

Phihong Technology Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2013 and 2012 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pihong Technology Co., Ltd.

We have audited the accompanying balance sheets of Pihong Technology Co., Ltd. (the "Company") as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The accompanying schedules of major accounting items of the Company as of and for the year ended December 31, 2013 are presented for the purpose of additional analysis. Such schedules have been subjected to the auditing procedures described in the second paragraph. In our opinion, such schedules are consistent, in all material respects, with the financial statements required to in the first paragraph.

March 21, 2014

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance 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 applied in the Republic of China.

For the convenience of readers, the independent 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 independent auditors' report and financial statements shall prevail.

PHIHONG TECHNOLOGY CO., LTD.

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 953,564	10	\$ 962,803	11	\$ 1,552,919	15
Trade receivables (Notes 4 and 9)	1,148,515	12	1,409,661	15	1,324,227	13
Trade receivables from related parties (Notes 4, 9 and 25)	378,727	4	191,708	2	554,410	6
Other receivables	22,455	-	41,973	-	46,124	1
Other receivables from related parties (Note 25)	515,802	5	489,278	5	423,703	4
Inventories (Notes 4 and 10)	243,601	3	319,496	4	531,255	5
Other current assets	10,876	-	11,206	-	35,491	-
Total current assets	<u>3,273,540</u>	<u>34</u>	<u>3,426,125</u>	<u>37</u>	<u>4,468,129</u>	<u>44</u>
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 4 and 7)	-	-	30,620	-	33,357	-
Financial assets measured at cost - non-current (Notes 4 and 8)	79,703	1	46,503	1	48,812	1
Investments accounted for using equity method (Notes 4 and 11)	5,710,710	59	5,100,468	55	4,967,953	49
Property, plant and equipment (Notes 4 and 12)	566,503	6	501,990	6	500,907	5
Intangible assets (Notes 4 and 13)	28,511	-	33,689	-	16,971	-
Deferred tax assets (Notes 4 and 20)	47,423	-	48,419	1	67,496	1
Other non-current assets	13,704	-	13,914	-	13,759	-
Total non-current assets	<u>6,446,554</u>	<u>66</u>	<u>5,775,603</u>	<u>63</u>	<u>5,649,255</u>	<u>56</u>
TOTAL	<u>\$ 9,720,094</u>	<u>100</u>	<u>\$ 9,201,728</u>	<u>100</u>	<u>\$ 10,117,384</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term debt (Note 14)	\$ 100,000	1	\$ -	-	\$ -	-
Trade payables	11,899	-	30,141	-	41,212	-
Trade payables to related parties (Note 25)	335,450	3	388,686	4	158,881	2
Other payables (Note 15)	2,266,198	23	2,443,290	26	2,677,233	26
Current tax liabilities (Notes 4 and 20)	44,508	1	75,404	1	156,950	2
Current portion of long-term borrowings (Note 14)	8,333	-	-	-	-	-
Other current liabilities (Note 16)	81,541	1	69,490	1	88,010	1
Total current liabilities	<u>2,847,929</u>	<u>29</u>	<u>3,007,011</u>	<u>32</u>	<u>3,122,286</u>	<u>31</u>
NON-CURRENT LIABILITIES						
Long-term borrowings (Note 14)	791,667	8	200,000	2	200,000	2
Deferred tax liabilities (Notes 4 and 20)	79,832	1	79,832	1	79,832	1
Accrued pension liabilities (Notes 4 and 17)	65,186	1	66,792	1	73,270	-
Other non-current liabilities	-	-	-	-	3,504	-
Total non-current liabilities	<u>936,685</u>	<u>10</u>	<u>346,624</u>	<u>4</u>	<u>356,606</u>	<u>3</u>
Total liabilities	<u>3,784,614</u>	<u>39</u>	<u>3,353,635</u>	<u>36</u>	<u>3,478,892</u>	<u>34</u>
EQUITY (Notes 4 and 18)						
Share capital						
Common stock	2,771,639	29	2,771,639	30	2,749,329	27
Advanced collections for common stock	-	-	-	-	16,154	-
Total capital	<u>2,771,639</u>	<u>29</u>	<u>2,771,639</u>	<u>30</u>	<u>2,765,483</u>	<u>27</u>
Capital surplus	949,615	10	949,615	11	926,465	9
Retained earnings						
Legal reserve	1,083,147	11	1,052,192	11	909,627	9
Special reserve	230,859	2	-	-	-	-
Unappropriated earnings	853,368	9	1,238,611	14	2,059,221	21
Total retained earnings	<u>2,167,374</u>	<u>22</u>	<u>2,290,803</u>	<u>25</u>	<u>2,968,848</u>	<u>30</u>
Other equity						
Exchange differences on translating foreign operations	73,280	1	(148,361)	(2)	-	-
Unrealized (loss) gain on available-for-sale financial assets	(26,428)	(1)	(15,603)	-	(22,304)	-
Total other equity	<u>46,852</u>	<u>-</u>	<u>(163,964)</u>	<u>(2)</u>	<u>(22,304)</u>	<u>-</u>
Total equity	<u>5,935,480</u>	<u>61</u>	<u>5,848,093</u>	<u>64</u>	<u>6,638,492</u>	<u>66</u>
TOTAL	<u>\$ 9,720,094</u>	<u>100</u>	<u>\$ 9,201,728</u>	<u>100</u>	<u>\$ 10,117,384</u>	<u>100</u>

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
NET SALES AND REVENUES (Notes 4 and 25)	\$ 11,132,298	100	\$ 10,788,927	100
COST OF GOODS SOLD (Notes 4, 10 and 25)	<u>10,191,618</u>	<u>91</u>	<u>9,593,415</u>	<u>89</u>
GROSS PROFIT	940,680	9	1,195,512	11
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	<u>40,038</u>	<u>-</u>	<u>93,670</u>	<u>1</u>
GROSS PROFIT AND REALIZED GAIN FROM SUBSIDIARIES AND ASSOCIATES	<u>980,718</u>	<u>9</u>	<u>1,289,182</u>	<u>12</u>
OPERATING EXPENSES (Note 25)				
Sales and marketing	191,787	2	278,381	3
General and administration	154,961	1	160,292	1
Research and development	<u>447,371</u>	<u>4</u>	<u>420,737</u>	<u>4</u>
Total operating expenses	<u>794,119</u>	<u>7</u>	<u>859,410</u>	<u>8</u>
INCOME FROM OPERATIONS	<u>186,599</u>	<u>2</u>	<u>429,772</u>	<u>4</u>
NONOPERATING INCOME (EXPENSES)				
Other income (Note 25)	122,418	1	166,216	1
Other gains and losses (Note 19)	(1,322)	-	(46,113)	-
Finance costs	(7,703)	-	(3,312)	-
Share of the profit of associates (Notes 4 and 11)	<u>(100,565)</u>	<u>(1)</u>	<u>(111,912)</u>	<u>(1)</u>
Total nonoperating income (expenses), net	<u>12,828</u>	<u>-</u>	<u>4,879</u>	<u>-</u>
INCOME BEFORE INCOME TAX	199,427	2	434,651	4
INCOME TAX EXPENSE (Notes 4 and 20)	<u>(46,893)</u>	<u>(1)</u>	<u>(122,437)</u>	<u>(1)</u>
NET INCOME	<u>152,534</u>	<u>1</u>	<u>312,214</u>	<u>3</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange differences on translating foreign operations (Note 18)	221,641	2	(148,361)	(1)
Unrealized gain on available-for-sale financial assets (Note 18)	(10,825)	-	6,701	-

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
Actuarial gain arising from defined benefit plans (Note 17)	\$ 1,447	-	\$ 6,880	-
Income tax relating to components of other comprehensive income	<u>(246)</u>	<u>-</u>	<u>(1,170)</u>	<u>-</u>
Total other comprehensive income (loss), net	<u>212,017</u>	<u>2</u>	<u>(135,950)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 364,551</u>	<u>3</u>	<u>\$ 176,264</u>	<u>2</u>
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$0.55</u>		<u>\$1.13</u>	
Diluted	<u>\$0.55</u>		<u>\$1.11</u>	

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

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Share Capital			Retained Earnings			Other Equity		Total Equity
	Common Stock	Advance	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	
		Collections for Common Stock							
BALANCE, JANUARY 1, 2012	\$ 2,749,329	\$ 16,154	\$ 926,465	\$ 909,627	\$ -	\$ 2,059,221	\$ -	\$ (22,304)	\$ 6,638,492
Appropriation of the 2011 net income (Note 18)									
Legal reserve	-	-	-	142,565	-	(142,565)	-	-	-
Cash dividend	-	-	-	-	-	(995,969)	-	-	(995,969)
Net income for the year ended December 31, 2012	-	-	-	-	-	312,214	-	-	312,214
Other comprehensive income (loss) for the year ended December 31, 2012, net of income tax	-	-	-	-	-	5,710	(148,361)	6,701	(135,950)
Total comprehensive income (loss) for the year ended December 31, 2012	-	-	-	-	-	317,924	(148,361)	6,701	176,264
Advance collections for common stock transferred to capital stock	7,880	(16,154)	8,274	-	-	-	-	-	-
Issue of common stock under employee share options (Note 22)	14,430	-	14,876	-	-	-	-	-	29,306
BALANCE, DECEMBER 31, 2012	2,771,639	-	949,615	1,052,192	-	1,238,611	(148,361)	(15,603)	5,848,093
Appropriation of the 2012 net income									
Legal reserve	-	-	-	30,955	-	(30,955)	-	-	-
Cash dividend	-	-	-	-	-	(277,164)	-	-	(277,164)
Special reserve at first-time adoption of IFRSs (Note 18)	-	-	-	-	230,859	(230,859)	-	-	-
Net income for the year ended December 31, 2013	-	-	-	-	-	152,534	-	-	152,534
Other comprehensive income (loss) for the year ended December 31, 2013, net of income tax	-	-	-	-	-	1,201	221,641	(10,825)	212,017
Total comprehensive income (loss) for the year ended December 31, 2013	-	-	-	-	-	153,735	221,641	(10,825)	364,551
BALANCE, DECEMBER 31, 2013	<u>\$ 2,771,639</u>	<u>\$ -</u>	<u>\$ 949,615</u>	<u>\$ 1,083,147</u>	<u>\$ 230,859</u>	<u>\$ 853,368</u>	<u>\$ 73,280</u>	<u>\$ (26,428)</u>	<u>\$ 5,935,480</u>

