Phihong Technology Co., Ltd.

Financial Statements for the
Six Months Ended June 30, 2012 and 2011 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Phihong Technology Co., Ltd. (the "Company") as of June 30, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended (all expressed in thousands of New Taiwan dollars). 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 June 30, 2012 and 2011, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Company and its subsidiaries for the six months ended June 30, 2012 and 2011 (not presented herewith) on which we have issued an unqualified opinion, thereon in our report dated August 23, 2012.

August 23, 2012

<u>*Notice to Readers*</u>

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

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

PHIHONG TECHNOLOGY CO., LTD.

BALANCE SHEETS
JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2012 Amount	2012 %	2011 Amount	2011 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,774,694	17	$ 2,253,345	19
Notes receivable	-	-	1,560	-
Accounts receivable (Notes 2 and 5)	1,435,163	14	982,600	8
Accounts receivable from related parties (Notes 2, 5 and 21)	363,459	4	1,628,628	14
Other financial assets - current (Note 6)	557,548	5	758,996	7
Inventories (Notes 2 and 7)	329,873	3	402,929	4
Deferred income tax asset - current (Notes 2 and 18)	45,010	-	104,615	1
Other current assets	29,634	-	23,702	-
Total current assets	4,535,381	43	6,156,375	53
FUNDS AND LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 8)	37,546	-	4,407	-
Financial assets carried at cost - noncurrent (Notes 2 and 9)	46,503	1	48,812	1
Long-term equity investments at equity method (Notes 2 and 10)	5,298,453	51	4,916,720	42
Total funds and long-term investments	5,382,502	52	4,969,939	43
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)				
Cost	804,672	8	660,797	6
Less accumulated depreciation	(308,203)	(3)	(286,367)	(3)
Prepayments for purchase of equipment	3,571	-	77,422	1
Property, plant and equipment, net	500,040	5	451,852	4
INTANGIBLE ASSETS(Note2)				
Computer software cost	22,004	-	13,257	-
OTHER ASSETS				
Refundable deposits	13,762	-	14,961	-
Deferred charges (Note 2)	-	-	15,292	-
Total other assets	13,762	-	30,253	-
TOTAL	$ 10,453,689	100	$ 11,621,676	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2012 Amount	2012 %	2011 Amount	2011 %
CURRENT LIABILITIES				
Notes payable	$ -	-	$ 11,908	-
Accounts payable	31,163	1	33,540	-
Accounts payable to related parties (Note 21)	337,776	3	212,738	2
Income tax payable (Notes 2 and 18)	96,859	1	195,900	2
Other payables (Note 13)	3,687,390	35	4,382,618	38
Other current liabilities	15,360	-	9,034	-
Total current liabilities	4,168,548	40	4,845,738	42
LONG-TERM LIABILITIES				
Long-term debts (Notes 2 and 12)	200,000	2	200,000	2
OTHER LIABILITIES				
Accrued pension cost (Note 2)	64,917	-	63,774	-
Deferred income tax liabilities - noncurrent (Notes 2 and 18)	69,612	1	69,812	1
Deferred credits (Note 2)	90,623	1	459,851	4
Others (Note 2)	49,051	-	49,051	-
Total other liabilities	274,203	2	642,488	5
Total liabilities	4,642,751	44	5,688,226	49
STOCKHOLDERS' EQUITY				
Capital stock, $10 par value (Note 14)				
Authorized - both 600,000 thousand shares at June 30, 2012 and 2011; issued - 277,044 thousand shares and 274,846 thousand shares at June 30, 2012 and 2011	2,770,439	27	2,748,459	24
Advanced collections for capital stock	-	-	547	-
Capital surplus				
Additional paid-in capital - common stock	225,572	2	202,458	2
Additional paid-in capital - bond conversion	661,582	6	661,582	6
Treasury stock transaction	48,234	1	48,234	-
Long-term equity investments	11,305	-	11,132	-
Interest of bonds converted to common stock	13,243	-	13,243	-
Retained earnings (Note 16)				
Legal reserve	1,052,192	10	909,627	8
Unappropriated earnings	829,780	8	1,366,974	11
Cumulative translation adjustments	207,601	2	(29,909)	-
Unrealized (losses) gains on financial instruments	(19,978)	-	(9,865)	-
Unrealized revaluation increments	10,968	-	10,968	-
Total stockholders' equity	5,810,938	56	5,933,450	51
TOTAL	$ 10,453,689	100	$ 11,621,676	100

