equity method amounted to NT\$197,148 thousand and NT\$125,668 thousand representing 12% and 13% of the Corporation's income before income tax for the years ended December 31, 2010 and 2009, 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

As stated in Note 3 to the accompanying financial statements on January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories".

March 21, 2011

Notice to Readers

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

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

WAH LEE INDUSTRIAL CORPORATION

BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

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

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 694,155	5	\$ 1,022,647	8	Short-term loans (Notes 13 and 24)	\$ 1,309,880	9	\$ 1,000,416	8
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	11,100	-	-	-	Notes payable	466,181	3	449,609	4
Available-for-sale financial assets (Notes 2 and 6)	476,371	3	449,647	4	Notes payable - related parties (Note 23)	199,207	1	173,364	1
Notes receivable (Notes 2 and 23)	366,948	3	395,894	3	Accounts payable	2,479,600	17	1,888,098	15
Accounts receivable, net (Notes 2 and 7)	4,201,435	29	3,023,979	24	Accounts payable - related parties (Note 23)	193,698	1	156,723	1
Accounts receivable - related parties, net (Notes 2, 7 and 23)	732,434	5	446,054	4	Income tax payable	120,022	1	116,725	1
Other receivables	22,293	-	19,904	-	Accrued expenses (Note 14)	497,994	4	372,584	3
Other receivables - related parties (Note 23)	49,133	-	46,850	-	Other payables	2,170	-	22,595	-
Inventories (Notes 2, 3 and 8)	1,420,508	10	1,223,068	10	Current portion of long-term debt (Notes 15 and 24)	9,034	-	9,034	-
Prepayments and others	199,402	1	170,063	1	Others (Note 23)	91,021	1	75,822	1
Deferred income tax assets (Notes 2 and 19)	62,533	1	61,979	1					
Total current assets	8,236,312	57	6,860,085	55	Total current liabilities	5,368,807	37	4,264,970	34
LONG-TERM INVESTMENTS (Notes 2, 5, 6, 9 and 10)					LONG-TERM DEBT (Notes 15 and 24)	1,041,292	7	1,048,926	8
Financial assets at fair value through profit or loss - noncurrent	106,200	1	-	-	RESERVE FOR LAND VALUE INCREMENT TAX (Note 11)	4,259	-	13,713	-
Available-for-sale financial assets	103,309	1	150,770	1	OTHER LIABILITIES				
Financial assets carried at cost	120,481	1	119,585	1	Accrued pension cost (Notes 2 and 16)	205,397	2	86,852	1
Investments accounted for by the equity method	4,795,135	33	4,415,741	35	Guarantee deposits received	1,373	-	2,202	-
Total long-term investments	5,125,125	36	4,686,096	37	Deferred income tax liabilities (Notes 2 and 19)	302,380	2	242,279	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 24)					Total other liabilities	509,150	4	331,333	3
Land	378,537	3	312,698	3	Total liabilities	6,923,508	48	5,658,942	45
Buildings and improvements	269,640	2	259,273	2	COMMON STOCK - \$10 par value; Authorized - 300,000 thousand shares; Issued - 231,390 thousand shares and 234,409 thousand shares at December 31, 2010 and 2009, respectively (Note 17)	2,313,901	16	2,344,091	19
Machinery and equipment	365	-	365	-	CAPITAL SURPLUS (Note 17)				
Transportation equipment	68,675	1	67,383	1	Additional paid -in capital	1,160,519	8	1,175,661	9
Miscellaneous equipment	165,444	1	161,925	1	Donations	11,867	-	11,867	-
Leasehold improvements	53,102	-	52,769	-	Long-term investments	146,950	1	112,121	1
Total cost	935,763	7	854,413	7	Total capital surplus	1,319,336	9	1,299,649	10
Land revaluation increment	12,029	-	39,290	-	RETAINED EARNINGS (Note 17)				
Cost and revaluation increment	947,792	7	893,703	7	Legal reserve	1,013,952	7	932,960	7
Less: Accumulated depreciation	279,855	2	243,630	2	Unappropriated earnings	2,765,609	20	2,126,487	17
	667,937	5	650,073	5	Total retained earnings	3,779,561	27	3,059,447	24
Prepayments for equipment	1,368	-	1,115	-	OTHER EQUITY ITEMS (Notes 2, 11, 16, 17 and 18)				
Net property, plant and equipment	669,305	5	651,188	5	Cumulative translation adjustments	(70,222)	(1)	207,207	2
INTANGIBLE ASSETS					Net loss not recognized as pension cost	(37,892)	-	(51,001)	-
Deferred pension cost (Notes 2 and 16)	87,323	1	11,038	-	Unrealized gains on financial instruments	107,053	1	219,985	2
OTHER ASSETS					Unrealized revaluation increment	2,961	-	9,338	-
Rental assets (Notes 2, 12 and 24)	35,231	-	121,797	1	Treasury stock - 3,019 thousand shares	-	-	(202,660)	(2)
Refundable deposits (Note 25)	60,908	-	52,321	1	Total other equity	1,900	-	182,869	2
Deferred charges (Note 2)	123,682	1	150,289	1	Total stockholders' equity	7,414,698	52	6,886,056	55
Restricted assets - pledged time deposits (Note 24)	320	-	12,184	-	TOTAL	\$ 14,338,206	100	\$ 12,544,998	100
Total other assets	220,141	1	336,591	3					
TOTAL	\$ 14,338,206	100	\$ 12,544,998	100					