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 199,427	\$ 434,651
Adjustments for:		
Reversal of impairment loss on trade receivables	(10,000)	(20,519)
Depreciation expense	51,279	47,882
Amortization expense	11,656	9,399
Interest expense	7,703	3,312
Interest income	(5,635)	(12,055)
Dividend revenue	(234)	(3,613)
Share of profit of associates	100,565	111,912
(Gain) loss on disposal of property, plant and equipment	(422)	433
Gain on disposal of financial assets	(2,347)	-
Unrealized gain on transaction with associates	(40,038)	(93,670)
Net changes in operating assets and liabilities		
Trade receivables	271,146	(64,915)
Trade receivables from related parties	(187,019)	362,702
Other receivables	19,512	6,715
Other receivables from related parties	(26,524)	(65,575)
Inventories	75,895	211,759
Other current assets	330	24,285
Trade payables	(18,242)	(11,071)
Trade payables to related parties	(53,236)	229,805
Other payables	(177,505)	(233,958)
Other current liabilities	12,051	(18,520)
Reserve for retirement plan	(159)	402
Cash generated from operating activities	228,203	919,361
Interest paid	(7,065)	(3,297)
Interest received	5,641	12,055
Income tax paid	(77,039)	(186,076)
Net cash generated from operating activities	<u>149,740</u>	<u>742,043</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	31,092	-
Purchase of financial assets measured at cost	(49,996)	-
Net cash outflow on acquisition of subsidiaries	(461,363)	(316,191)
Payments for property, plant and equipment	(117,356)	(52,438)
Proceeds from disposal of property, plant and equipment	1,761	476
Payments for intangible assets	(6,478)	(26,117)
Decrease (increase) in refundable deposits	210	(155)
Dividend received	3,519	6,446

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PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Years Ended	
	December 31	
	2013	2012
Decrease and return of capital from associates	\$ -	\$ 10,979
Decrease and return of capital from investees of available-for-sale financial assets	-	9,195
Decrease and return of capital from investees of financial assets measured at cost	<u>16,796</u>	<u>2,309</u>
Net cash used in investing activities	<u>(581,815)</u>	<u>(365,496)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt	100,000	-
Cash dividends paid	(277,164)	(995,969)
Proceeds from employee stock options	-	29,306
Proceeds from long-term borrowings	<u>600,000</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>422,836</u>	<u>(966,663)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,239)	(590,116)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>962,803</u>	<u>1,552,919</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 953,564</u>	<u>\$ 962,803</u>

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

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands of New Taiwan Dollars, Except Per Share Data and Unless Stated Otherwise)

1. GENERAL INFORMATION

Phihong Technology Co., Ltd. (“Phihong” or “the Company”), which was formerly known as Phihong Enterprise Co., Ltd. was incorporated on December 12, 1972 under the laws of the Republic of China (“ROC”). Under a resolution approved in the stockholders’ meeting in June 2003, Phihong changed its name to Phihong Technology Co., Ltd. Phihong primarily manufactures and sells AC/DC power adapters, charger bases, power supply modules, UPS (uninterruptible power supply) for computers, ballasts, etc.

In February 2000, Phihong was authorized to have its stocks traded on the over-the-counter (OTC) securities exchange in Taiwan. In September 2001, Phihong’s stocks ceased to be OTC traded and Phihong later obtained authorization to have its stocks listed on the Taiwan Stock Exchange.

The functional currency of Phihong is New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were reported to the board of directors and approved for issue on March 21, 2014.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

- a. New, amended and revised standards and interpretations (the “New IFRSs”) in issue but not yet effective

The Company and entities controlled by the Company have not applied the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) issued by the IASB. On January 28, 2014, the Financial Supervisory Commission (FSC) announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the “New IFRSs”) included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.)

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC	Effective Date Announced by IASB (Note 1)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 “Embedded Derivatives”	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 “Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters”	July 1, 2010
Amendment to IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”	July 1, 2011
Amendment to IFRS 1 “Government Loans”	January 1, 2013
Amendment to IFRS 7 “Disclosure - Offsetting Financial Assets and Financial Liabilities”	January 1, 2013
Amendment to IFRS 7 “Disclosure - Transfer of Financial Assets”	July 1, 2011
IFRS 10 “Consolidated Financial statements”	January 1, 2013
IFRS 11 “Joint Arrangements”	January 1, 2013
IFRS 12 “Disclosure of Interests in Other Entities”	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance”	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 “Investment Entities”	January 1, 2014
IFRS 13 “Fair Value Measurement”	January 1, 2013
Amendment to IAS 1 “Presentation of Other Comprehensive Income”	July 1, 2012
Amendment to IAS 12 “Deferred tax: Recovery of Underlying Assets”	January 1, 2012
IAS 19 (Revised 2011) “Employee Benefits”	January 1, 2013
IAS 27 (Revised 2011) “Separate Financial Statements”	January 1, 2013
IAS 28 (Revised 2011) “Investments in Associates and Joint Ventures”	January 1, 2013
Amendment to IAS 32 “Offsetting Financial Assets and Financial Liabilities”	January 1, 2014
IFRIC 20 “Stripping Costs in Production Phase of a Surface Mine”	January 1, 2013
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
IFRS 9 “Financial Instruments”	Effective date not determined
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	Effective date not determined
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after the respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

- b. Significant impending changes in accounting policy that would result from adoption of New IFRSs in issue but not yet effective

Except for the following, the impending initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies:

1) IFRS 9 "Financial Instruments"

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the balance sheet date. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

2) IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

3) Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to IAS 1 require items of other comprehensive income to be grouped into those that (1) will not be reclassified subsequently to profit or loss; and (2) will be reclassified subsequently to profit or loss when specific conditions are met. Income taxes on related items of other comprehensive income are grouped on the same basis. Previously, there were no such requirements.

4) Amendments to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

In issuing IFRS 13 "Fair Value Measurement", the IASB made some consequential amendments to the disclosure requirements in IAS 36 "Impairment of Assets", introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that the disclosure of such recoverable amount is required during the period when an impairment loss has been recognized or reversed. Furthermore, the Company is required to disclose the discount rate used in current and previous measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

5) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 “Share-Based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

The amended IFRS 2 changes the definitions of ‘vesting condition’ and ‘market condition’ and adds definitions for ‘performance condition’ and ‘service condition’. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company or another entity in the same group or the market price of the equity instruments of the Company or another entity in the same (i.e. a market condition); that a performance target can relate either to the performance of the Company as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company, but also of other entities outside the Company.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have ‘similar economic characteristics’. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

6) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards including IFRS 3, IFRS 13 and IAS 40 “Investment Property” were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required to determine whether the investment property acquired is acquisition of an asset or a business combination.

- c. Material impact on financial statements that would result from adoption of new and revised standards, amendments and interpretations in issue but not yet effective

The Company is in the process of estimating the impact of the initial application of the standards, amendments and interpretations on its financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been completed and the financial statements have been approved and authorized for issuance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements for the year ended December 31, 2013 are its first IFRS financial statements prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

- a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

- b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

- c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and

- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements of each individual company entity, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries, associates, joint ventures or branches in other countries or currencies used are different from the functional currency of the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investments accounted for using equity method

Investments in subsidiaries, associates and jointly controlled entities are accounted for by the equity method.

1) Investment in subsidiaries

Subsidiaries (including special purpose entities) are the entities controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and side stream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

2) Investment in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of equity of associates.

When the Company subscribes for additional new shares of the associate, at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate equals or exceeds its interest in that associate, the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a company entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

g. Property, plant, and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

h. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Gains or losses from derecognition of an intangible asset, which are measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

i. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell or value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

i. Available-for-sale financial assets

Listed stocks held by the Company that are traded in an active market are classified as available-for-sale financial assets and are stated at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss that was previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets.

ii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments and the delayed payments in the portfolio past the average credit period.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security is considered to be objective evidence of impairment. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Financial liabilities

All financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

k. Financial Provision

Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The Company has accrued provision for product guarantee at a certain percentage of current sales.

l. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced by the amount of estimated customer returns, rebates and other similar allowances.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

m. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than as stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

n. Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method. All actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

o. Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for post-employment benefits except that all past service cost and actuarial gains and losses are recognized immediately.

p. Employee share options

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of employee share options that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the employee share options is recognized as an expense in full at the grant date when the share options granted vest immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforward, research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Income tax

Due to the unpredictability of future profitability, the reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such reversal takes place.

b. Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. The fair value of financial instruments

The Company applies valuation techniques commonly used by market participants. For derivative financial instruments, assumptions were based on quoted market rates adjusted for specific features of the instruments. The estimated fair value of unlisted equity instruments is based on the analysis of the financial position and operation result of investee. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

d. The impairment and useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Equipment impairment amount is based on the recoverable amount of the equipment (i.e., the higher of the fair value less the costs to sell of the asset or its value in use). Changes in market prices and future cash flows will affect the recoverability of these assets and may result in recognition of additional impairment loss or reversal of impairment loss.

e. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

f. Recognition of defined benefit plans

The pension expenses and pension liability recognized in defined benefit plans are determined using the Projected Unit Credit Method. The actuarial assumptions used in the valuation of defined benefit plans include discount rate, employee turnover rates and employee salary increase rate. Changes in the market and economic condition may have a material impact on the amount of pension expense and pension liability.