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	**%**	**Amount**	**%**
GROSS SALES AND REVENUES (Note 21)	$ 5,229,558	100	$ 7,200,685	100
LESS SALES RETURNS AND ALLOWANCES	-	-	(6,750)	-
NET SALES AND REVENUES	5,229,558	100	7,193,935	100
COST OF GOODS SOLD (Note 21)	4,654,273	89	5,562,428	77
GROSS PROFIT	575,285	11	1,631,507	23
REALIZED (UNREALIZED) GROSS PROFIT FROM INTERCOMPANY TRANSACTIONS	68,314	1	(14,583)	-
REALIZED GROSS PROFIT	643,599	12	1,616,924	23
OPERATING EXPENSES (Note 21)				
Sales and marketing	135,421	2	223,528	3
General and administration	83,779	2	134,610	2
Research and development	217,751	4	271,662	4
Total operating expenses	436,951	8	629,800	9
INCOME FROM OPERATIONS	206,648	4	987,124	14
NONOPERATING INCOME AND GAINS				
Interest income	6,998	-	4,455	-
Investment income recognized under equity method, net (Note 10)	-	-	124,645	2
Dividend income	2,285	-	4,550	-
Gain on disposal of property, plant and equipment	-	-	95	-
Gain on sale of investment, net	-	-	23,828	-
Gain on reversal of bad debts	20,519	1	-	-
Others	61,776	1	30,456	1
Total nonoperating income and gains	91,578	2	188,029	3
NONOPERATING EXPENSES AND LOSSES				
Impairment loss (Note 9)	-	-	11,969	-
Interest expense	1,466	-	1,373	-
Investment loss recognized under equity method, net (Note 10)	60,626	1	-	-
Loss on disposal of property, plant and equipment	34	-	-	-
Foreign exchange losses, net	20,797	1	13,584	-
Others	151	-	15,352	1
Total nonoperating expenses and losses	83,074	2	42,278	1

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 215,152	4	$ 1,132,875	16
INCOME TAX EXPENSE (Notes 2 and 18)	(75,200)	(1)	(168,610)	(3)
NET INCOME	$ 139,952	3	$ 964,265	13

	2012		2011	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Notes 2 and 19)				
Basic	$ 0.78	$ 0.51	$ 4.13	$ 3.51
Diluted	$ 0.77	$ 0.50	$ 4.02	$ 3.42

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus					Retained Earnings		Other Items of Stockholders' Equity			
	Capital Stock	**Advanced Collections for Common Stocks**	**Additional Paid-in Capital**	**Additional Paid-in Capital - Bond Conversion**	**Treasury Stock Transaction**	**From Long-term Equity Investments**	**Interest Payable from Bond Conversion**	**Legal Reserve**	**Unappropriated Earnings**	**Cumulative Translation Adjustments**	**Unrealized (Loss) Gain on Financial Instruments**	**Unrealized Revaluation Increment**	**Total**
BALANCE, JANUARY 1, 2012	$ 2,749,329	$ 16,154	$ 203,406	$ 661,582	$ 48,234	$ 11,305	$ 13,243	$ 909,627	$ 1,828,362	$ 250,296	$ (22,304)	$ 10,968	$ 6,680,202
Appropriation of 2011 net income													
Legal reserve	-	-	-	-	-	-	-	142,565	(142,565)	-	-	-	-
Cash dividends (Note 16)	-	-	-	-	-	-	-	-	(995,969)	-	-	-	(995,969)
Advanced collections for common stock transferred to capital stock (Note 14)	7,880	(16,154)	8,274	-	-	-	-	-	-	-	-	-	-
Employee stock options exercised (Note 15)	13,230	-	13,892	-	-	-	-	-	-	-	-	-	27,122
Recognition of unrealized loss on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	(1,863)	-	(1,863)
Recognition of unrealized gain on available-for-sale financial instrument	-	-	-	-	-	-	-	-	-	-	4,189	-	4,189
Cumulative translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(42,695)	-	-	(42,695)
Net income for the six months ended June 30, 2012	-	-	-	-	-	-	-	-	139,952	-	-	-	139,952
BALANCE, JUNE 30, 2012	$ 2,770,439	$ -	$ 225,572	$ 661,582	$ 48,234	$ 11,305	$ 13,243	$ 1,052,192	$ 829,780	$ 207,601	$ (19,978)	$ 10,968	$ 5,810,938
BALANCE, JANUARY 1, 2011	$ 2,725,939	$ 17,520	$ 175,659	$ 661,582	$ 48,234	$ 11,132	$ 13,243	$ 748,423	$ 1,621,692	$ (27,030)	$ 185,552	$ 10,968	$ 6,192,914
Appropriation of 2010 net income													
Legal reserve	-	-	-	-	-	-	-	161,204	(161,204)	-	-	-	-
Cash dividends (Note 16)	-	-	-	-	-	-	-	-	(1,057,779)	-	-	-	(1,057,779)
Advanced collections for common stock transferred to capital stock (Note 14)	8,000	(17,520)	9,520	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 15)	14,520	547	17,279	-	-	-	-	-	-	-	-	-	32,346
Recognition of unrealized loss on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	(169,553)	-	(169,553)
Recognition of unrealized loss on available-for-sale financial instrument	-	-	-	-	-	-	-	-	-	-	(25,864)	-	(25,864)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(2,879)	-	-	(2,879)
Net income for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	964,265	-	-	-	964,265
BALANCE, JUNE 30, 2011	$ 2,748,459	$ 547	$ 202,458	$ 661,582	$ 48,234	$ 11,132	$ 13,243	$ 909,627	$ 1,366,974	$ (29,909)	$ (9,865)	$ 10,968	$ 5,933,450