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

(With Deloitte & Touche audit report dated March 21, 2011)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 23)				
Net sales	\$ 18,370,377	97	\$ 12,530,361	97
Commission revenue	376,425	2	301,702	2
Other operating revenue	<u>181,671</u>	<u>1</u>	<u>133,490</u>	<u>1</u>
Total operating revenue	<u>18,928,473</u>	<u>100</u>	<u>12,965,553</u>	<u>100</u>
OPERATING COSTS (Notes 3, 8 and 23)				
Cost of goods sold	16,751,964	89	11,388,077	88
Other operating cost	<u>180,135</u>	<u>1</u>	<u>128,016</u>	<u>1</u>
Total operating costs	<u>16,932,099</u>	<u>90</u>	<u>11,516,093</u>	<u>89</u>
GROSS PROFIT	1,996,374	10	1,449,460	11
ADD (LESS): REALIZED (UNREALIZED) INTER-COMPANY GAIN	<u>(21,040)</u>	<u>-</u>	<u>6,153</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>1,975,334</u>	<u>10</u>	<u>1,455,613</u>	<u>11</u>
OPERATING EXPENSES (Notes 20 and 23)				
Selling	1,111,801	6	881,447	7
General and administrative	<u>299,959</u>	<u>1</u>	<u>243,538</u>	<u>2</u>
Total operating expenses	<u>1,411,760</u>	<u>7</u>	<u>1,124,985</u>	<u>9</u>
OPERATING INCOME	<u>563,574</u>	<u>3</u>	<u>330,628</u>	<u>2</u>
NON-OPERATING INCOME AND GAINS				
Interest income	2,589	-	957	-
Investment income recognized under equity method (Note 10)	860,091	4	446,964	3
Gain on disposal of property, plant and equipment	40,051	-	64	-
Gain on sale of investments (Note 17)	35,596	-	37	-
Exchange gains, net	16,697	-	17,075	-
Gain on reversal of bad debts (Note 7)	1,950	-	110,703	1
Valuation gain on financial assets, net (Notes 2 and 5)	8,770	-	-	-
Others (Notes 11 and 23)	<u>129,906</u>	<u>1</u>	<u>99,705</u>	<u>1</u>
Total nonoperating income and gains	<u>1,095,650</u>	<u>5</u>	<u>675,505</u>	<u>5</u>

(Continued)

WAH LEE INDUSTRIAL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	\$ 29,085	-	\$ 40,344	-
Loss on disposal of property, plant and equipment	5,302	-	6	-
Others	<u>2,764</u>	<u>-</u>	<u>2,075</u>	<u>-</u>
Total nonoperating expenses and losses	<u>37,151</u>	<u>-</u>	<u>42,425</u>	<u>-</u>
INCOME BEFORE INCOME TAX	1,622,073	8	963,708	7
INCOME TAX (Notes 2 and 19)	<u>212,434</u>	<u>1</u>	<u>153,794</u>	<u>1</u>
NET INCOME	<u>\$ 1,409,639</u>	<u>7</u>	<u>\$ 809,914</u>	<u>6</u>
	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 21)				
Basic	\$ 7.01	\$ 6.09	\$ 4.17	\$ 3.51
Diluted	\$ 6.88	\$ 5.98	\$ 4.11	\$ 3.46

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

(With Deloitte & Touche audit report dated March 21, 2011)

(Concluded)

WAH LEE INDUSTRIAL CORPORATION

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009**

(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 Increment		
BALANCE, JANUARY 1, 2009	\$ 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)
Change in net loss not recognized as pension cost	-	-	-	-	-	(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	2,344,091	1,299,649	932,960	2,126,487	207,207	(51,001)	219,985	9,338	(202,660)	6,886,056
Appropriations of 2009 earnings (Note 17)										
Legal reserve	-	-	80,992	(80,992)	-	-	-	-	-	-
Dividends on common stock										
Cash - 23%	-	-	-	(532,197)	-	-	-	-	-	(532,197)
Adjustment arising from changes in percentage of ownership in investees	-	34,829	-	-	-	-	-	-	-	34,829
Change in translation adjustments	-	-	-	-	(277,429)	-	-	-	-	(277,429)
Change in net loss not recognized as pension cost	-	-	-	-	-	13,109	-	-	-	13,109
Change in unrealized gains on available-for-sale financial assets (Note 17)	-	-	-	-	-	-	(112,932)	-	-	(112,932)
Retirement of treasury stock - 3,019 thousand shares (Note 18)	(30,190)	(15,142)	-	(157,328)	-	-	-	-	202,660	-
Revaluation increment on land sold (Note 11)	-	-	-	-	-	-	-	(6,377)	-	(6,377)
Net income for the year ended December 31, 2010	-	-	-	1,409,639	-	-	-	-	-	1,409,639
BALANCE, DECEMBER 31, 2010	<u>\$ 2,313,901</u>	<u>\$ 1,319,336</u>	<u>\$ 1,013,952</u>	<u>\$ 2,765,609</u>	<u>\$ (70,222)</u>	<u>\$ (37,892)</u>	<u>\$ 107,053</u>	<u>\$ 2,961</u>	<u>\$ -</u>	<u>\$ 7,414,698</u>

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

(With Deloitte & Touche audit report dated March 21, 2011)

WAH LEE INDUSTRIAL CORPORATION

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,409,639	\$ 809,914
Adjustments to reconcile net income to net cash provided by(used in) operating activities		
Reversal of provision for doubtful accounts	(1,950)	(110,703)
Depreciation	43,520	44,067
Amortization	35,456	34,591
Provision for (recovery of) loss on inventories	37,777	(27,401)
Unrealized (realized) gross profit	21,040	(6,153)
Deferred income tax expense	59,547	14,732
Valuation gain on financial assets	(8,770)	-
Cash dividends received from equity method investees	155,342	81,386
Investment income recognized under equity method	(860,091)	(446,964)
Pension	55,701	5,268
Gain on disposal of property, plant and equipment	(34,749)	(58)
Gain on sale of investments	(35,596)	(37)
Others	1,400	1,050
Changes in operating assets and liabilities:		
Notes receivable	29,286	(30,516)
Notes receivable - related parties	(340)	27
Accounts receivable	(1,175,925)	(258,860)
Account receivable - related parties	(285,961)	(237,686)
Other receivables	(2,389)	1,957
Other receivable - related parties	(2,283)	(45,174)
Inventories	(235,217)	593,435
Prepayments and other current assets	(29,339)	(33,764)
Notes payable	16,572	32,376
Note payable - related parties	25,843	(4,677)
Accounts payable	591,502	923,499
Accounts payable - related parties	36,975	48,225
Income tax payable	3,297	12,938
Accrued expenses	125,410	128,787
Other payables	(18,906)	(12,111)
Other current liabilities	(5,841)	6,398
Net cash provided by (used in) operating activities	<u>(49,050)</u>	<u>1,524,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated at fair value through profit or loss	(108,530)	-
Acquisition of available-for-sale financial assets	(620,647)	(500,038)
Proceeds from disposal of available-for-sale financial assets	656,928	50,037
Acquisition of financial assets carried at cost	(896)	(1,735)
Acquisition of investments accounted for by equity method	(10,457)	-
Acquisitions of property, plant and equipment	(10,955)	(4,820)