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	\$ 618	\$ 602	\$ 895
Checking accounts and demand deposits	952,946	898,235	1,092,227
Time deposits	-	-	120,560
Repurchase agreements collateralized by bonds	<u>-</u>	<u>63,966</u>	<u>339,237</u>
	<u>\$ 953,564</u>	<u>\$ 962,803</u>	<u>\$ 1,552,919</u>

The ranges of market rates of demand deposits, time deposits and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Demand deposits and time deposits	0.01%-0.60%	0.01-0.65%	0.01-1.45%
Repurchase agreements collateralized by bonds	-	0.76%	0.75%

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NON-CURRENT

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Quoted stocks</u>			
Hua Jung Component Co., Ltd.	<u>\$ -</u>	<u>\$ 30,620</u>	<u>\$ 33,357</u>

8. FINANCIAL ASSETS MEASURED AT COST, NON-CURRENT

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Unlisted stocks</u>			
Bao-Dian Venture Capital Co., Ltd.	\$ 9,015	\$ 12,255	\$ 12,255
Yuan-Jing Venture Capital Co., Ltd.	20,010	31,500	31,500
Han-Tong Venture Capital Co., Ltd.	49,996	-	-
Asiatech Taiwan Venture Fund	<u>682</u>	<u>2,748</u>	<u>5,057</u>
	<u>\$ 79,703</u>	<u>\$ 46,503</u>	<u>\$ 48,812</u>

Management believed that the fair value of the above unlisted equity investments held by the Company cannot be reliably measured due to the very wide range of reasonable fair value estimates; therefore they were measured at cost less impairment at the end of reporting period.

Bao-Dian Venture Capital Co., Ltd. had outstanding common stock of \$128,700 thousand at January 1, 2013. In the fourth quarter of 2013, Bao-Dian Venture Capital Co., Ltd.'s board of directors approved to decrease and return its capital in the amount of \$45,045 thousand, capital reduction ratio of 35%. The Company received the returned capital of \$3,240 thousand. Bao-Dian Venture Capital Co., Ltd. had outstanding common stock of \$83,655 thousand at December 31, 2013.

Yuan-Jing Venture Capital Co., Ltd. had outstanding common stock of \$619,750 thousand at January 1, 2013. In the third quarter of 2013, Yuan-Jing Venture Capital Co., Ltd.'s board of directors approved to decrease and return its capital in the amount of \$212,575 thousand, capital reduction ratio of 34.3%. The Company received the returned capital of \$11,490 thousand. Yuan-Jing Venture Capital Co., Ltd. had outstanding common stock of \$407,175 thousand at December 31, 2013.

The Company purchased 4,330 thousand shares of Han-Tong Venture Capital Co., Ltd.'s common stocks with per share price of NT\$11.55 in August 2013.

9. TRADE RECEIVABLE

	December 31, 2013	December 31, 2012	January 1, 2012
Trade receivable	\$ 1,152,997	\$ 1,431,728	\$ 1,368,946
Less: Allowance for doubtful accounts	<u>(4,482)</u>	<u>(22,067)</u>	<u>(44,719)</u>
	<u>1,148,515</u>	<u>1,409,661</u>	<u>1,324,227</u>
Trade receivable from related parties (Note 25)	378,727	191,708	554,410
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>-</u>
	<u>378,727</u>	<u>191,708</u>	<u>554,410</u>
	<u><u>\$ 1,527,242</u></u>	<u><u>\$ 1,601,369</u></u>	<u><u>\$ 1,878,637</u></u>

The average credit period for sales of goods was 30-70 days. In determining the recoverability of trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts was recognized against trade receivable based on estimated irrecoverable amounts determined by reference to credit risk level of the counterparties and an analysis of their current financial position.

The aging of receivables that were past due but not impaired was as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Not overdue and not impaired	\$ 1,521,510	\$ 1,596,595	\$ 1,838,569
Overdue under 60 days	3,826	5,402	25,353
Overdue 61 days and longer	<u>6,388</u>	<u>21,439</u>	<u>59,434</u>
	<u><u>\$ 1,531,724</u></u>	<u><u>\$ 1,623,436</u></u>	<u><u>\$ 1,923,356</u></u>

Movements in the allowance for doubtful accounts recognized on trade receivable were as follows:

	For the Year Ended December 31	
	2013	2012
Balance at January 1	\$ 22,067	\$ 44,719
Reversed impairment loss on receivables	(10,000)	(20,519)
Amounts written off as uncollectible	<u>(7,585)</u>	<u>(2,133)</u>
Balance at December 31	<u><u>\$ 4,482</u></u>	<u><u>\$ 22,067</u></u>

10. INVENTORIES

	December 31, 2013	December 31, 2012	January 1, 2012
Raw materials	\$ 3,596	\$ 4,150	\$ 4,465
Work-in-process	478	586	1,129
Merchandise	<u>239,527</u>	<u>314,760</u>	<u>525,661</u>
	<u>\$ 243,601</u>	<u>\$ 319,496</u>	<u>\$ 531,255</u>

As of December 31, 2013, December 31, 2012 and January 1, 2012, allowance of inventory devaluation were all the same at \$53,327 thousand.

For the years ended December 31, 2013 and 2012, the cost of inventories recognized as cost of goods sold was \$10,191,618 thousand and \$9,593,415 thousand, respectively.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31, 2013	December 31, 2012	January 1, 2012
Investments in subsidiaries	\$ 5,532,860	\$ 4,892,654	\$ 4,753,043
Investments in associates	<u>177,850</u>	<u>207,814</u>	<u>214,910</u>
	<u>\$ 5,710,710</u>	<u>\$ 5,100,468</u>	<u>\$ 4,967,953</u>

a. Investments in subsidiaries:

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Unlisted stocks</u>			
Phihong International Corp.	\$ 3,509,203	\$ 3,111,755	\$ 3,080,259
Phitek International Co., Ltd.	474,055	508,025	533,298
Ascent Alliance Ltd.	432,051	348,209	364,209
Phihong USA Corp.	769,953	634,001	515,749
American Ballast Corp.	15,756	15,242	15,854
Phihong Technology Japan Co., Ltd.	77,256	39,076	-
Guan-Lai Investment Co., Ltd.	<u>254,586</u>	<u>236,346</u>	<u>243,674</u>
	<u>\$ 5,532,860</u>	<u>\$ 4,892,654</u>	<u>\$ 4,753,043</u>

At the end of the reporting period, the percentages of ownership and voting rights in subsidiaries held by the Company were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Phihong International Corp.	100%	100%	100%
Phitek International Co., Ltd.	100%	100%	100%
Ascent Alliance Ltd.	100%	100%	100%
Phihong USA Corp.	100%	100%	100%
American Ballast Corp.	100%	100%	100%
Phihong Technology Japan Co., Ltd.	100%	100%	100%
Guan-Lai Investment Co., Ltd.	100%	100%	100%

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2013 and 2012 were based on the subsidiaries' s financial statements audited by auditors for the same years.

The Company had made additional investments of \$295,391 thousand and \$238,942 thousand in cash in Pihong International Corp. in 2013 and 2012, respectively.

The Company had made additional investment of \$106,488 thousand in cash in Ascent Alliance Ltd. in 2013.

The Company had made additional investments of JPY200,000 thousand in cash in Pihong Technology Japan Co., Ltd. in both 2013 and 2012. The board of directors passed a resolution of capital deduction to offset deficit of JPY200,000 thousand.

b. Investments in associates:

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Unlisted stocks</u>			
Hao-Xuan Venture Capital Co., Ltd.	\$ 40,208	\$ 55,052	\$ 67,350
H&P Venture Capital Co., Ltd.	<u>137,642</u>	<u>152,762</u>	<u>147,560</u>
	<u>\$ 177,850</u>	<u>\$ 207,814</u>	<u>\$ 214,910</u>

At the end of the reporting period, the percentages of ownership and voting rights in associates held by the Company were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Hao-Xuan Venture Capital Co., Ltd.	24.67%	24.67%	24.67%
H&P Venture Capital Co., Ltd.	32.26%	32.26%	32.26%
Pihong PWM Brasil Ltda.	60.00%	60.00%	60.00%
First International Computer Do Brasil Ltda.	33.85%	33.85%	33.85%

In 2012, Hao-Xuan Venture Capital Co., Ltd.'s board of directors approved to decrease and return its capital in the amount of \$44,509 thousand. The Company received the returned capital of \$10,979 thousand.

Pihong's investments in Brazil include 60% ownership interest of Pihong PWM Brasil Ltda. and 33.85% ownership interest of First International Computer Do Brasil Ltda. Additionally, Pihong PWM Brasil Ltda. also holds 21.15% ownership interest of First International Computer Do Brasil Ltda. The other 40% ownership interest of Pihong PWM Brasil Ltda. is held by the local management team. According to cooperation mode between the Company and the local management team and under Brazilian local laws, the Company has no controlling power over Pihong PWM Brasil Ltda. Because the recoverability of the investments in Pihong PWM Brasil Ltda. and First International Computer Do Brasil Ltda. is considered remote, the Company reduced the carrying value of both investments to zero.