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 139,952	$ 964,265
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,697	38,715
Gain on reversal of bad debts	(20,519)	-
Investment loss (gain) recognized under the equity method	60,626	(124,645)
Cash dividends received from equity method investees	2,833	9,832
Impairment loss of financial assets carried at cost	-	11,969
Proceeds from disposal of available-for-sale financial assets	-	(23,828)
(Realized) unrealized gross profit from intercompany transactions	(68,314)	14,583
Net loss (gain) on disposal of property, plant and equipment	34	(95)
Net changes in operating assets and liabilities		
Notes receivable	-	(1,560)
Accounts receivable	(90,416)	(18,549)
Accounts receivable from related parties	190,950	(79,848)
Other financial assets - current	(87,721)	153,472
Inventories	201,382	155,893
Deferred income tax asset - current	10,850	11,520
Other current assets	5,857	(12,247)
Notes payable	-	11,884
Accounts payable	(10,049)	(3,193)
Accounts payable to related parties	178,895	57,529
Income tax payable	(60,091)	(89,411)
Other payables	29,586	71,918
Other current liabilities	(23,599)	(3,587)
Reserve for retirement plan	269	889
Deferred income tax liability - noncurrent	(50)	(130)
Other liabilities	-	15,000
Net cash provided by operating activities	488,172	1,160,376
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in available-for-sale financial assets	-	(4,409)
Proceeds from disposal of available-for-sale financial assets	-	29,660
Increase in long-term equity investments	(260,489)	(184,524)
Acquisition of property, plant and equipment	(25,808)	(94,823)
Proceeds from disposal of property, plant and equipment	-	122
Increase intangible assets - computer software	(9,528)	(438)
(Increase) decrease in refundable deposits	(3)	74
Increase in deferred charges	-	(16,007)
Return to capital stock of invested company disinvestment	2,309	141,128
Net cash used in investing activities	(293,519)	(129,217)

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PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Employee stock options	$ 27,122	$ 32,346
NET INCREASE IN CASH AND CASH EQUIVALENTS	221,775	1,063,505
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,552,919	1,189,840
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,774,694	$ 2,253,345
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	$ 1,474	$ 1,373
Income tax	$ 124,240	$ 246,631
NONCASH INVESTING AND FINANCING ACTIVITIES		
Translation adjustments on foreign long-term equity investments	$ (42,695)	$ (2,879)
Cash dividends payable	$ 995,969	$ 1,057,779
Recognized unrealized loss on investee's financial instruments	$ 1,863	$ 169,553
Recognized unrealized (gain) loss on available-for-sale financial instrument	$ (4,189)	$ 25,864

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

1. ORGANIZATION AND OPERATIONS

Phihong Technology Co., Ltd. (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, the Company changed its name to Phihong Technology Co., Ltd. The Company primarily manufactures and sells AC/DC power adapters, charger bases, power supply modules, UPS for computers, ballasts, etc. The Company had 395 and 374 employees as of June 30, 2012 and 2011, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail.

The Company's significant accounting principles are summarized as follows:

Foreign-currency Transactions and Translation of Foreign-currency Financial Statements

Equity-method investees' assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rates. Stockholders' equity accounts are translated at the historical rate, except for the beginning balance of the retained earnings, which is carried at the translated amount of the preceding period. Dividends are translated at the spot rate at the declaration date. Income statement accounts are translated at the current rate or weighted-average rate of the current period.

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction date. Gains or losses resulting from the application of prevailing exchange rates when foreign-currency receivables and payables are settled are credited or charged to income. Assets and liabilities denominated in foreign currencies (except foreign long-term investments) are translated at the balance sheet date exchange rates, and resulting gains or losses are credited or charged to current income.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences which recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity and recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

Accounting Estimates

Under above guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of property, plant and equipment, asset impairment loss, income tax, pension cost, bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

Current/Noncurrent Assets and Liabilities

Cash or cash equivalents, assets held for operating purposes and assets expected to be converted into cash or consumed within one year from balance sheet date are recorded as current assets. Property, plant and equipment, intangible assets and other assets that do not qualify as current assets are recorded as noncurrent assets. Liabilities incurred for operating purposes and expected to be liquidated within one year from balance sheet date are recorded as current liabilities. Liabilities that do not qualify as current liabilities are recorded as noncurrent liabilities.

Cash and Cash Equivalents

Cash includes unrestricted cash and bank deposits. Cash equivalents refer to short-term commercial papers whose carrying values approximate fair values.

Available-for-sale Financial Assets

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

The fair value of listed and over-the-counter stocks, open-end fund, and bonds are determined at their closing prices, net asset values, and reference prices from the over-the-counter securities exchange in Taiwan at the balance sheet date, respectively.

Cash dividends are recognized as income at the ex-dividend date but cash dividends declared out of net income earned before the investment date are recorded as a reduction of the investment cost. Stock dividends received are not recognized as income; they are instead reflected as an increase in the number of shares held.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Financial Assets Carried at Cost, Noncurrent

Equity investments without reliable fair value are carried at their original cost. The accounting process for dividend income is similar with that for available-for-sale financial assets. If there is objective evidence showing that the asset is impaired, impairment loss shall be recognized and not allowed to be reversed.

Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected.

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 item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Long-term Investments at Equity Method

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

The investment cost is allocated to the assets and liabilities of the investee (proportionate to the percentage of ownership) on the basis of their fair values at the date of investment, and the investment cost in excess of the fair value of the identifiable net assets of the investee is recognized as goodwill. Goodwill is not amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

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

If the Company exercises significant influence but without controlling power in such long-term investment, it should limit its share of investment losses to the extent that the book value of such long-term investment reduced to zero. However, if the Company intends to continue its support for the investee company, or has sufficient evidence to support that the investee company will return to profitability in the short run; the Company would continue to recognize investment losses in proportion to its stock ownership percentage even if the book value of such long-term investment and advances has come to negative.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions and improvements to property, plant and equipment are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over estimated useful lives as follows:

Items	Estimated Useful Lives
Buildings and improvements	5-50 years
Machinery and equipment	3-9 years
Furniture, fixtures and office equipment	3-8 years
Other equipment	3-10 years

Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives. Depreciation of revaluated assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation.