(Continued)

WAH LEE INDUSTRIAL CORPORATION

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

	2010	2009
Proceeds from disposal of property, plant, and equipment	\$ 53,283	\$ 64
Increase in refundable deposits	(8,587)	(3,878)
Increase in deferred charges	(8,849)	(12,823)
Decrease (increase) in restricted assets	<u>11,864</u>	<u>(11,864)</u>
Net cash used in investing activities	<u>(46,846)</u>	<u>(485,057)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	309,464	(1,237,859)
Decrease in short-term bills payable	-	(250,000)
Proceeds from long-term debt	-	1,156,910
Repayment of long-term debt	(9,034)	(291,667)
Decrease in guarantee deposits received	(829)	(27)
Cash dividends	<u>(532,197)</u>	<u>(352,029)</u>
Net cash used in financing activities	<u>(232,596)</u>	<u>(974,672)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(328,492)	64,817
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,022,647</u>	<u>957,830</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 694,155</u>	<u>\$ 1,022,647</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	\$ 27,590	\$ 42,972
Income tax paid	149,560	126,124
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term debt	\$ 9,034	\$ 9,034
Rental assets transferred from property	-	5,723
Property transferred from rental assets	86,010	-
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisitions of property, plant and equipment	\$ 9,436	\$ 6,266
Decrease (increase) in payable for equipment purchased (included in other payables)	<u>1,519</u>	<u>(1,446)</u>
Cash paid for acquisition of property, plant and equipment	<u>\$ 10,955</u>	<u>\$ 4,820</u>

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

(With Deloitte & Touche audit report dated March 21, 2011)

(Concluded)

WAH LEE INDUSTRIAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

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, 2010 and 2009, the Corporation's number of employees was 474 and 489, 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 of 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.

Financial Assets at Fair Value through Profit or Loss

Financial instruments classified as financial assets at fair value through profit or loss (“FVTPL”) include those designated as at FVTPL on initial recognition. 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 asset.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Fair values of financial assets at the balance sheet date are determined as follows: Publicly traded convertible bonds - at prices quoted by the Taiwan GreTai Securities Market.

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 asset.

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 Receivables 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.

Allowance for sales discounts is estimated based on past experience and recorded in the year the related revenue is recognized.

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

Inventories are stated at the lower of cost or net realizable value. Any 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 for which fair values 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 not allowed.

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 Standards ("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, 4 to 60 years; machinery and equipment, 3 to 10 years; transportation equipment, 4 to 9 years; miscellaneous equipment, 1 to 15 years; leasehold improvements, 1 to 10 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 nonoperating income.

Deferred Charges

Deferred charges, including the costs of steel cylinders, building service and computer software, are amortized over 1 to 9 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 the inter-year allocation method to 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.

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.

4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 756	\$ 746
Checking accounts	1,941	2,112
Demand deposits	414,863	641,721
Foreign-currency account	176,667	78,427
Cash equivalents - commercial papers maturing within three months	<u>99,928</u>	<u>299,641</u>
	<u>\$ 694,155</u>	<u>\$ 1,022,647</u>

5. FINANCIAL INSTRUMENT AT FVTPL

	<u>December 31</u>
	<u>2010</u>
<u>Financial assets designated as at FVTPL</u>	
Convertible bonds	\$ 117,300
Less: Current portion	<u>11,100</u>
Noncurrent portion	<u>\$ 106,200</u>

Net profit on financial assets designated as at FVTPL for year ended December 31, 2010 was NT\$8,770 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Stock listed on the Taiwan Stock Exchange	\$ 20,121	\$ 15,630
Mutual funds	444,861	450,038
Overseas quoted stocks	<u>49,599</u>	<u>49,598</u>
	514,581	515,266
Valuation adjustments	<u>65,099</u>	<u>85,151</u>
	579,680	600,417
Less: Current portion	<u>476,371</u>	<u>449,647</u>
Noncurrent portion	<u>\$ 103,309</u>	<u>\$ 150,770</u>

7. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Accounts receivable - unrelated parties	\$ 4,233,106	\$ 3,073,726
Less: Allowance for doubtful accounts	18,836	23,021
Allowance for sales discounts	<u>12,835</u>	<u>26,726</u>
	<u>\$ 4,201,435</u>	<u>\$ 3,023,979</u>

(Continued)

	<u>December 31</u>	
	2010	2009
Accounts receivable - related parties	\$ 732,867	\$ 446,906
Less: Allowance for doubtful accounts	<u>433</u>	<u>852</u>
	<u>\$ 732,434</u>	<u>\$ 446,054</u>

(Concluded)

Movements of allowance for doubtful accounts were as follows:

	<u>Year Ended December 31</u>	
	2010	2009
Balance, beginning of year	\$ 23,873	\$ 138,583
Deduct: Reversal of provision for doubtful accounts	1,950	110,703
Amounts written off	<u>2,654</u>	<u>4,007</u>
Balance, end of year	<u>\$ 19,269</u>	<u>\$ 23,873</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, 2010</u>						
Bank SinoPac	Largan Precision	\$ 80,850	\$ 80,850	\$ -	-	\$1.5
<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

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

The Corporation factored accounts receivable (without recourse) of NT\$80,850 thousand and NT\$282,146 thousand as of December 31, 2010 and 2009, respectively, and offered Bank SinoPac 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.