The summarized financial information in respect of the Company's associates was set out below:

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets	<u>\$ 594,657</u>	<u>\$ 722,229</u>	<u>\$ 735,986</u>
Total liabilities	<u>\$ 4,959</u>	<u>\$ 25,478</u>	<u>\$ 5,504</u>
	For the Year Ended December 31		
	2013	2012	
Revenue for the period		<u>\$ 5,867</u>	<u>\$ 290,247</u>
Profit (loss) for the period		<u>\$ (9,901)</u>	<u>\$ 18,621</u>
Other comprehensive income for the period		<u>\$ (85,680)</u>	<u>\$ 3,756</u>

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2013 and 2012 were based on the associates' financial statements audited by auditors for the same years.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>						
Balance at January 1, 2012	\$ 207,436	\$ 294,901	\$ 127,276	\$ 149,957	\$ 7,544	\$ 787,114
Additions	-	479	6,620	40,446	4,893	52,438
Disposals	-	(168)	(3,440)	(2,275)	-	(5,883)
Others	-	-	8,029	579	(11,172)	(2,564)
Balance at December 31, 2012	<u>\$ 207,436</u>	<u>\$ 295,212</u>	<u>\$ 138,485</u>	<u>\$ 188,707</u>	<u>\$ 1,265</u>	<u>\$ 831,105</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2012	\$ -	\$ 109,720	\$ 78,398	\$ 98,089	\$ -	\$ 286,207
Disposals	-	(133)	(3,440)	(1,401)	-	(4,974)
Depreciation expense	-	11,600	12,013	24,269	-	47,882
Others	-	-	(429)	429	-	-
Balance at December 31, 2012	<u>\$ -</u>	<u>\$ 121,187</u>	<u>\$ 86,542</u>	<u>\$ 121,386</u>	<u>\$ -</u>	<u>\$ 329,115</u>
Carrying amounts at January 1, 2012	<u>\$ 207,436</u>	<u>\$ 185,181</u>	<u>\$ 48,878</u>	<u>\$ 51,868</u>	<u>\$ 7,544</u>	<u>\$ 500,907</u>
Carrying amounts at December 31, 2012	<u>\$ 207,436</u>	<u>\$ 174,025</u>	<u>\$ 51,943</u>	<u>\$ 67,321</u>	<u>\$ 1,265</u>	<u>\$ 501,990</u>
<u>Cost</u>						
Balance at January 1, 2013	\$ 207,436	\$ 295,212	\$ 138,485	\$ 188,707	\$ 1,265	\$ 831,105
Additions	-	-	5,748	39,859	71,875	117,482
Disposals	-	(101)	(3,803)	(7,216)	-	(11,120)
Others	-	-	657	-	(1,008)	(351)
Balance at December 31, 2013	<u>\$ 207,436</u>	<u>\$ 295,111</u>	<u>\$ 141,087</u>	<u>\$ 221,350</u>	<u>\$ 72,132</u>	<u>\$ 937,116</u>

(Continued)

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Property in Construction	Total
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2013	\$ -	\$ 121,187	\$ 86,542	\$ 121,386	\$ -	\$ 329,115
Disposals	-	(15)	(2,550)	(7,216)	-	(9,781)
Depreciation expense	-	10,750	12,746	27,783	-	51,279
Others	-	-	-	-	-	-
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 131,922</u>	<u>\$ 96,738</u>	<u>\$ 141,953</u>	<u>\$ -</u>	<u>\$ 370,613</u>
Carrying amounts at December 31, 2013	<u>\$ 207,436</u>	<u>\$ 163,189</u>	<u>\$ 44,349</u>	<u>\$ 79,397</u>	<u>\$ 72,132</u>	<u>\$ 566,503</u>

(Concluded)

The above items of property, plant and equipment were depreciated on a straight-line basis over the following estimated useful life:

Buildings	
Main building	50 years
Engineering system	10 years
Machinery and equipment	3-10 years
Other equipment	3-5 years

Refer to Note 26 for the carrying amount of property, plant and equipment that had been pledged by the Company to secure long-term loans.

13. OTHER INTANGIBLE ASSETS

	Computer Software
<u>Cost</u>	
Balance at January 1, 2012	\$ 32,877
Additions	<u>26,117</u>
Balance at December 31, 2012	<u>\$ 58,994</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2012	\$ 15,906
Depreciation expense	<u>9,399</u>
Balance at December 31, 2012	<u>\$ 25,305</u>
Carrying amounts at January 1, 2012	<u>\$ 16,971</u>
Carrying amounts at December 31, 2012	<u>\$ 33,689</u>

(Continued)

	Computer Software
<u>Cost</u>	
Balance at January 1, 2013	\$ 58,994
Additions	6,478
Disposals	<u>(158)</u>
Balance at December 31, 2013	<u>\$ 65,314</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2013	\$ 25,305
Disposals	11,656
Depreciation expense	<u>(158)</u>
Balance at December 31, 2013	<u>\$ 36,803</u>
Carrying amounts at December 31, 2013	<u>\$ 28,511</u> (Concluded)

The above items of intangible assets were depreciated on a straight-line basis over estimated useful life of 2 to 5 years.

14. BORROWINGS

Short-term Debt

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Unsecured loan</u>			
Bank borrowings	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>
Interest rate	<u>1.32%</u>	<u>-</u>	<u>-</u>

Long-term Debt

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Unsecured loan</u>			
Medium-term loan			
Repayable from March 13, 2013 to March 13, 2015; interest rate was 1.42% on December 31, 2013. Interest is paid monthly and principal is due on March 13, 2015.	\$ 100,000	\$ -	\$ -
Medium-term loan			
Repayable from August 13, 2013 to August 13, 2015; interest rate was 1.42% on December 31, 2013. Interest is paid monthly and principal is due on August 13, 2015.	100,000	-	-

(Continued)

	December 31, 2013	December 31, 2012	January 1, 2012
Medium-term loan			
Repayable from September 27, 2012 to September 27, 2014; interest rate was 1.37% on December 31, 2012. Interest is paid monthly and principal is due on September 27, 2014 (principal was fully repaid in December 2013).	\$ -	\$ 100,000	\$ -
Medium-term secured loan			
Repayable from December 11, 2013 to December 11, 2015; interest rate was 1.39% on December 31, 2013. Interest is paid monthly and principal is due on December 11, 2015.	250,000	-	-
<u>Secured loan</u>			
Medium-term secured loan			
Repayable from December 11, 2013 to December 11, 2015; interest rate was 1.39% on December 31, 2013. Interest is paid monthly and principal is due on December 11, 2015.	250,000	-	-
Medium-term secured loan			
Repayable from August 13, 2013 to November 19, 2015; interest rate was 1.48% on December 31, 2012. Interest is due monthly and principal is repaid monthly from December 19, 2014.	100,000	-	-
Medium-term secured loan			
Repayable from September 27, 2012 to September 27, 2014; interest rate was 1.37% on December 31, 2013. Interest is due monthly and principal is due on September 27, 2014 (principal was fully repaid in December 2013).	-	100,000	-
Medium-term secured loan			
Repayable from December 29, 2011 to December 29, 2013; interest rate was 1.37% on January 1, 2012. Interest is paid monthly and principal is due on December 29, 2013. Principal was fully repaid in September 2012.	-	-	200,000
	800,000	200,000	200,000
Less: Long-term loans payable - current portion	(8,333)	-	-
	<u>\$ 791,667</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u> (Concluded)

For pledged properties and endorsements/guarantees, please see Notes 25 and 26 to the financial statements.

15. OTHER PAYABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Payable for salaries and bonus	\$ 148,181	\$ 141,843	\$ 44,687
Compensation payable to employees and directors and supervisors	27,456	55,720	256,618
Payable for annual leave	11,775	11,795	11,959
Materials payable and procurement	1,377,449	1,530,388	1,569,651
Other payable to related parties (Note 25)	274,984	214,300	229,602
Others	<u>426,353</u>	<u>489,244</u>	<u>564,716</u>
	<u>\$ 2,266,198</u>	<u>\$ 2,443,290</u>	<u>\$ 2,677,233</u>

16. PROVISION (RECORDED AS OTHER CURRENT LIABILITIES)

	December 31, 2013	December 31, 2012	January 1, 2012
Warranties	\$ 5,943	\$ 6,164	\$ 5,533
Export losses	<u>49,052</u>	<u>49,052</u>	<u>49,052</u>
	<u>\$ 54,995</u>	<u>\$ 55,216</u>	<u>\$ 54,585</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under local regulations on sale of goods.

The provision of export loss represents the possible product returns and rebates; the amount was estimated based on historical experience, management's judgments and other known reasons.

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investments are conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Regulations for Revenues, Expenditure, Safeguard and Utilization of the Labor Retirement Fund, the return generated by employees' pension contributions should not be below the interest rate for a 2-year time deposit with local banks.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rates	1.875%	1.625%	1.75%
Expected return on plan assets	2.00%	1.875%	2.00%
Expected rates of salary increase	3.25%	3.25%	3.25%

The assessment of the overall expected rate of return was based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation, by reference to the expected use of the plan assets and the impact of the related minimum return.

Amounts recognized in profit or loss in respect of these defined benefit plans were as follows:

	<u>For the Year Ended December 31</u>	
	2013	2012
Current service cost	\$ 1,204	\$ 1,907
Interest cost	1,839	2,302
Expected return on plan assets	<u>(894)</u>	<u>(1,194)</u>
	<u>\$ 2,149</u>	<u>\$ 3,015</u>
An analysis by function		
Operating cost	\$ 201	\$ 257
Marketing expenses	296	464
Administration expenses	280	427
Research and development expenses	<u>1,372</u>	<u>1,867</u>
	<u>\$ 2,149</u>	<u>\$ 3,015</u>

Actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2013 and 2012 was \$1,447 thousand and \$6,880 thousand, respectively. The cumulative amount of actuarial gains and losses recognized in other comprehensive income as of December 31, 2013 and 2012 was \$8,327 thousand and \$6,880 thousand, respectively.

The amounts included in the balance sheets in respect of the Company's obligations on defined benefit plans were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	\$ 109,995	\$ 113,180	\$ 131,560
Fair value of plan assets	<u>(44,809)</u>	<u>(46,388)</u>	<u>(58,290)</u>
Net liability arising from defined benefit obligation	<u>\$ 65,186</u>	<u>\$ 66,792</u>	<u>\$ 73,270</u>

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2013	2012
Opening defined benefit obligation	\$ 113,180	\$ 131,560
Current service cost	1,204	1,907
Interest cost	1,839	2,302
Actuarial losses/(gains)	(1,728)	(7,536)
Benefits paid	<u>(4,500)</u>	<u>(15,053)</u>
Closing defined benefit obligation	<u>\$ 109,995</u>	<u>\$ 113,180</u>

Movements in the fair value of the plan assets were as follows:

	For the Year Ended December 31	
	2013	2012
Opening fair value of plan assets	\$ 46,388	\$ 58,290
Expected return on plan assets	894	1,194
Actuarial losses/(gains)	(281)	(656)
Contributions from the employer	2,308	2,613
Benefits paid	<u>(4,500)</u>	<u>(15,053)</u>
Closing fair value of plan assets	<u>\$ 44,809</u>	<u>\$ 46,388</u>

The major categories and related percentage of the fair value of plan assets at the balance sheet date were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Equity instruments	43.64%	38.29%	41.26%
Debt instruments	9.83%	11.00%	11.49%
Deposit in financial institutions	22.17%	23.39%	22.76%
Others	<u>24.36%</u>	<u>27.32%</u>	<u>24.49%</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

The Company expects to make a contribution of \$1,998 thousand to the defined benefit plans during the annual period beginning after 2013.