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

Intangible Assets

Intangible assets which comprise computer software acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives.

Deferred Charges

Deferred charges are the costs of office decoration and installation of telephone and internet systems and others. The amounts are amortized on a straight-line basis over 2 to 10 years.

Impairment of Assets

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

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

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

Pension Plan

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the year.

Income Tax

The Company adopted Statement of Financial Accounting Standards No. 22, “Accounting for Income Taxes,” which requires an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowance is provided for deferred tax assets with uncertain realization.

If the Company can control the timing of the reversal of a temporary difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

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

Income tax on unappropriated earnings at a rate of 10% is expensed in the year of stockholders’ approval to retain the earnings which is the year subsequent to the year the earnings are generated.

Deferred Credits

Deferred credits refer to unrealized profits from transactions between the Company and its equity-method investees.

Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, “Accounting for Share-based Payment.” Under SFAS No. 39, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (“ARDF”). The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

Sales Recognition

Sales are recognized when titles to products and the risks of ownership are transferred to customers, primarily upon shipment. Sales returns and allowances are subtracted from sales as these are incurred and the related costs of goods sold are eliminated.

Sales are measured at the fair value agreed by the Company and the buyers. However, if the accounts receivable are due in a year, they are not recorded at discounted value as the fair value approximates the invoice amount.

Reserve for Sale Warranties

Reserve for sale warranties is accrued based on the proper percentage of the current sales.

Earnings Per Share

The amount of basic earnings per common share is calculated by dividing net earnings by the weighted average number of common shares outstanding. On a diluted basis, net earnings and shares outstanding are adjusted to assume the conversion of employee stock options from the date of issuance. Treasury stock method is used to calculate the stock warrants' dilutive potential common shares. However, employee stock options with anti-dilutive effect are excluded from the calculation.

Nonderivative Financial Instruments

The recognition, valuation, and measurement of nonderivative financial assets and liabilities are made in accordance with the above accounting policies and accounting principles generally accepted in the ROC.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2011 have been reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2012.

3. ACCOUNTING CHANGES

Accounting Treatment of Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions included loans and receivables originated by the Company under SFAS No. 34. This accounting change did not have a significant effect on the Company's financial statements as of and for the six months ended June 30, 2011.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, "Segment Reporting."

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2012 and 2011 were as follows:

	2012	2011
Cash on hand	$ 829	$ 834
Checking accounts	2,472	14,394
Savings accounts	54,477	103,438
Time deposits	140,000	138,000
Foreign-currency deposits	828,208	1,070,750
Marketable securities - short-term notes	748,708	925,929
	$ 1,774,694	$ 2,253,345

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 and 2011 were as follows:

	2012	2011
Accounts receivable	$ 1,459,363	$ 1,025,251
Less allowance for doubtful accounts	(24,200)	(42,651)
	1,435,163	982,600
Accounts receivable from related parties (Note 21)	363,459	1,628,628
Less allowance for doubtful accounts	-	-
	363,459	1,628,628
	$ 1,798,622	$ 2,611,228

6. OTHER FINANCIAL ASSETS, CURRENT

Other financial assets, current as of June 30, 2012 and 2011 were as follows:

	2012	2011
Other receivables from related parties (Note 21)	$ 515,589	$ 735,963
Others	41,959	23,033
	$ 557,548	$ 758,996

7. INVENTORIES

Inventories as of June 30, 2012 and 2011 were as follows:

	2012	2011
Raw materials	$ 4,032	$ 4,150
Work-in-process	881	1,898
Merchandise	324,960	396,881
	$ 329,873	$ 402,929

As of June 30, 2012 and 2011, valuation allowances of inventories both were $53,327 thousand.

For the six months ended June 30, 2012 and 2011, the Company's cost of goods sold was $4,654,273 thousand and $5,562,428 thousand, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

Available-for-sale financial assets, current as of June 30, 2012 and 2011 were as follows:

	2012	2011
Marketable equity securities		
Hua Jung Components Co., Ltd.	$ 37,546	$ 4,407

For the six months ended June 30, 2012 and 2011, the Company's recognition of unrealized gain (loss) on available-for-sale financial investments was $4,189 thousand and $(25,864) thousand, respectively. The amount was recorded as "stockholders' equity - unrealized gains (losses) on financial instruments" as of June 30, 2012 and 2011.

9. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

Financial assets carried at cost, noncurrent as of June 30, 2012 and 2011 were as follows:

	2012	2011
Bao-Dian Venture Capital Co., Ltd.	$ 30,000	$ 30,000
Yuan-Jing Venture Capital Co., Ltd.	33,500	33,500
Asia Tech Taiwan Venture Fund	12,748	15,057
NeoPac Lighting Limited	32,224	32,224
Less: accumulated impairment	(61,969)	(61,969)
	$ 46,503	$ 48,812

The stocks and other investments mentioned above do not have open pricing and reliable fair values, thus they are carried at cost. The Company performed impairment testing on them periodically.