8. INVENTORIES

	<u>December 31</u>	
	2010	2009
Merchandise	\$ 1,387,028	\$ 1,208,586
Merchandise in transit	<u>33,480</u>	<u>14,482</u>
	<u>\$ 1,420,508</u>	<u>\$ 1,223,068</u>

As of December 31, 2010 and 2009, the allowance for inventory devaluation was NT\$130,074 thousand and NT\$103,223 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2010 and 2009 was NT\$16,751,964 thousand and NT\$11,388,077 thousand, respectively, which included the following:

	Year Ended December 31	
	2010	2009
Provision for (recovery of) loss on inventories	\$ 37,241	\$ (28,566)
Loss on physical inventories	534	1,154
Other	<u>2</u>	<u>11</u>
	<u>\$ 37,777</u>	<u>\$ (27,401)</u>

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2010		2009	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Yuen Technology Holding Limited	\$ 71,604	1.24	\$ 71,604	1.80
Tetrahedron Technology Corp.	14,778	16.95	14,778	16.95
Asahi Kasei Wahlee Hi-Tech Corp.	12,631	0.40	11,735	0.59
Onano Industrial Corp.	11,468	19.38	11,468	19.38
High Power Opto. Inc.	<u>10,000</u>	6.27	<u>10,000</u>	14.24
	<u>\$ 120,481</u>		<u>\$ 119,585</u>	

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

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2010		2009	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Wah Lee Holding Ltd.	\$ 1,489,919	100.00	\$ 1,342,575	100.00
Raycong Industrial (H.K.) Ltd.	1,100,236	100.00	996,587	100.00
Chang Wah Electromaterials Inc.	914,152	28.33	863,404	28.33
Nagase Wahlee Plastics Corp.	597,564	40.00	557,887	40.00
Wah Hong Industrial Corp.	508,184	16.99	470,248	16.99
Orc Technology Corp.	167,536	35.00	164,439	35.00
Wah Lee Japan Corp.	15,499	83.33	20,601	100.00
Wah Lee Korea Co., Ltd.	<u>2,045</u>	92.50	<u>-</u>	-
	<u>\$ 4,795,135</u>		<u>\$ 4,415,741</u>	

Fair values of listed equity-method investments calculated at their closing price as of December 31, 2010 and 2009 were as follows:

	December 31	
	2010	2009
Chang Wah Electromaterials Inc.	\$ 2,907,563	\$ 2,942,177
Wah Hong Industrial Corp.	<u>878,026</u>	<u>945,756</u>
	<u>\$ 3,785,589</u>	<u>\$ 3,887,933</u>

Movements of goodwill for the years ended December 31, 2010 and 2009 were as follows:

	Year Ended December 31	
	2010	2009
Balance, beginning of year	\$ 46,799	\$ 47,630
Translation adjustments	<u>(2,934)</u>	<u>(831)</u>
Balance, end of year	<u>\$ 43,865</u>	<u>\$ 46,799</u>

Investment income under equity method based on the audited financial statements of investee companies for the years ended December 31, 2010 and 2009 was as follows:

	Year Ended December 31	
	2010	2009
Wah Lee Holding Ltd.	\$ 242,524	\$ 134,007
Raycong Industrial (H.K.) Ltd.	226,805	90,674
Chang Wah Electromaterials Inc.	242,328	122,161
Nagase Wahlee Plastics Corp.	81,998	59,813
Wah Hong Industrial Corp.	74,899	40,368
Orc Technology Corp.	6,431	8,488
Wah Lee Japan Corp.	(11,959)	(8,547)
Wah Lee Korea Co., Ltd.	<u>(2,935)</u>	<u>-</u>
	<u>\$ 860,091</u>	<u>\$ 446,964</u>

Certain investee companies' financial statements which were the bases for the reported investments under equity method were audited by other auditors, and the carrying value of those investments as of December 31, 2010 and 2009 were as follows:

	December 31	
	2010	2009
Nagase Wahlee Plastics Corp.	\$ 597,564	\$ 557,887
Wah Hong Industrial Corp.	508,184	470,248
Investment in Wah Lee Holding Ltd.	<u>131,178</u>	<u>103,203</u>
	<u>\$ 1,236,926</u>	<u>\$ 1,131,338</u>

Investment income under equity method based on those investee companies was as follows:

	Year Ended December 31	
	2010	2009
Nagase Wahlee Plastics Corp.	\$ 81,998	\$ 59,813
Wah Hong Industrial Corp.	74,899	40,368
Investment in Wah Lee Holding Ltd.	<u>40,251</u>	<u>25,487</u>
	<u>\$ 197,148</u>	<u>\$ 125,668</u>

Brief discussions on long-term investments are summarized as follows:

- a. In April 2001, the Corporation invested in Wah Lee Japan Corp., which is mainly engaged in the trade of glass fiber, electronic equipment, optical machinery and so on, and increased the investment by NT\$5,423 thousand (JPY15,000 thousand) in February 2010, and reduced capital by JPY40,000 thousand to make up for loss, the percentage of capital reduction was 34.78%, and made equity offerings for JPY15,000 thousand at the same time. The Corporation didn't participate in the share subscription so the percentage of holdings changed to 83.33%. The Corporation's cumulative investments in Wah Lee Japan Corp. amounted to NT\$21,490 thousand (JPY75,000 thousand) for 83.33% equity as of December 31, 2010.
- b. In August 2010, the Corporation invested in Wah Lee Korea Co., Ltd. which is mainly engaged in the trade of glass fiber, electronic equipment, optical machinery and so on. The Corporation's cumulative investments in Wah Lee Korea Co., Ltd. amounted to NT\$5,034 thousand (KRW185,000 thousand) as of December 31, 2010.
- c. 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, 2010. The Corporation's shareholding in 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.
- 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., Wah Lee Japan Corp. and Wah Lee Korea Co., Ltd.

11. PROPERTY, PLANT AND EQUIPMENT

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

	December 31	
	2010	2009
Revaluation increment	\$ 12,029	\$ 39,290
Less: Reserve for land value increment tax	<u>4,259</u>	<u>13,713</u>
Net increment accounted for as unrealized revaluation increment	<u>\$ 7,770</u>	25,577
Less: Unrealized revaluation increment transferred to capital		<u>16,239</u>
Unrealized revaluation increment reported in stockholders' equity	<u>\$ 2,961</u>	<u>\$ 9,338</u>

The Corporation disposed of land and reduced revaluation increment by NT\$27,261 thousand and decreased reserve for land value increment tax by NT\$9,454 thousand. Related realized revaluation increment NT\$6,377 thousand was recognized as nonoperating income and gains.

b. Accumulated depreciation

	December 31	
	2010	2009
Buildings and improvements	\$ 66,235	\$ 61,468
Machinery and equipment	349	330
Transportation equipment	49,935	46,692
Miscellaneous equipment	119,834	101,106
Leasehold improvements	<u>43,502</u>	<u>34,034</u>
	<u>\$ 279,855</u>	<u>\$ 243,630</u>

12. RENTAL ASSETS

	December 31	
	2010	2009
Land	\$ 23,475	\$ 89,545
Buildings and improvements	<u>15,229</u>	<u>38,051</u>
	38,704	127,596
Less: Accumulated depreciation	<u>3,473</u>	<u>5,799</u>
	<u>\$ 35,231</u>	<u>\$ 121,797</u>

The Corporation has rented out part of land and buildings under the lease agreement until April 30, 2013. The rent was based on market demand and supply.