18. EQUITY

Share Capital

	December 31, 2013	December 31, 2012	January 1, 2012
Number of shares authorized (in thousands)	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>
Shares authorized	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>277,164</u>	<u>277,164</u>	<u>274,933</u>
Shares issued	<u>\$ 2,771,639</u>	<u>\$ 2,771,639</u>	<u>\$ 2,749,329</u>

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

On June 14, 2013, Phihong Technology Co., Ltd.'s board of stockholders resolved to issue 5,000 thousand restricted stock shares, with a par value of NT\$10 each, or NT\$50,000 thousand total. Exercise price is zero each. Except for restrictions against the transfer of shares, the rights and obligations of these common stocks (including allotment, dividend, shareholders' voting right, and capital injection right, etc.) before the employees fulfill the vesting conditions, are the same with other outstanding common stocks.

Capital Surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Issuance of common shares	\$ 226,556	\$ 226,556	\$ 203,406
Conversion of bonds	661,582	661,582	661,582
Treasury share transactions	48,234	48,234	48,234
Interest payable of bond conversion	<u>13,243</u>	<u>13,243</u>	<u>13,243</u>
	<u>\$ 949,615</u>	<u>\$ 949,615</u>	<u>\$ 926,465</u>

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares, conversion of bonds and treasury share transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital and once a year).

The capital surplus from long-term investments, employee share options and share warrants may not be used for any purpose.

Retained Earnings and Dividend Policy

Under the Company Law of the ROC and Phihong's Articles of Incorporation, 10% of Phihong's annual earnings, net of tax and any deficit, should first be appropriated as legal reserve until such reserve equals to the amount of Phihong's capital, and then a special reserve should be appropriated as required by laws or local authorities. Any remaining earnings plus unappropriated earnings accumulated in prior years, unless to be retained partially by Phihong or resolved otherwise by the stockholders, should be appropriated as follows:

- a. Not greater than 2% as remuneration to directors and supervisors;
- b. Not less than 10% as bonuses to employees; and
- c. The remaining as dividends, of which at least 10% should be cash dividends.

For the years ended December 31, 2013 and 2012, the bonus to employees was \$24,710 thousand and \$50,148 thousand, respectively, and the remuneration to directors and supervisors was \$2,746 thousand and \$5,572 thousand, respectively. The bonus to employees and remuneration to directors and supervisors were expensed based on estimated percentage of net income (net of the bonus and remuneration). Material differences between such 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 a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Under Rule No. 1010012865 issued by the FSC on April 6, 2012 and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”, a company should appropriate to special reserve.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company’s capital surplus. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

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 Company.

The appropriations of earnings for 2012 and 2011 had been approved in stockholders’ meetings held on June 14, 2013 and June 19, 2012, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2012	For Year 2011	For Year 2012	For Year 2011
Legal reserve	\$ 30,955	\$ 142,565	\$ -	\$ -
Cash dividends	277,164	995,969	1.00	3.59

The bonus to employees and the remuneration to directors and supervisors for 2012 and 2011 had been approved in the stockholders’ meetings held on June 14, 2013 and June 19, 2012, respectively. Related amounts were as follows:

	For the Year Ended 2012		For the Year Ended 2011	
	Cash Dividends	Stock Dividends	Cash Dividends	Stock Dividends
Bonus to employees	\$ 50,148	\$ -	\$ 236,998	\$ -
Remuneration of directors and supervisors	5,572	-	19,620	-

There was no difference between the amounts accrued and the amounts approved in the stockholders’ meetings with respect to bonus to employees and remuneration to directors and supervisors.

The appropriations of earnings for 2012 were proposed according to the Company’s financial statements for the year ended December 31, 2012, which were prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and ROC GAAP, and by reference to the balance sheet as of December 31, 2012, which was prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (revised) and International Financial Reporting Standards.

The appropriations of earnings for 2013 had been proposed by the Company’s board of directors on March 21, 2014. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 15,253	\$ -
Cash dividends	137,281	0.5

The appropriations of earnings, the bonus to employees, and the remuneration to directors and supervisors for 2013 are subject to the resolution in the shareholders’ meeting to be held on June 19, 2014.

Information on the bonus to employees, directors and supervisors proposed by the Company's board of directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

Special Reserves Appropriated Following First-time Adoption of IFRSs

The Company's special reserves appropriated following first-time adoption of IFRSs were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Special reserve	\$ <u>230,859</u>	\$ <u>-</u>	\$ <u>-</u>

The Company transferred unrealized revaluation increment and cumulative translation differences to retained earnings at the amount of \$10,968 thousand and \$250,296 thousand, respectively. The increase in retained earnings that resulted from all IFRSs adjustments was smaller than the total revaluation and translation differences; therefore, the Company appropriated to the special reserve an amount of \$230,859 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

Other Equity Items

- a. Exchange differences on translation foreign operations

	For the Year Ended December 31	
	2013	2012
Balance at January 1	\$ (148,361)	\$ -
Exchange differences arising on translating foreign operations	<u>221,641</u>	<u>(148,361)</u>
Balance at December 31	<u>\$ 73,280</u>	<u>\$ (148,361)</u>

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (i.e. New Taiwan dollars) were recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

- b. Unrealized gain (loss) on available for-sale financial assets

	For the Year Ended December 31	
	2013	2012
Balance at January 1	\$ (15,603)	\$ (22,304)
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	(1,875)	6,458
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>(8,950)</u>	<u>243</u>
Balance at December 31	<u>\$ (26,428)</u>	<u>\$ (15,603)</u>

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

19. NET PROFIT FROM CONTINUING OPERATIONS

a. Other gains and losses

	For the Year Ended December 31	
	2013	2012
Gain (loss) on disposal of property, plant and equipment	\$ 422	\$ (433)
Exchange loss, net	(3,717)	(45,367)
Gain on disposal of investment	2,347	-
Others	<u>(374)</u>	<u>(313)</u>
	<u>\$ (1,322)</u>	<u>\$ (46,113)</u>

b. Depreciation and amortization

	For the Year Ended December 31	
	2013	2012
An analysis of depreciation by function		
Operating costs	\$ 1,709	\$ 1,683
Operating expenses	<u>49,570</u>	<u>46,199</u>
	<u>\$ 51,279</u>	<u>\$ 47,882</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>11,656</u>	<u>9,399</u>
	<u>\$ 11,656</u>	<u>\$ 9,399</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2013	2012
Post-employment benefits (Note 19)		
Defined contribution plans	\$ 16,635	\$ 15,681
Defined benefit plans	<u>2,149</u>	<u>3,015</u>
	18,784	18,696
Short-term employee benefits	<u>501,487</u>	<u>491,621</u>
	<u>\$ 520,271</u>	<u>\$ 510,317</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 49,340	\$ 45,453
Operating expenses	<u>470,931</u>	<u>464,864</u>
	<u>\$ 520,271</u>	<u>\$ 510,317</u>

20. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2013	2012
Current tax		
In respect of the current period	\$ 41,444	\$ 74,409
In respect of prior periods	4,556	1,409
Additional tax at 10% of unappropriated earnings	<u>143</u>	<u>28,712</u>
	46,143	104,530
Deferred tax		
In respect of the current period	<u>750</u>	<u>17,907</u>
Total income tax expense recognized in the current period	<u>\$ 46,893</u>	<u>\$ 122,437</u>

Accounting income and current income tax expense were reconciled as follows:

	For the Year Ended December 31	
	2013	2012
Income tax expense at statutory rate	\$ 41,444	\$ 74,409
Income tax on unappropriated earnings	143	28,712
Current income tax expense	<u>41,587</u>	<u>103,121</u>
Reversal of provision for deferred income tax assets (liabilities)		
Temporary difference	750	17,907
Adjustments to prior year's income tax expense	<u>4,556</u>	<u>1,409</u>
Total income tax expense recognized in the current period	<u>\$ 46,893</u>	<u>\$ 122,437</u>

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2013	2012
<u>Deferred tax</u>		
In respect of the current year:		
Actuarial gains on defined benefit plan	<u>\$ 246</u>	<u>\$ 1,170</u>
Total income tax recognized in other comprehensive income	<u>\$ 246</u>	<u>\$ 1,170</u>

c. Deferred tax assets and liabilities

The Company has offset certain deferred tax assets with deferred tax liabilities which met the offset criteria.

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2013

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory devaluation losses	\$ 9,070	\$ -	\$ -	\$ 9,070
Allowance for doubtful accounts	10,160	740	-	10,900
Unrealized gross profit	11,100	(2,570)	-	8,530
Deferred pension costs	10,280	(10)	-	10,270
Others	<u>7,809</u>	<u>1,090</u>	<u>(246)</u>	<u>8,653</u>
	<u>\$ 48,419</u>	<u>\$ (750)</u>	<u>\$ (246)</u>	<u>\$ 47,423</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>

For the year ended December 31, 2012

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory devaluation losses	\$ 9,070	\$ -	\$ -	\$ 9,070
Allowance for doubtful accounts	10,060	100	-	10,160
Unrealized gross profit	27,020	(15,920)	-	11,100
Deferred pension costs	10,170	110	-	10,280
Others	<u>11,176</u>	<u>(2,197)</u>	<u>(1,170)</u>	<u>7,809</u>
	<u>\$ 67,496</u>	<u>\$ (17,907)</u>	<u>\$ (1,170)</u>	<u>\$ 48,419</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>

d. Information on integrated income tax was as follows:

	December 31, 2013
Unappropriated earnings	
Unappropriated earnings generated before January 1, 1998	\$ -
Unappropriated earnings generated on and after January 1, 1998	<u>853,368</u>
	<u>\$ 853,368</u>
Balance of imputation credit account (ICA)	<u>\$ 205,517</u>

The creditable ratio for distribution of earnings of 2013 and 2012 was 30.15% (expected ratio) and 27.69%, respectively.