Bao-Dian Venture Capital Co., Ltd. and NeoPac Lighting Limited have experienced continuous operating loss; thus, the Company recognized $4,745 thousand and $7,224 thousand impairment loss for the six months ended June 30, 2012, respectively.

Bao-Dian Venture Capital Co., Ltd. decreased its paid-in capital to write-off its accumulated deficits for six months ended June 30, 2012, at the ratio of 55%, however, it hasn't completed the legal procedure as of June 30, 2012.

Yuan-Jing Venture Capital Co., Ltd. had paid-in capital of 925,000 thousand as of January 1, 2011. It decreased its paid-in capital by cash in the amount of $305,250 thousand at the ratio of 33% in 2011. As a result, its paid-in capital was $619,750 thousand as of June 30, 2012.

10. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments as of June 30, 2012 and 2011 were as follows:

	2012			2011	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Phihong International Co., Ltd.	$ 2,709,644	$ 3,174,225	100.00	$ 2,954,745	100.00
Phihong USA Corp.	207,203	750,055	100.00	580,176	100.00
Phitek International Co., Ltd.	63,286	539,696	100.00	473,431	100.00
Guang-Lai Investment Co., Ltd.	239,758	233,423	100.00	286,391	100.00
Ascent Alliance Ltd.	195,449	353,495	100.00	379,383	100.00
American Ballast Corp.	16,579	15,702	100.00	15,094	100.00
Phihong PWM Brasil Ltda.	8,258	-	60.00	-	60.00
First International Computer Do Brasil Ltda.	67,618	-	33.85	-	33.85
Hao-Xuan Venture Capital Co., Ltd.	70,830	65,091	24.67	72,293	24.67
Phihong Technology Japan Co., Ltd.	94,154	20,628	100.00	5,674	100.00
H&P Venture capital Investment Corp.	150,000	146,138	32.26	149,533	32.26
	$ 3,822,779	$ 5,298,453		$ 4,916,720	

Long-term equity investment income (loss) for the six months ended June 30, 2012 and 2011 is summarized as follows:

	2012	2011
Phihong International Co., Ltd.	$ (119,348)	$ 116,710
Phihong USA Corp.	78,374	33,970
Phitek International Co., Ltd.	10,646	69,287
Guang-Lai Investment Co., Ltd.	(9,596)	(11,471)
Ascent Alliance Ltd.	(6,186)	(73,469)
American Ballast Corp.	33	10
Hao-Xuan Venture Capital Co., Ltd.	(281)	5,781
Phihong Technology Japan Co., Ltd.	(13,940)	(15,706)
H&P Venture capital Investment Corp.	(328)	(467)
	$ (60,626)	$ 124,645

For the six months ended June 30, 2012 and 2011, the Company recognized its investment income (loss) based on audited financial statements of the equity-method investees.

Phihong International Co., Ltd. (PHI) was incorporated in the British Virgin Islands in 1996. Through PHI, the Company made additional investments in Phihong (Dongguan), Phitek (Tianjin) and Phihong (Suzhou) to manufacture various power supplies in Mainland China. The Company had made additional investments of $221,341 thousand in cash in PHI for the six months ended June 30, 2012. Its paid-in capital was US$87,271 thousand as of June 30, 2012.

Phihong USA Corp. (PHA) was incorporated in the USA in 1997 as the Company's sales agent. Its paid-in capital was US$6,200 thousand as of June 30, 2012.

Phitek International Co., Ltd. ("PHK") was incorporated in the British Virgin Islands in 1999. Through PHK, the Company made additional investments in Phitek (Dongguan) to manufacture various power supplies in mainland China. Its paid-in capital was US$2,200 thousand as of June 30, 2012.

Guang-Lai Investment Co., Ltd. (Guang-Lai) was incorporated in Taiwan in October 2001. It primarily engages in investing activities. In February 2011, it decreased its paid-in capital by cash amount to $100,000 thousand. As a result, its paid-in capital was $239,758 thousand as of June 30, 2012.

Ascent Alliance Ltd. was incorporated in the British Virgin Islands in June 2004. Through this investee, the Company made additional investments in Shuang-Ying (Dongguan) Ltd. and Jin-Sheng-Hong (Jiangxi) to manufacture and sell electronic materials. Its paid-in capital was $7,003 thousand as of June 30, 2012.

American Ballast Corporation was incorporated in the USA in 2004 as the Company's sales agent. Its paid-in capital was US$500 thousand as of June 30, 2012.

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

Hao-Xuan Venture Capital Co., Ltd. ("Hao-Xuan") was incorporated in May 2004 to engage in investing activities. In May 2011, it decreased its paid-in capital by cash amounted to $99,846 thousand. As a result, its paid-in capital was $287,154 thousand as of June 30, 2012.

Phihong Technology Japan Co., Ltd. ("PHJ") was incorporated in Japan in April 2010. It primarily engages in sales of power components. In March 2012, it increased its paid-in capital by cash in the amount of JPY100,000 thousand. As a result, its paid-in capital was JPY250,000 thousand as of June 30, 2012.