For the years ended December 31, 2010 and 2009, the rental income amounted to NT\$9,083 thousand and NT\$11,132 thousand, respectively, and was recognized as nonoperating income.

13. SHORT-TERM BANK LOANS

	December 31	
	2010	2009
Foreign currency loans, interest rate at 0.62%-1.05% and 0.81%-1.49% as of December 31, 2010 and 2009, respectively	\$ 1,226,825	\$ 862,550
Credit loan, interest rate at 1.2% as of December 31, 2009	-	50,000
Letters of credit, interest rate at 1.04% and 0.81% -1.23% as of December 31, 2010 and 2009, respectively	28,188	73,899
Loans for procurement of materials, interest rate at 1.41% and 1.21% as of December 31, 2010 and 2009, respectively	<u>54,867</u>	<u>13,967</u>
	<u>\$ 1,309,880</u>	<u>\$ 1,000,416</u>

14. ACCRUED EXPENSES

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Salary and bonus	\$ 176,298	\$ 179,716
Bonus to employees, directors and supervisors	261,495	140,099
Commission	12,268	9,107
Others	<u>47,933</u>	<u>43,662</u>
	<u>\$ 497,994</u>	<u>\$ 372,584</u>

15. LONG-TERM DEBT

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Syndicated bank loans (led by Bank SinoPac)	\$ 900,000	\$ 900,000
Less: Syndicated loan fee	<u>1,750</u>	<u>3,150</u>
	<u>898,250</u>	<u>896,850</u>
Hua Nan Bank		
Mortgage loan repayable in 214 installments from December 2009 to October 2027, NT\$753 thousand per installment, interest rate at 1.65% and 1.53% as of December 31, 2010 and 2009, respectively	152,076	161,110
Less: Current portion	<u>9,034</u>	<u>9,034</u>
	<u>143,042</u>	<u>152,076</u>
	<u>\$ 1,041,292</u>	<u>\$ 1,048,926</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, 2010 and 2009, the interest rates were 1.3911% and 1.685% per annum, respectively.
- 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 statements 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, 2010 and 2009, the Corporation had met the conditions of the loan agreement based on the annual audited consolidated financial statements as of and for the years ended December 31, 2010 and 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\$13,554 thousand and NT\$13,683 thousand for the years ended December 31, 2010 and 2009, 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\$77,308 thousand and NT\$22,066 thousand for the years ended December 31, 2010 and 2009, respectively.

Information about the defined benefit plan was as follows:

- a. Components of net periodic pension cost

	Year Ended December 31	
	2010	2009
Service cost	\$ 11,098	\$ 13,777
Interest cost	7,967	7,714
Projected return on plan assets	(3,429)	(4,853)
Amortization of net transition obligation	1,840	1,840
Amortization of prior service cost	43,540	-
Amortization of pension loss	6,607	3,588
Loss of reduction or refund	<u>9,685</u>	<u>-</u>
	<u>\$ 77,308</u>	<u>\$ 22,066</u>

The Corporation amended the defined benefit plan to recognize prior service cost of NT\$122,088 thousand, which vested amount of NT\$43,540 thousand was included in net pension cost for the year ended December 31, 2010.

- b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2010 and 2009.

	<u>December 31</u>	
	2010	2009
Benefit obligation		
Vested	\$ 132,839	\$ 128,971
Nonvested	<u>227,582</u>	<u>126,939</u>
Accumulated	360,421	255,910
Additional benefits based on future salaries	<u>83,602</u>	<u>104,239</u>
Projected	444,023	360,149
Fair value of plan assets	<u>(155,024)</u>	<u>(169,058)</u>
Funded status	288,999	191,091
Unamortized prior service cost	(78,548)	-
Unrecognized transitional obligation	(8,775)	(11,038)
Unamortized net loss	(120,865)	(154,943)
Deferred pension cost	87,323	11,038
Net loss not recognized as pension cost	<u>37,263</u>	<u>50,704</u>
Accrued pension cost	<u>\$ 205,397</u>	<u>\$ 86,852</u>
Vested benefit	<u>\$ 151,546</u>	<u>\$ 147,970</u>

- c. Actuarial assumptions

Discount rate used in determining present values	2.25%	2.25%
Future salary increase rate	2.00%	3.00%
Expected rate of return on plan assets	2.00%	2.00%

	<u>Year Ended December 31</u>	
	2010	2009
d. Contributions to the fund	\$ 16,536	\$ 16,800
e. Payments from the fund	33,294	57,135

17. STOCKHOLDERS' EQUITY

Capital Stock

On June 8, 2010, the Corporation applied for a capital reduction by retirement of 3,019 thousand shares of treasury stock. The Corporation has completed the registration formalities for the reduction of capital. As of December 31, 2010, the Corporation's paid-in capital was NT\$2,313,901 thousand.

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, 2010 and 2009, the bonus to employees was NT\$239,634 thousand and NT\$126,971 thousand, representing 17% and 15%, respectively, of net income (net of the bonus to employees and remuneration to directors' and supervisors); the remuneration to directors and supervisors was NT\$21,861 thousand and NT\$13,128 thousand both representing 1.55% 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 2009 and 2008 had been approved in the stockholders' meetings in June 2010 and June 2009, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share	
	For Year 2009	For Year 2008	For Year 2009	For Year 2008
Legal reserve	\$ 80,992	\$ 72,847	\$ -	\$ -
Dividends on common stock				
Cash dividends	532,197	352,029	2.30	1.55
Stock dividends	<u>-</u>	<u>34,067</u>	<u>-</u>	<u>0.15</u>
	<u>\$ 613,189</u>	<u>\$ 458,943</u>	<u>\$ 2.30</u>	<u>\$ 1.70</u>

The Corporation's board of directors approved the appropriations of the 2009 earnings to distribute dividend of NT\$2.20 per share, but the Corporation's stockholders revised the amount to NT\$2.30 per share.