Under the Income Tax Law, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Company is calculated based on the creditable ratio as of the date of dividend distribution. The actual imputation credits allocated to shareholders of the Company is based on the balance of the ICA as of the date of dividend distribution. Therefore, the expected creditable ratio for the 2013 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

According to legal interpretation No. 10204562810 announced by the Taxation Administration of the Ministry of Finance, when calculating imputation credits in the year of first-time adoption of IFRSs, the cumulative retained earnings include the net increase or net decrease in retained earnings arising from first-time adoption of IFRSs.

e. Income tax assessments

The latest income tax returns through 2011 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

	Income After Tax (Attributed to Owners of the Company)	Number of Common Shares Outstanding (In Thousands)	Earnings Per Share (NT\$)
<u>For the year ended December 31, 2013</u>			
Basic earnings per share			
Net income	<u>\$ 152,534</u>	277,164	<u>\$ 0.55</u>
Effect of dilutive potential common shares			
Employee share option		-	
Employee bonus		<u>1,316</u>	
Diluted earnings per share			
Net income attributed to holders of common shares plus the effect of dilutive potential common shares	<u>\$ 152,534</u>	<u>278,480</u>	<u>\$ 0.55</u>
<u>For the year ended December 31, 2012</u>			
Basic earnings per share			
Net income	<u>\$ 321,214</u>	276,929	<u>\$ 1.13</u>
Effect of dilutive potential common shares			
Employee share option		1,856	
Employee bonus		<u>2,026</u>	
Diluted earnings per share			
Net income attributed to holders of common shares plus the effect of dilutive potential common shares	<u>\$ 321,214</u>	<u>280,811</u>	<u>\$ 1.11</u>

If the Company can settle the bonuses to employees by cash or shares, the Company presumes that the entire amount of the bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

22. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of the Company were granted 15,000 thousand options in December 2007. Each option entitles the holder to subscribe for one thousand new issued common shares of the Company. The options granted are valid for 6 years and the warrant holders can not exercise the right after 6 years from the grant date. The warrant holders can exercise the right up to half of the granted warrant units no earlier than two years from the grant date. After three years from the grant date, the warrants holders are eligible to exercise the right up to three-fourth of the granted warrant units. After four years from the grant date, the warrants holders are eligible to exercise all the warrants owned. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the OTC on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2013		2012	
	Number of Options (In Thousand Shares)	Weighted- average Exercisable Price (NT\$)	Number of Options (In Thousand Shares)	Weighted- average Exercisable Price (NT\$)
Balance at January 1	4,515	\$ 18.20	6,867	\$ 20.50
Options exercised	-		(1,443)	20.31
Options expired	<u>(4,515)</u>		<u>(909)</u>	
Balance at December 31	<u>-</u>	-	<u>4,515</u>	18.20
Options exercisable, end of period	<u>-</u>		<u>4,515</u>	

23. CAPITAL MANAGEMENT

The capital structure of the Company consists of net debt (borrowings minus cash and cash equivalents) and equity attributable to owners of the Company.

Key management personnel of the Company review the capital structure periodically. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to stockholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value of financial instruments not carried at fair value

Except for the financial assets carried at cost, of which fair values can not be reliably measured, the management of the Company considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

2) Fair value measurements recognized in the balance sheets

The following table provides an analysis of financial instruments that are measured at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities:

	December 31, 2013	December 31, 2012	January 1, 2012
Available-for-sale financial assets			
Equity securities listed in ROC	\$ <u>-</u>	\$ <u>30,620</u>	\$ <u>33,357</u>

3) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices. When such prices are not available, valuation techniques are applied. The estimates and assumptions used by the Company are consistent with those that market participants would use in setting a price for the financial instrument.

b. Categories of financial instruments

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Financial assets</u>			
Loans and receivables			
Cash and cash equivalents	\$ 953,564	\$ 962,803	\$ 1,552,919
Trade receivables	1,148,515	1,409,661	1,324,227
Trade receivables from related parties	378,727	191,708	554,410
Other receivables	22,455	41,973	46,124
Other receivables from related parties	515,802	489,278	423,703
Refundable deposits (recorded as other non-current assets)	13,704	13,914	13,759
Available-for-sale financial assets	-	30,620	33,357
Financial assets carried at cost	79,703	46,503	48,812
<u>Financial liabilities</u>			
Measured at amortized cost			
Short-term debts	100,000	-	-
Trade payable	11,899	30,141	41,212
Trade payable to related parties	335,450	388,686	158,881
Other payables	2,266,198	2,443,290	2,677,233
Current portion of long-term debts	8,333	-	-
Long-term debts	791,667	200,000	200,000

c. Financial risk management objectives and policies

The Company's major financial instruments included cash and cash equivalents, trade receivables, trade receivables from related parties, other receivables, other receivables from related parties, refundable deposits, trade payable, trade payable to related parties, other payables, short-term debts, and long-term debts. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

1) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are presented in Note 28.

Sensitivity analysis

The Company was mainly exposed to the currency USD.

The following table details the Company's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity items when New Taiwan dollars strengthen by 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity items and the balances below would be negative.

	Currency USD Impact	
	For the Year Ended December 31	
	2013	2012
Profit or loss	\$ 3,974	\$ 2,113

b) Interest rate risk

The Company was exposed to fair value risk and cash flow interest rate risk from short-term loans, long-term loans, time deposit, repurchase agreements and collateralized bonds at both fixed and floating interest rates.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Fair value interest rate risk			
Financial liabilities	\$ 600,000	\$ 200,000	\$ 200,000
Cash flow interest rate risk			
Financial assets	-	63,966	459,797
Financial liabilities	300,000	-	-

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 1% higher and all other variables were held constant, the Company's pre-tax profit for the year ended December 31, 2013 would have been lower by \$3,000 thousand, which was mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk approximates the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of customers in view of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

3) Liquidity risk

a) Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods:

December 31, 2013

<u>Non-derivative financial liabilities</u>	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
Non-interest bearing	\$ 2,613,547	\$ -	\$ -	\$ 2,613,547
Variable interest rate instrument	8,333	291,667	-	300,000
Fixed interest rate instrument	<u>100,000</u>	<u>500,000</u>	<u>-</u>	<u>600,000</u>
	<u>\$ 2,721,880</u>	<u>\$ 791,667</u>	<u>\$ -</u>	<u>\$ 3,513,547</u>

December 31, 2012

<u>Non-derivative financial liabilities</u>	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
Non-interest bearing	\$ 2,862,117	\$ -	\$ -	\$ 2,862,117
Fixed interest rate instrument	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
	<u>\$ 2,862,117</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 3,062,117</u>

January 1, 2012

<u>Non-derivative financial liabilities</u>	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
Non-interest bearing	\$ 2,877,326	\$ -	\$ -	\$ 2,877,326
Fixed interest rate instrument	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
	<u>\$ 2,877,326</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 3,077,326</u>

b) Financing facilities

	December 31, 2013	December 31, 2012	January 1, 2012
Unused bank financing facilities	<u>\$ 1,089,300</u>	<u>\$ 1,587,580</u>	<u>\$ 1,526,320</u>

25. RELATED-PARTY TRANSACTIONS

a. Names and relationships of the related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
Phihong USA Corp.	Subsidiary
Phihong International Corp.	Subsidiary
Phitek International Co., Ltd.	Subsidiary
Ascent Alliance Ltd.	Subsidiary
American Ballast Corp.	Subsidiary
Phihong Technology Japan Co., Ltd.	Subsidiary
Guang-Lai Investment Co., Ltd.	Subsidiary
Phihong (Dongguan) Electronics Co., Ltd.	Subsidiary
Dongguan Phitek Electronics Ltd.	Subsidiary
Phihong Electronics (Suzhou) Co., Ltd.	Subsidiary
Jin-Sheng Hong (Jiangxi) Electronics Co., Ltd.	Subsidiary
Peter Lin	The Company's chairman
Xu Sheng Technology Co., Ltd. ("Xu Sheng")	Other related parties
Shine Tech Ltd.	Other related parties
Red Sun Metal Industry Co., Ltd.	Other related parties
Hua Jung Co., Ltd.	Other related parties
Heng Hui Co., Ltd.	Other related parties

b. Trading transactions

	<u>For the Year Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
<u>Sales</u>		
Subsidiaries	<u>\$ 3,937,704</u>	<u>\$ 3,407,875</u>

The price of the finished goods sold by the Company is based on negotiations and consideration of the product type, cost and market price, etc.

	<u>For the Year Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
<u>Purchase of goods</u>		
Subsidiaries	<u>\$ 10,049,289</u>	<u>\$ 9,532,559</u>
<u>Other revenue</u>		
Subsidiaries	<u>\$ 10,274</u>	<u>\$ 27,314</u>
<u>Commission expense</u>		
Subsidiaries	<u>\$ 766</u>	<u>\$ 1,043</u>

The price of the finished goods purchased by the Company is based on negotiations and consideration of the product type, cost and market price, etc.

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Accounts receivables from related parties</u>			
Subsidiaries	<u>\$ 378,727</u>	<u>\$ 191,708</u>	<u>\$ 554,410</u>
<u>Accounts payable to related parties</u>			
Subsidiaries	\$ 334,713	\$ 388,675	\$ 158,866
Other related parties	<u>737</u>	<u>11</u>	<u>15</u>
	<u>\$ 335,450</u>	<u>\$ 388,686</u>	<u>\$ 158,881</u>
<u>Other receivables from related parties</u>			
Subsidiaries	<u>\$ 515,802</u>	<u>\$ 489,278</u>	<u>\$ 423,703</u>

Other receivables were the Company's temporary payments for materials procured on behalf of related parties.

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Other payables</u>			
Subsidiaries	\$ 169,769	\$ 165,990	\$ 193,678
Other related parties	<u>105,215</u>	<u>48,310</u>	<u>35,924</u>
	<u>\$ 274,984</u>	<u>\$ 214,300</u>	<u>\$ 229,602</u>

Other payables were the temporary payments for materials procurement made by related parties on behalf of the Company.

c. Compensation of key management personnel

The types and amounts of the remuneration of directors and other members of key management personnel were as follows:

	<u>For the Year Ended December 31</u>	
	2013	2012
Short-term benefits	\$ 52,767	\$ 55,670
Post-employment benefits	<u>323</u>	<u>286</u>
	<u>\$ 53,090</u>	<u>\$ 55,956</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

d. Other transactions with related parties

The company's chairman has guaranteed the payments of the loans of the Company as of December 31, 2013, December 31, 2012 and January 1, 2012. The amounts of the guarantees were \$900,000 thousand, \$200,000 thousand and \$200,000 thousand, respectively.