H&P Venture capital Investment Corp. was incorporated in May 2011. It primarily engages in investing activities. Its paid-in capital was $465,000 thousand as of June 30, 2012.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2012 and 2011 were as follows:

	2012			2011
	Cost	**Accumulated Depreciation**	**Carrying Value**	**Carrying Value**
Land	$ 207,436	$ -	$ 207,436	$ 122,300
Buildings and improvements	294,946	115,530	179,416	190,057
Machinery and equipment	138,033	83,348	54,685	35,223
Furniture, fixtures and office equipment	116,963	96,750	20,213	26,330
Other equipment	47,294	12,575	34,719	520
Prepayments for purchase of land and equipment	3,571	-	3,571	77,422
	$ 808,243	$ 308,203	$ 500,040	$ 451,852

In March 2011, Phihong has purchased a parcel of land amounted to $85,136 thousand in Yongkang Dist, Tainan City for factory. As the title registration procedures were still in process, the prepayment of $77,167 thousand was recorded as “prepayments for purchase of land and equipment” as of June 30, 2011.

Under the long-term loan agreement, the Company has mortgaged the following property, plant and equipment as collaterals.

	2012	2011
Land	$ 112,450	$ 112,450
Buildings and improvements	164,637	174,610
	$ 277,087	$ 287,060

12. LONG-TERM DEBTS

Long-term debts as of June 30, 2012 and 2011 were as follows:

	2012	2011
Hua Nan Bank		
Medium-term secured loan. The loan term was from December 29, 2011 to December 29, 2013. Interest rate was 1.37% on June 30, 2012. Interest is paid monthly. The principal of $200,000 will be paid on December 29, 2013.	$ 200,000	$ -
Medium-term secured loan. Repayable from September 30, 2010 to September 30, 2017; interest rate was 1.29% on June 30, 2011. Interest is paid monthly. The principal is due in monthly installments commencing from September 30, 2012. The full principle was early repaid in December 2011.	-	200,000
	$ 200,000	$ 200,000

The pledged properties and endorsements/guarantees as collaterals for bank loans, please see Notes 11, 21 and 22 to the financial statements.

13. OTHER PAYABLES

	2012	2011
Accrued expenses	$ 525,613	$ 694,242
Bonus payable	281,809	464,454
Salaries payable	94,392	102,438
Dividend payable	995,969	1,057,779
Other payable to related parties (Note 21)	210,732	280,895
Materials payable on deputy procurement	1,577,237	1,781,303
Other	1,638	1,507
	$ 3,687,390	$ 4,382,618

14. CAPITAL STOCK

a.

	June 30	
	2012	2011
Authorized capital		
Shares (in thousands)	600,000	600,000
Par value	$ 10	$ 10
Capital	$ 6,000,000	$ 6,000,000
Issued capital		
Shares (in thousands)	277,044	274,846
Par value	$ 10	$ 10
Capital	$ 2,770,439	$ 2,748,459

b. As of January 1, 2012, the Company's outstanding capital amounted to $2,749,329 thousand. The employee stock warrant holders exercised 1,323 thousand common shares at an exercise price of $20.5, and exercised 788 thousand common shares for advanced collections for capital stock transferred to capital stock between January 1, 2012 to June 30, 2012. As of June 30, 2012, the Company's outstanding capital amounted to $2,770,439 thousand, divided into 277,044 thousand common shares with a par value of NT$10.

c. The Company's outstanding capital amounted to $2,725,939 thousand on January 1, 2011. The employee stock warrant holders exercised 1,452 thousand shares at an exercise price of $21.90, and exercised 800 thousand common shares for advanced collections for capital stock transferred to capital stock, between January 1, 2011 to June 30, 2011. As of June 30, 2011, the Company's outstanding capital amounted to $2,748,459 thousand, divided into 274,846 thousand common shares with a par value of NT$10.

d. As the registration procedures were still in process, the amounts of $547 thousand were recorded as "advanced collections for capital stock" as of June 30, 2011.

15. EMPLOYEE STOCK OPTION PLANS

At the November 23, 2007 meeting, the Board of Directors of the Company resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 15,000 units. Each individual employee stock warrant is granted the right to purchase 1,000 new issued common shares. The exercise price is the closing price of the Company's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to half of the granted warrant units no earlier than two years from the granted date. After three years from the granted date, the warrants holders are eligible to exercise the right up to three-fourth of the granted warrant units. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. The options granted are valid for six years and the warrant holders can not exercise the right after six years from the granted date. As of December 28, 2007, the Company issued stock warrants of 15,000 units with the exercise price is $21.30 per share. The exercise price will be adjusted according to calculating formula when there are stock and cash dividends and issuance of capital stock. As a result, the exercise price is $20.50 per share as of June 30, 2012.

Information about employee stock option plans as of June 30, 2012 and 2011 were as follows:

	2012		2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price (NT$)	Number of Exercisable Thousand Shares	Weighted-average Exercise Price (NT$)
Balance, beginning of period	6,867	$20.50	9,194	$21.90
Options exercised	(1,323)	20.50	(1,452)	21.90
Balance, end of period	5,544	20.50	7,742	21.90
Options exercisable, end of period	5,544		3,992	
Weighted-average fair value of options granted (NT$)	$ 10.40		$ 10.40	

Information about the outstanding and exercisable options as of June 30, 2012 and 2011 was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price (NT$)	Number of Exercisable Thousand Shares	Weighted-average Remaining Life (Years)	Weighted-average Exercise Thousand Price (NT$)	Number of Exercisable Shares	Weighted-average Exercise Price (NT$)
June 30, 2012					
$20.50	5,544	1.5	$ 20.50	5,544	$ 20.50
June 30, 2011					
$21.90	7,742	2.5	$ 21.90	3,992	$ 21.90