The bonus to employees and the remuneration to directors and supervisors for 2009 and 2008 approved in the stockholders' meetings in June 2010 and 2009, respectively, were as follows:

	Year Ended December 31			
	2009		2008	
	Cash	Stock	Cash	Stock
Bonus to employees	\$ 126,971	\$ -	\$ 100,000	\$ 25,618
Remuneration to directors and supervisors	13,128	-	11,251	-

The number of shares of 868 thousand for 2008 was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the day immediately preceding the stockholders' meeting.

The approved amounts of the bonus to employees and the remuneration to directors and supervisors were not different from the amounts in the respective financial statements.

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 on Financial Instruments

For the years ended December 31, 2010 and 2009, movements of unrealized gain (loss) on financial instruments were as follows:

	Available-for- sale Financial Assets	Equity-method Investment	Total
<u>Year ended December 31, 2010</u>			
Balance, beginning of year	\$ 85,151	\$ 134,834	\$ 219,985
Recognized in stockholders' equity	15,544	(92,880)	(77,336)
Transferred to profit or loss	<u>(35,596)</u>	<u>-</u>	<u>(35,596)</u>
Balance, end of year	<u>\$ 65,099</u>	<u>\$ 41,954</u>	<u>\$ 107,053</u>

(Continued)

	Available-for- sale Financial Assets	Equity-method Investment	Total
<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> (Concluded)

18. TREASURY STOCK

For transfer to employees, the Corporation acquired its outstanding common stocks that totaled 3,019 thousand shares at the repurchase cost of NT\$202,660 thousand in 2007. On June 8, 2010, the Corporation's board of directors applied for approval to reduce capital by 3,019 thousand shares. The record date for reverse split was June 8, 2010. The Corporation has completed the registration formalities for the reduction of capital. The Corporation also made adjustments to decrease capital surplus by NT\$15,142 thousand and unappropriated earnings by NT\$157,328 thousand.

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 17% and 25% statutory rates for the years ended December 31, 2010 and 2009 and income tax expense was as follows:

	<u>Year Ended December 31</u>	
	2010	2009
Income tax expense at the statutory rate	\$ <u>275,753</u>	\$ <u>240,917</u>
Permanent differences:		
Domestic investment income under equity method	(68,961)	(57,707)
Gain on disposal of land	(6,602)	-
Gain on sale of domestic investment	(6,051)	-
Realized investment loss	-	(16,964)
Others	<u>(1,837)</u>	<u>769</u>
	<u>(83,451)</u>	<u>(73,902)</u>
Temporary differences:		
Reversal of provision for doubtful accounts	-	(26,184)
Provision for (recovery of) loss on inventories	4,565	(10,052)
Foreign investment income under equity method	(79,203)	(54,033)

(Continued)

	Year Ended December 31	
	2010	2009
Unaccrued (accrued) bonuses paid	\$ (1,788)	\$ 29,379
Unrealized exchange losses (gains)	5,858	(529)
Unrealized (realized) gross profit	3,577	(1,538)
Others	<u>7,968</u>	<u>3,520</u>
	<u>(59,023)</u>	<u>(59,437)</u>
Income tax under the Income Tax Law	133,279	107,578
Investment tax credits	-	(3,049)
Additional 10% income tax on unappropriated earnings	19,672	26,953
Others	<u>37</u>	<u>3,662</u>
Current income tax expense	<u>152,988</u>	<u>135,144</u>
Deferred income tax expense (benefit)		
Temporary differences	59,023	55,531
Effect of tax law changes on deferred income tax	(27,045)	(40,799)
Adjustments for other evaluation	<u>27,569</u>	<u>-</u>
	<u>59,547</u>	<u>14,732</u>
Adjustments of prior years' tax	<u>(101)</u>	<u>3,918</u>
	<u>\$ 212,434</u>	<u>\$ 153,794</u>
		(Concluded)

During the years ended December 31, 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

- 1) In March 2009, the Legislative Yuan passed the amendment of Article 24 of the Income Tax Law, which requires (a) the profit-seeking enterprise that invests in short-term notes for which the issuance dates are on and after January 1, 2010 to include the interest income arising, which was taxed separately prior to January 1, 2010, in its taxable income; and (b) the profit-seeking enterprise that invests in beneficiary securities or asset-based securities issued under the Financial Asset Securitization Act or Real Estate Securitization Act to include from January 1, 2010 the interest income arising, which was taxed separately prior to January 1, 2010, in its taxable income.
- 2) In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010.
- 3) In May 2010, the Legislative Yuan passed another amendment of Article 5 of the Income Tax Law, which further reduced a profit-seeking enterprise's income tax rate from 20% to 17%, also effective January 1, 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:

	December 31	
	2010	2009
Deferred income tax assets - current		
Unrealized allowance for loss on inventories	\$ 22,113	\$ 20,645
Allowance for sales discounts	2,182	5,345
Accrued bonuses	25,623	32,248
Intercompany unrealized gains	8,498	5,790
Unrealized exchange losses	3,985	-
Others	<u>132</u>	<u>154</u>
	<u>62,533</u>	<u>64,182</u>
Deferred income tax liabilities - current		
Unrealized exchange gains	<u>-</u>	<u>(2,203)</u>
Net deferred income tax assets - current	<u>62,533</u>	<u>61,979</u>
Deferred income tax assets - noncurrent		
Permanent decline in value of foreign long-term investments	27,569	32,434
Pension expenses	11,301	1,141
Others	<u>195</u>	<u>232</u>
	39,065	33,807
Less: Valuation allowance	<u>(27,569)</u>	<u>-</u>
	<u>11,496</u>	<u>33,807</u>
Deferred income tax liabilities - noncurrent		
Investment income recognized on overseas equity method investment	<u>(313,876)</u>	<u>(276,086)</u>
Net deferred income tax liabilities - noncurrent	<u>(302,380)</u>	<u>(242,279)</u>
Total deferred income tax liabilities-net	<u>\$ (239,847)</u>	<u>\$ (180,300)</u>

c. The tax returns through 2007 have been assessed by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31	
	2010	2009
Unappropriated earnings generated before January 1, 1998	\$ -	\$ 3,808
Unappropriated earnings generated on and after January 1, 1998	<u>2,765,609</u>	<u>2,122,679</u>
	<u>\$ 2,765,609</u>	<u>\$ 2,126,487</u>

As of December 31, 2010 and 2009, the balance of the imputation credits which can be allocated to the stockholders amounted to NT\$443,735 thousand and NT\$459,890 thousand, respectively.