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	December 31, 2013	December 31, 2012	January 1, 2012
Freehold land	\$ 112,450	\$ 112,450	\$ 112,450
Buildings	<u>149,409</u>	<u>159,579</u>	<u>170,068</u>
	<u>\$ 261,859</u>	<u>\$ 272,029</u>	<u>\$ 282,518</u>

27. CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2013, the Company had guaranteed US\$5,000 thousand loan of Phihong USA Corp.

28. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31, 2013			December 31, 2012			January 1, 2012		
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)
<u>Financial assets</u>									
Monetary items									
USD	\$ 122,181	29.9000	\$ 3,653,212	\$ 94,235	29.0400	\$ 2,736,584	\$ 82,950	30.2800	\$ 2,511,726
JPY	405,948	0.2836	115,127	222,408	0.3354	74,596	236,774	0.3888	92,046
HKD	3,190	3.8557	12,300	3,215	3.7462	12,044	11,950	3.8940	46,533
RMB	-	-	-	234	4.6172	1,080	233	4.7944	1,122
Investments accounted for by the equity method									
USD	174,745	29.9000	5,224,891	161,225	29.0400	4,681,974	154,863	30.2800	4,689,252
JPY	277,193	0.2836	78,612	118,071	0.3354	39,601	-	-	-
<u>Financial liabilities</u>									
Monetary items									
USD	108,889	29.9000	3,255,781	86,958	29.0400	2,525,260	76,108	30.2800	2,304,550
JPY	4,179	0.2836	1,185	2,681	0.3354	899	10,672	0.3888	4,149
HKD	4,808	3.8557	18,538	3,105	3.7462	11,632	9,169	3.8940	35,704

Note: Exchange rate represents the amount of New Taiwan dollars for which one foreign currency could be exchanged.

29. SEGMENT INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements for the year ended December 31, 2013.

30. FIRST-TIME ADOPTION OF THE REGULATIONS

The Company's date of transition to the Regulations was January 1, 2012. The impact of the transition to the Regulations on the Company's balance sheets and statements of comprehensive income is stated as follows:

a. Reconciliation of balance sheet as of January 1, 2012

ROC GAAP		Effect of Transition to the Regulations		The Regulations		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Assets						
Current assets						
Cash and cash equivalents	\$ 1,552,919	\$ -	\$ -	\$ 1,552,919	Cash and cash equivalents	
Accounts receivable	1,324,227	-	-	1,324,227	Trade receivables	
Accounts receivable - related party	554,410	-	-	554,410	Trade receivables-related party	
Other financial assets, current	469,827	-	(423,703)	46,124	Other financial assets - current	
-	-	-	423,703	423,703	Other financial assets - related party	
Inventories	531,255	-	-	531,255	Inventories	
Deferred income tax assets, current	55,860	-	(55,860)	-	-	e. 1)
Other current assets	35,491	-	-	35,491	Other current assets	
Total current assets	4,523,989	-	(55,860)	4,468,129	Total current assets	
Fund and investments						
Available-for-sale financial assets, noncurrent	33,357	-	-	33,357	Non-current assets	
Financial assets carried at cost, noncurrent	48,812	-	-	48,812	Available-for-sale financial assets - non-current	
Long-term equity investments at equity method	5,148,989	(22,595)	(158,441)	4,967,953	Financial assets carried at cost - non-current	
Total fund and investments	5,231,158	-	(158,441)	-	Long-term equity investments at equity method	e. 5)
Property, plant and equipment	500,907	-	-	500,907	Property, plant and equipment	
Intangible assets						
Computer software cost	16,971	-	-	16,971	Other intangible assets	
Total intangible assets	16,971	-	-	-	-	
Other assets						
-	-	1,466	66,030	67,496	Deferred income tax assets - non-current	e. 1), e. 3)
Refundable deposits	13,759	-	-	13,759	Other current assets	
Total other assets	13,759	1,466	66,030	-	-	
-	-	-	-	5,649,255	Total non-current assets	
Total	\$ 10,286,784	\$ (21,129)	\$ (148,271)	\$ 10,117,384	Total	
Current liabilities						
Accounts payable	\$ 41,212	\$ -	\$ -	\$ 41,212	Current liabilities	
Accounts payable - related party	158,881	-	-	158,881	Trade payables	
Income tax payable	156,950	-	-	156,950	Trade payables - related party	
Other payables	2,665,274	11,959	-	2,677,233	Income tax payable	
Other current liabilities	38,959	-	49,051	88,010	Other payables	e. 2)
Total current liabilities	3,061,276	11,959	49,051	3,122,286	Other current liabilities	
Long-term liabilities						
Long-term debts	200,000	-	-	200,000	Total current liabilities	
Other liabilities						
Accrued pension liabilities	64,648	8,622	-	73,270	Non-current liabilities	
Deferred income tax liabilities, noncurrent	69,662	-	10,170	79,832	Long-term debts	
Advance deposits received	158,937	-	(158,937)	-	Accrued pension liabilities	e. 3)
Others	52,059	-	(48,555)	3,504	Deferred income tax liabilities - non-current	e. 1)
Total other liabilities	345,306	8,622	(197,322)	-	-	
-	-	-	-	356,606	Other non-current liabilities	
Total liabilities	3,606,582	20,581	(148,271)	3,478,892	Total non-current liabilities	
Stockholders' equity						
Capital stock					Total liabilities	
Common stock	2,749,329	-	-	2,749,329	Stockholders' equity	
Advance collections for capital stock	16,154	-	-	16,154	Capital stock	
Capital surplus - share premium	937,770	(11,305)	-	926,465	Common stock	
Retained earnings	2,737,989	230,859	-	2,968,848	Advance collections for capital stock	
					Capital surplus - share premium	e. 4)
					Retained earnings	d), e. 2), e. 3), e. 4)
Other equity						
Cumulative translation adjustments	250,296	(250,296)	-	-	Other equity	
Unrealized loss on financial instruments	(22,304)	-	-	(22,304)	Cumulative translation adjustments	d)
Unrealized revaluation increment	10,968	(10,968)	-	-	Unrealized loss on financial instruments	
Total stockholders' equity	6,680,202	(41,710)	-	6,638,492	Unrealized revaluation increment	d)
Total	\$ 10,286,784	\$ (21,129)	\$ (148,271)	\$ 10,117,384	Total stockholders' equity	

b. Reconciliation of consolidated balance sheet as of December 31, 2012

ROC GAAP	Effect of Transition to the Regulations				The Regulations	Note
	Item	Amount	Recognition and Measurement Difference	Presentation Difference		
Assets						
Current assets						
Cash and cash equivalents	\$ 962,803	\$ -	\$ -	\$ 962,803	Cash and cash equivalents	
Accounts receivable	1,409,661	-	-	1,409,661	Trade receivable	
Accounts receivable - related party	191,708	-	-	191,708	Trade receivables-related party	
Other financial assets, current	531,251	-	(489,278)	41,973	Other financial assets - current	
-	-	-	489,278	489,278	Other financial assets - related party	
Inventories	319,496	-	-	319,496	Inventories	
Deferred income tax assets, current	37,880	-	(37,880)	-	-	
Other current assets	11,206	-	-	11,206	Other current assets	e. 1)
Total current assets	3,464,005	-	(37,880)	3,426,125	Total current assets	
Fund and investments						
Available-for-sale financial assets, noncurrent	30,620	-	-	30,620	Available-for-sale financial assets - non-current	
Financial assets carried at cost, noncurrent	46,503	-	-	46,503	Financial assets carried at cost - non-current	
Long-term equity investments at equity method	5,186,016	(20,281)	(65,267)	5,100,468	Long-term equity investments at equity method	e. 5)
Total fund and investments	5,263,139	-	(65,267)	-	-	
Property, plant and equipment	501,990	-	-	501,990	Property, plant and equipment	
Intangible assets						
Computer software cost	33,689	-	-	33,689	Other intangible assets	
Total intangible assets	33,689	-	-	-	-	
Other assets						
-	-	259	48,160	48,419	Deferred income tax assets - non-current	e. 1), e. 3)
Refundable deposits	13,914	-	-	13,914	Other non-current liabilities	
Total other assets	13,914	259	48,160	-	-	
-	-	-	-	5,775,603	Total non-current assets	
Total	\$ 9,276,737	\$ (20,022)	\$ (54,987)	\$ 9,201,728	Total	
Current liabilities						
Accounts payable	\$ 30,141	\$ -	\$ -	\$ 30,141	Trade payable	
Accounts payable - related party	388,686	-	-	388,686	Trade payable - related party	
Income tax payable	75,404	-	-	75,404	Income tax payable	
Other payables	2,431,495	11,795	-	2,443,290	Other payables	e. 2)
Other current liabilities	20,439	-	49,051	69,490	Other current liabilities	
Total current liabilities	2,946,165	11,795	49,051	3,007,011	Total current liabilities	
Long-term liabilities						
Long-term debts	200,000	-	-	200,000	Long-term debts	
Other liabilities						
Accrued pension liabilities	65,270	1,522	-	66,792	Accrued pension liabilities	e. 3)
Deferred income tax liabilities, noncurrent	69,552	-	10,280	79,832	Deferred income tax liabilities - non-current	e. 1)
Advance deposits received	65,267	-	(65,267)	-	-	
Other	49,051	-	(49,051)	-	Other non-current liabilities	
Total other liabilities	249,140	1,522	(104,038)	-	-	
-	-	-	-	346,624	Total non-current liabilities	
Total liabilities	3,395,305	13,317	(54,987)	3,353,635	Total liabilities	
Stockholders' equity						
Capital stock						
Common stock	2,771,639	-	-	2,771,639	Common stock	
Capital surplus - share premium	960,920	(11,305)	-	949,615	Capital surplus - share premium	
Retained earnings	2,051,573	239,230	-	2,290,803	Retained earnings	d., e. 2), e. 3), e. 4)
Other equity						
Cumulative translation adjustments	101,935	(250,296)	-	(148,361)	Cumulative translation adjustments	d.
Unrealized loss on financial instruments	(15,603)	-	-	(15,603)	Unrealized loss on financial instruments	
Unrealized revaluation increment	10,968	(10,968)	-	-	Unrealized revaluation increment	d.
Total stockholders' equity	5,881,432	(33,339)	-	5,848,093	Total stockholders' equity	
Total	\$ 9,276,737	\$ (20,022)	\$ (54,987)	\$ 9,201,728	Total	

c. Reconciliation of statement of comprehensive income for the year ended December 31, 2012