Had the Company recognized compensation cost based on the fair value method using the Black-Scholes pricing model, the assumptions and pro forma results of the Company for the six months ended June 30, 2012 and 2011 would have been as follows:

	2011
Assumptions	
Risk-free interest rate	2.41%
Expected life	6 years
Expected volatility	48.59%
Expected dividend yield	0%
Net income	
As reported	$ 964,265
Pro forma	$ 955,198
Basic earnings per share after income tax	
As reported	$3.51
Pro forma	$3.48

No more employee stock option information needs to be disclosed for the six months ended June 30, 2012, because the service years of the employees was expired on December 28, 2011.

16. RETAINED EARNINGS

Under the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual earnings, net of tax and any deficit, should first be appropriated as legal reserve until such reserve equals to the amount of the Company's capital, and then a special reserve should be appropriated as required by laws or domestic authorities.

Any remaining earnings plus unappropriated earnings accumulated by prior years, unless to be retained partially by the Company or resolved otherwise by the stockholders, and plan to assign proposal, draw shareholders to recognize and 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.

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares issued in excess of par may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus also may be distributed in cash. The capital surplus from long-term investments may not be used for any purpose.

For the six months ended June 30, 2012 and 2011, the bonus to employees was $22,672 thousand and $156,211 thousand, respectively, and the remuneration to directors and supervisors was $2,519 thousand and $17,357 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 20%, 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 shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' 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 shareholders' meeting.

The appropriations of earnings for 2011 and 2010 had been approved in the shareholders' meetings on June 19, 2012 and June 15, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Year 2011	For Year 2010	For Year 2011	For Year 2010
Legal reserve	$ 142,565	$ 161,204	$ -	$ -
Cash dividends	995,969	1,057,779	3.59	3.85
	$ 1,138,534	$ 1,218,983		

The stockholders' meeting approved the following appropriation of the 2011 and 2010 earnings: $995,969 thousand and $1,057,779 thousand as cash dividends; $236,998 thousand and $267,167 thousand as employees' bonuses and $19,620 thousand and $23,000 thousand as remuneration to directors and supervisors. The approved amounts of the bonus to employees and the remuneration to directors and supervisors have no difference from the accrual amounts.

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

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel expense, depreciation and amortization for the six months ended June 30, 2012 and 2011 are summarized as follows:

	2012			2011		
	Operating Costs	**Operating Expenses**	**Total**	**Operating Costs**	**Operating Expenses**	**Total**
Personnel expenses						
Salaries	$ 18,499	$ 207,779	$ 226,278	$ 31,521	$ 336,255	$ 367,776
Labor insurance and health insurance	1,044	13,127	14,171	908	10,526	11,434
Pension cost	1,217	8,257	9,474	1,182	7,611	8,793
Others	879	9,618	10,497	1,133	10,815	11,948
Depreciation expenses	831	22,371	23,202	663	13,709	14,372
Amortization expenses	-	4,495	4,495	1,651	22,692	24,343

18. INCOME TAX

The provision for income tax for the six months ended June 30, 2012 and 2011 was as follows:

	2012	2011
Provision for income tax expense - current period	$ 46,488	$ 168,610
Additional tax at 10% unappropriated earnings	28,712	-
	$ 75,200	$ 168,610

The components of deferred tax asset (liability) as of June 30, 2012 and 2011 were as follows:

	June 30	
	2012	**2011**
Deferred tax asset (liability)		
Unrealized exchange gains	$ (1,120)	$ (2,130)
Unrealized inventory devaluation losses	9,070	9,070
Unrealized bad debt losses	13,310	11,160
Unrealized profit from inter-affiliate transactions	15,410	78,175
Unrealized export trading losses	8,340	8,340
Unrealized pension expense	10,220	10,020
Income on long-term equity investments	(79,832)	(79,832)
Deferred tax (liability) asset, net	(24,602)	34,803
Deferred tax asset, current	(45,010)	(104,615)
Deferred tax liability, noncurrent	$ (69,612)	$ (69,812)

Current income tax expense for the six months ended June 30, 2012 and 2011 and income tax payable as of June 30, 2012 and 2011 were reconciled as follows:

	2012	2011
Income tax expense at statutory rate	$ 36,600	$ 192,600
Loss (gain) on long-term equity investments accounted for by equity method	10,300	(21,190)
Impairment loss of financial assets carried at cost		2,030
Exempt dividends	(390)	-
Gain on sale of investment	-	(4,050)
Others	(22)	(780)
Current income tax expense	46,488	168,610
Provision for (reversal of) deferred income tax asset (liability)		
Unrealized exchange gains	(2,490)	(16,380)
Unrealized bad-debt expense	3,250	-
Unrealized gross profit	(11,610)	2,480
Unrealized pension expense	50	-
Unrealized trading export	-	2,550
Others	-	(40)
	35,688	157,220
Less current year's withholding income tax	(497)	(265)
Add prior year's income tax payable	32,956	38,945
Additional 10% income tax on unappropriated earnings	28,712	-
Income tax payable as of June 30, 2012 and 2011	$ 96,859	$ 195,900

The income tax returns for the years through 2009 had been examined and approved by the tax authorities.