The creditable ratio for distribution of earnings of 2010 and 2009 was 20.38% (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 Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Operating Expenses	
	Year Ended December 31	
	2010	2009
Personnel		
Salary	\$ 833,244	\$ 644,306
Labor and health insurance	27,658	27,136
Pension	90,862	35,749
Others	<u>20,259</u>	<u>17,955</u>
	<u>\$ 972,023</u>	<u>\$ 725,146</u>
Depreciation	\$ 42,964	\$ 43,360
Amortization	35,456	34,591

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 non-operating expenses and losses.

21. EARNINGS PER SHARE (“EPS”)

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

a. Numerator - current net income

	Year Ended December 31			
	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS (NT\$)				
Income for the year attributable to common stockholders	<u>\$ 1,622,073</u>	<u>\$ 1,409,639</u>	<u>\$ 963,708</u>	<u>\$ 809,914</u>

b. Denominator - shares in thousand

	Year Ended December 31	
	2010	2009
Weighted average issued common stock	231,390	230,134
Add: Capitalization of retained earnings	-	3,407
Bonus to employees in stock, 2008	-	506
Less: Acquisition of treasury stock	<u>-</u>	<u>3,019</u>
Number of shares for calculating basic EPS	231,390	231,028
Add: Dilutive potential common stock - bonus to employees	<u>4,279</u>	<u>3,369</u>
	<u>235,669</u>	<u>234,397</u>

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.

22. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments:

Nonderivative Financial Instruments	December 31			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Financial assets at fair value				
through profit or loss	\$ 117,300	\$ 117,300	\$ -	\$ -
Available-for-sale financial assets	579,680	579,680	600,417	600,417
Financial assets carried at cost	120,481	-	119,585	-
Refundable deposits	60,908	60,908	52,321	52,321
<u>Financial liabilities</u>				
Long-term debt (including current portion)	1,050,326	1,050,326	1,057,960	1,057,960
Guarantee deposits	1,373	1,373	2,202	2,202

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 in the above table. The carrying amounts of these financial instruments approximate their fair values because of their short maturities.
- 2) Fair values of financial instruments designated as at FVTPL and available-for-sale are 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 will 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 interest rate and its carrying amount approximates its fair value.

- c. As of December 31, 2010 and 2009, financial assets exposed to cash flow interest rate risk amounted to NT\$591,850 thousand and NT\$732,332 thousand, respectively; financial liabilities exposed to cash flow interest rate risk amounted to NT\$1,437,729 thousand and NT\$1,181,546 thousand respectively.
- d. As of December 31, 2010 and 2009, 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	
	2010	2009
Total interest income	\$ 2,589	\$ 957
Total interest expense	29,085	40,344

e. Information about financial risks

1) Market risk

The Corporation invested in domestic and overseas listed stocks, mutual funds and convertible bonds. A change of 1% in market price will bring the risk of price variation of financial instrument of NT\$6,970 thousand.

The foreign-currency financial instruments held by the Corporation are affected by the exchange rates. When the exchange rates of USD and JPY decrease by one percentage point, the Corporation's net assets will decrease by NT\$2,336 thousand.

The market rates don't significantly affect the price of the Corporation's financial instruments.

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 excluded) was as follows:

	December 31			
	2010		2009	
	Book Value	Maximum Credit Risk	Book Value	Maximum Credit Risk
Off-balance-sheet commitments and guarantees	\$ -	\$ 1,937,434	\$ -	\$ 1,807,524

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, mutual funds and convertible bonds 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 interest change risk

The Corporation's long-term loan and partial short-term loans are floating rate bank accounts or debt. Changes in market interest rate accompany changes in effective rate 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\$14,377 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
Chang Wah Technology Co., Ltd. (Chang Wah Technology)	Chang Wah's subsidiary
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 Korea Co., Ltd. (Wah Lee Korea)	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. (Wah Lee Tech)	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
Hsin Hao Corp. (Hsin Hao)	Vice 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
Chang, Tsuen-Hsien	Chairman's relative

b. Significant transactions with related parties:

- 1) For the years ended December 31, 2010 and 2009, purchases from related parties were NT\$1,414,140 thousand (8%) and NT\$1,021,757 thousand (9%), respectively, and individual transaction amount was less than 10% of the amount of 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, 2010 and 2009, sales to related parties were NT\$3,184,208 thousand (17%) and NT\$1,837,196 thousand (15%), respectively, and individual 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 30th - 120th 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, 2010</u>				
Wah Lee Machinery	\$ 11,774	3	\$ -	-
Raycon	9,695	3	-	-
Shanghai Yikang	7,181	2	25,622	72
Raycong	3,730	1	1,543	4
Others	<u>1,620</u>	<u>-</u>	<u>109</u>	<u>-</u>
	<u>\$ 34,000</u>	<u>9</u>	<u>\$ 27,274</u>	<u>76</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>

- 4) The management services agreements, industry consulting and SAP-use contracts were signed by the Corporation and related parties, and the contract period is until December 31, 2011. 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, 2010 and 2009 was recognized as non-operating income as follows:

	<u>Year Ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Shanghai YiKang	\$ 46,572	\$ 30,127
Raycong	29,673	19,551
Wah Lee Tech	2,418	-
Wah Hong	<u>3,567</u>	<u>1,733</u>
	<u>\$ 82,230</u>	<u>\$ 51,411</u>

- 5) The Corporation rented partial buildings and computer software to related parties. The leases on the buildings will expire from August 31, 2011 to December 31, 2012, and the lease on computer software will expire on December 31, 2011. The rental income for the years ended December 31, 2010 and 2009 recognized as nonoperating income was as follows:

	Year Ended December 31	
	2010	2009
Orc	\$ 2,040	\$ 2,040
Wah Hong	1,361	1,142
Other	<u>24</u>	<u>24</u>
	<u>\$ 3,425</u>	<u>\$ 3,206</u>