ROC GAAP		Effect of Transition to the Regulations			The Regulations		Note
		Recognition and Measurement Difference	Presentation Difference	Amount			
Item	Amount			Amount			
Net sales	\$ 10,778,860	\$ -	\$ 10,067	\$ 10,788,927	Net sales		e. 6)
Cost of goods sold	(9,583,463)	115	(10,067)	(9,593,415)	Cost of goods sold		e. 2), e. 3)
Gross profit	1,195,397	115	-	1,195,512	Gross profit		
Realized gross profit from intercompany transaction	93,670	-	-	93,670	Realized gross profit from intercompany transaction		
Operating expenses					Operating expenses		
Sales and marketing	(278,737)	356	-	(278,381)	Sales and marketing		e. 2), e. 3)
General and administration	(180,988)	177	20,519	(160,292)	General and administration		e. 2), e. 3), e. 7)
Research and development	(420,473)	(264)	-	(420,737)	Research and development		e. 2), e. 3)
Total	(880,198)	269	20,519	(859,410)	Total		
Income from operations	408,869	384	20,519	429,772	Income from operations		
Nonoperating income and gains					Nonoperating income and gains		
Interest income	12,055	-	(12,055)	-	Interest income		
Dividend income	3,613	-	(3,613)	-	Dividend income		
Gain from recovery of bad debts	20,519	-	(20,519)	-	Gain from recovery of bad debts		e. 7)
Others	150,548	-	15,668	166,216	Others		
Total	186,735	-	(20,519)	166,216	Total		
Nonoperating expenses and losses					Nonoperating expenses and losses		
Interest expense	(3,312)	-	-	(3,312)	Interest expense		
Investment loss recognized under equity method, net	(114,226)	2,314	-	(111,912)	Investment loss recognized under equity method, net		e. 5)
Loss on disposal of property, plant and equipment	(433)	-	433	-	Loss on disposal of property, plant and equipment		
Foreign exchange loss, net	(45,367)	-	45,367	-	Foreign exchange loss, net		
Others	(313)	-	(45,800)	(46,113)	Others		
Total	(163,651)	2,314	-	(161,337)	Total		
Income before income tax	431,953	2,698	-	434,651	Income before income tax		
Income tax expense	(122,400)	(37)	-	(122,437)	Income tax expense		e. 3)
Consolidated net income	\$ 309,553	\$ 2,661	\$ -	\$ 312,214	Consolidated net income		
				(148,361)	Exchange differences on translating foreign operations		
				6,458	Unrealized gains on available-for-sale financial assets		
				243	Share of other comprehensive income of associates		
				6,880	Actuarial gain arising from defined benefit plans		
				(1,170)	Income tax relating to components of other comprehensive income		
				(135,950)	Total other comprehensive loss		
				\$ 176,264	Total comprehensive income		

- d. Except for optional exemptions and mandatory exceptions to retrospective application provided under the Regulations, the Company retrospectively applied the Regulations to prepare its opening balance sheet at the date of transition, January 1, 2012. The major optional exemptions the Company elected are summarized as follows:

Investments in subsidiaries, associates and joint ventures

The Company elected to measure the investments in subsidiaries, associates and joint ventures acquired before the date of transition, at the same carrying amount as recognized under ROC GAAP as of December 31, 2011.

Deemed cost

For certain freehold lands, the Company elected to use the ROC GAAP revalued amount at the date of transition to the Regulations as their deemed cost. For certain investment properties with sufficient evidence that those properties are continuously being rented out and can generate a stable cash flow in the medium or long-term, the Company elected to use their fair value at the date of transition as their deemed cost. For other certain investment properties, the ROC GAAP revalued amount at the date of transition was used as their deemed cost. All other property, plant and equipment, investment properties and intangible assets applied the Regulations retrospectively.

Employee benefits

The Company elected to recognize all cumulative actuarial gains and losses in retained earnings at the date of transition to the Regulations.

Cumulative translation differences

The Company elected to reset the cumulative translation differences to zero at the date of transition to IFRSs and adjusted retained earnings accordingly. Gains or losses on subsequent disposal of any foreign operations will exclude the translation differences that arose before the date of transition to the Regulations.

e. Explanations of significant reconciling items in the transition to the Regulations

Material differences between the accounting policies under ROC GAAP and the accounting policies adopted under the Regulations were as follows:

1) Deferred income tax asset/liability

Under ROC GAAP, 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. Under the Regulations, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits; thus, valuation allowance account is not needed.

In addition, under ROC GAAP, a deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of the related asset or liability for financial reporting. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as current or noncurrent on the basis of the expected length of time before it is realized or settled. Under the Regulations, a deferred tax asset or liability is classified as noncurrent.

Under ROC GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However, under the Regulations, an entity can offset current tax assets and current tax liabilities against each other only if the entity has a legally enforceable right to make this offset and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

As of December 31 and January 1, 2012, the reclassification adjustment resulted in NT\$37,880 thousand and NT\$55,860 thousand in “deferred income tax asset - current” and the same amounts in “deferred income tax assets - non-current.” Also, the net amount of the current and noncurrent deferred tax liabilities and assets under ROC GAAP were recovered, and the reclassification adjustment resulted in increases of NT\$10,280 thousand and NT\$10,170 thousand in “deferred income tax assets - current” and “deferred income tax liabilities - non-current”.

2) Short-term employee benefits

Under ROC GAAP, there is no specific policy on short-term employee benefits, specifically paid vacation leaves, and the expenses for these leaves are recognized when employees actually go on leave. On transition to the Regulations, an entity should recognize the expected cost of paid vacation leaves as employees render services that increase their entitlement to these leaves.

As of December 31, 2012 and January 1, 2012, other payables of the Company was adjusted for an increase of NT\$11,795 thousand and NT\$11,959 thousand according to short-term employee benefits. Also, cost of salaries was adjusted for an decrease of NT\$164 thousand.

3) Employee benefits - gain or loss on actuarial valuation on defined benefit plan

Under SFAS No. 18 - "Accounting for Pensions," unrecognized net transition obligation should be amortized over the expected average remaining working lives of employees. On the date of transition to IFRSs, the retained earnings should be adjusted for unrecognized transition obligation.

Under ROC GAAP, when using the corridor approach, actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees. Under IAS No. 19 "Employee Benefits," the Company elected to recognize immediately all actuarial gains and losses as other comprehensive income in the period in which they occur. The subsequent reclassification to earnings is not permitted.

Under IAS No. 19 "Employee Benefits," and IFRS 1, as of December 31, 2012 and January 1, 2012, accrued pension cost of the Company was adjusted for an increase of NT\$1,522 thousand and NT\$8,622 thousand, respectively; deferred income tax assets were adjusted for an increase of NT\$259 thousand and NT\$1,466 thousand, respectively. For the year ended December 31, 2012, pension cost and income tax expense of the Company were adjusted for a decrease of NT\$220 thousand and NT\$37 thousand, respectively; actuarial gain from defined benefit plans and income tax benefit related to components of other comprehensive income were recognized in the amount of NT\$6,880 thousand and NT\$1,170 thousand, respectively.

4) Investments and capital surplus - long-term equity investments when associates/subsidiaries issue new shares and the parent does not subscribe for these shares at its percentage of shares of the investee.

Under ROC GAAP, if an entity's investment percentage increases or decreases as a result of not subscribing for new shares issued by an investee at its current percentage of ownership of the investee, the increase or decrease in the investor company's equity is used to adjust "capital surplus - long-term equity investments" and "long-term equity investment."

Under the Regulations, changes in equity in associates in which significant influence on the associates is retained are regarded as acquisition or disposal of shares in associates; however, changes in equity in subsidiaries in which control over the subsidiaries is retained are regarded as equity transactions. In addition, based on the "Q&A for adopting IFRSs" issued by the Taiwan Stock Exchange, accounts that do not conform to IFRSs or not covered under the Company Law as well as capital surplus items required by the Ministry of Economics Affairs should be adjusted to retained earnings at the date of transition to the Regulations.

As of December 31, 2012 and January 1, 2012, the adjustment resulted in a decrease of capital surplus - long-term equity investments of NT\$11,305 thousand and a corresponding increase of retained earnings by related rules.

5) Effect of retained earnings of subsidiaries

According to IFRS, the company recognized effect of retained earnings of subsidiaries for these shares at its percentage of shares of the investee. As of December 31, 2012 and January 1, 2012, the company's investments accounted for using equity method were adjusted for a decrease of NT\$20,281 thousand and NT\$22,595 thousand. For the year ended December 31, 2012, the investment loss recognized under equity method were adjusted for a decrease of NT\$2,314 thousand.

6) Allowance for sales returns and others

Under the Regulations, provision for estimated sales returns and others should be recognized as cost of goods sold instead of a reduction in revenue in the period.

As of 2012, the amounts reclassified from allowance for sales returns and others to cost of goods sold were NT\$10,067 thousand.

7) Recovery from provision for loss on doubtful accounts

Under ROC GAAP, recovery from provision for loss on doubtful accounts was recognized as nonoperating income and gains; under the Regulations, the amount is reclassified to operating expense - general and administration.

As of 2012, the amounts reclassified from recovery from provision for loss on doubtful accounts to decrease of operating expenses - general and administration were NT\$20,519 thousand.

f. Material adjustment to consolidated statement of cash flows

The statement of cash flows of the Company in accordance with the Regulations and ROC GAAP had no significant differences.