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

	December 31	
	2010	2009
Nagase Wahlee	\$ 320,000	\$ 320,000
Asahi Kasei Wahlee	9,690	9,690
Raycong	314,604	345,492
	(US\$ 10,800 thousand)	(US\$ 10,800 thousand)
Wah Lee Japan	14,328	20,832
	(JPY 40,000 thousand)	(JPY 60,000 thousand)
Shanghai Yikang	255,956	277,247
	(US\$ 8,787 thousand)	(US\$ 8,667 thousand)
Raycong/Shanghai Yikang (Co-guarantees)	90,000	-
Shanghai Hua Chang	262,170	319,900
	(US\$ 9,000 thousand)	(US\$ 10,000 thousand)
Dong Guan Hua Gang	291,300	-
	(US\$ 10,000 thousand)	
Dong Guan Hua Gang	24,000	-
Wah Fu/Dong Guan Hua Gang (Co-guarantees)	-	223,930
		(US\$ 7,000 thousand)
Wah Lee Machinery	58,260	127,960
	(US\$ 2,000 thousand)	(US\$ 4,000 thousand)
Wah Lee Tech	297,126	134,358
	(US\$ 10,200 thousand)	(US\$ 4,200 thousand)
NWP International	-	28,115
		(RMB 6,000 thousand)
	<u>\$ 1,937,434</u>	<u>\$ 1,807,524</u>

7) Payments received by the Corporation on behalf of Raycong for goods sold amounted to NT\$8,549 thousand and NT\$17,085 thousand as of December 31, 2010 and 2009, respectively, and were booked as other current liabilities.

End of the year

	December 31			
	2010		2009	
	Amount	%	Amount	%
Notes receivable				
Nagase Wahlee	\$ 340	-	\$ -	-
Accounts receivable - related parties				
Shanghai Yikang	\$ 470,859	9	\$ 235,582	7
Raycong	194,671	4	155,620	4
Wah Hong	27,446	1	24,938	1
Dong Guan Hua Gang	19,856	-	11,708	-
Others	<u>20,035</u>	-	<u>19,058</u>	1
	732,867	14	446,906	13
Less: Allowance for doubtful accounts	<u>433</u>	-	<u>852</u>	-
	<u>\$ 732,434</u>	<u>14</u>	<u>\$ 446,054</u>	<u>13</u>
Other receivable - related parties				
Shanghai Yikang	\$ 44,786	63	\$ 25,637	38
Raycong	61	-	20,104	30
Others	<u>4,286</u>	6	<u>1,109</u>	2
	<u>\$ 49,133</u>	<u>69</u>	<u>\$ 46,850</u>	<u>70</u>
Notes payable - related parties				
Asahi Kasei Wahlee	\$ 199,138	30	\$ 169,034	27
Nagase Wahlee	<u>69</u>	-	<u>4,330</u>	1
	<u>\$ 199,207</u>	<u>30</u>	<u>\$ 173,364</u>	<u>28</u>
Accounts payable - related parties				
Asahi Kasei Wahlee	\$ 71,528	3	\$ 59,844	3
Wah Hong	63,355	2	28,727	1
Daily	29,640	1	33,453	2
Forcera Materials	14,036	1	28,727	1
Others	<u>15,139</u>	-	<u>5,972</u>	-
	<u>\$ 193,698</u>	<u>7</u>	<u>\$ 156,723</u>	<u>7</u>
Receipts under custody (included in other current liabilities)				
Raycong	<u>\$ 8,549</u>	<u>58</u>	<u>\$ 17,085</u>	<u>77</u>

c. Compensation of directors, supervisors and management personnel:

	Year Ended December 31	
	2010	2009
Salaries and incentives	\$ 35,347	\$ 20,720
Special compensation	410	550
Bonus	<u>68,934</u>	<u>29,025</u>
	<u>\$ 104,691</u>	<u>\$ 50,295</u>

24. PLEDGED OR MORTGAGED ASSETS

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

	December 31	
	2010	2009
Property, plant and equipment		
Land	\$ 232,817	\$ 258,827
Buildings and improvements	<u>191,382</u>	<u>185,471</u>
	<u>424,199</u>	<u>444,298</u>
Rental assets		
Land	16,020	17,504
Buildings and improvements	<u>11,757</u>	<u>32,251</u>
	<u>27,777</u>	<u>49,755</u>
Restricted assets		
Loan reserve deposits	-	11,864
Pledged time deposits	<u>320</u>	<u>320</u>
	<u>320</u>	<u>12,184</u>
	<u>\$ 452,296</u>	<u>\$ 506,237</u>

25. COMMITMENTS AND CONTINGENCIES AT DECEMBER 31, 2010

a. Operating lease:

Lessor	Lease Asset	Lease Term and Installment	Rental Payment for the Year Ended December 31, 2010
Hong Siang	Warehouse	From December 1, 2005 to March 31, 2015, NT\$1,322 thousand per month (tax included); from February 1, 2010 to January 1, 2011, changed to NT\$1,212 thousand per month (tax included)	<u>\$13,951</u>

As of December 31, 2010, the Corporation has paid guarantee deposits of NT\$3,500 thousand. Future lease payments are as follows:

	Amount
2011	\$ 15,860
2012	15,860
2013	15,860
2014	15,860
2015 and thereafter	<u>2,644</u>
	<u>\$ 66,084</u>

- b. As of December 31, 2010, the Corporation has outstanding letters of credit aggregating US\$21,157 thousand and NT\$217,714 thousand.
- c. The Corporation offered guarantees for investee companies as stated in Note 23.
- d. As stated in Note 7, accounts receivable factored to Bank SinoPac amounted to NT\$80,850 thousand. The Corporation has offered the banks the equivalent promissory note.

26. OTHERS

The foreign-currency financial assets and liabilities that significantly impacted the Corporation were as follow:

(In thousands of foreign currencies and New Taiwan Dollars expect exchange rate)

	December 31					
	2010			2009		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 103,481	29.13	\$ 3,014,467	\$ 65,658	31.99	\$ 2,100,400
JPY	941,606	0.3582	336,122	496,068	0.3472	172,170
Investments accounted for by the equity method						
USD	51,147	29.13	1,489,919	41,969	31.99	1,342,575
JPY	43,268	0.3582	15,499	59,334	0.3472	20,601
HKD	293,195	3.748	1,100,236	241,213	4.126	996,587
KRW	78,131	0.02618	2,045	-	-	-
<u>Financial liabilities</u>						
Monetary items						
USD	98,314	29.13	2,863,877	66,522	31.99	2,127,998
JPY	706,661	0.3582	253,126	750,630	0.3472	260,619