Information on the integrated income tax system as of June 30, 2012 and 2011 is as follows:

Balance of imputation credit account	$ 425,703
Undistributed earnings generated until 1997	$ -
Undistributed earnings generated since 1998	$ 829,780
Actual IC ratio for earnings distribution in 2012	23.28%
Actual IC ratio for earnings distribution in 2011	20.48%

19. EARNINGS PER SHARE

Earnings per share (EPS) before and after income tax for the six months ended June 30, 2012 and 2011 were as follows:

	2012				
			Weighted Average Number of Common	Earnings Per Share	
	Income Before Tax	Income After Tax	Shares Outstanding (In Thousands)	Income Before Tax	Income After Tax
Basic earnings per share					
Net income	$ 215,152	$ 139,952	276,793	$ 0.78	$ 0.51
Effect of dilutive potential common shares					
Stock-based compensation			2,803		
Employee bonuses			717		
Diluted earnings per share					
Net income attributed to holders of common stock plus the effect of dilutive potential common shares	$ 215,152	$ 139,952	280,313	$ 0.77	$ 0.50

	2011				
			Weighted Average Number of Common	Earnings Per Share	
	Income Before Tax	Income After Tax	Shares Outstanding (In Thousands)	Income Before Tax	Income After Tax
Basic earnings per share					
Net income	$ 1,132,875	$ 964,265	274,622	$ 4.13	$ 3.51
Effect of dilutive potential common shares					
Stock-based compensation			4,577		
Employee bonuses			2,664		
Diluted earnings per share					
Net income attributed to holders of common stock plus the effect of dilutive potential common shares	$ 1,132,875	$ 964,265	281,863	$ 4.02	$ 3.42

Potential shares from bonus to employees which will be distributed in shares will be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to employees by the closing price of the common shares on the balance sheet date. The dilutive effect of the potential shares needs to be considered until the shares of employee bonus are resolved in the shareholders' meeting in the following year.

20. OTHERS

Fair Value of Financial Instruments

The fair values of nonderivative financial instruments as of June 30, 2012 and 2011 are summarized as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$ 1,774,694	$ 1,774,694	$ 2,253,345	$ 2,253,345
Notes receivable	-	-	1,560	1,560
Accounts receivable	1,435,163	1,435,163	982,600	982,600
Accounts receivable from related parties	363,459	363,459	1,628,628	1,628,628
Other financial assets, current	557,548	557,548	758,996	758,996
Available-for-sale financial assets - noncurrent	37,546	37,546	4,407	4,407
Financial assets carried at cost, noncurrent	46,503	-	48,812	-
Long-term equity investments	5,298,453	5,316,423	4,916,720	4,947,303
Refundable deposits	13,762	13,762	14,961	14,961
Liabilities				
Notes payable	-	-	11,908	11,908
Accounts payable	31,163	31,163	33,540	33,540
Accounts payable to related parties	337,776	337,776	212,738	212,738
Other payables	3,687,390	3,687,390	4,382,618	4,382,618
Long-term borrowings	200,000	200,000	200,000	200,000

Approaches and assumptions used to assess the fair value of financial instruments are summarized as follows:

a. Fair values of current assets and liabilities, cash and cash equivalents, notes receivable, accounts receivable, accounts receivable from related parties, other financial assets - current, refundable deposits, notes payable, accounts payable, accounts payable to related parties, other payables, etc. are based on carrying values because of their short maturities.

b. Fair values of financial instruments measured at fair value through profit or loss and available-for-sale financial assets are determined using the market value in the open market or estimated by evaluation method according to the open information in the market.

c. Fair values of long-term equity investments are estimated based on the audited net value of investees as of June 30, 2012 and 2011.

d. Financial assets carried at cost are investments in unquoted shares, which have no quoted price in an active market and entail an unreasonably high cost to obtain verifiable fair value. Therefore, no fair value is presented.

e. Fair values of long-term borrowings are determined using the present value of the forecasted cash flows discounted at interest rates of similar long-term debts.

The amounts of financial assets determined by market value in the open market or estimated by evaluation method as of June 30, 2012 and 2011 are summarized as follows:

	Market Value in the Open Market		**By Evaluation Method**	
	2012	**2011**	**2012**	**2011**
Available-for-sale financial assets, noncurrent	$ 37,546	$ 4,407	$	$ -

For the six months ended June 30, 2011, the net foreign exchange gains on forwards was $2,435 thousand, which was recorded as nonoperating expenses and losses.

The information of financial risk was summarized as follows:

Market Risk

The Company is exposed to investing risk because it invests in the listed companies; therefore, the fair values of the stock are fluctuated due to changes in market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by $375 thousand.

Credit Risk

Financial instruments are evaluated for credit risk which represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached the contracts. The risk includes centralization of credit risk, components, contract figure, and its accounts receivable. Besides, the Company requires significant clients to provide guarantees or other rights of guarantee to reduce credit risk of the Company effectively.

Liquidity Risk

The Company has the ability to meet its financial obligations; thus, liquidity risks virtually do not exist.

Cash Flow Interest Rate Risk

The Company engaged in the long-term borrowings which had floating-interest rate. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company increase its cash-out by $2,000 thousand.

Hedge of fair value, hedge of cash flow, and hedge of a net investment in a foreign operation: None

21. RELATED-PARTY TRANSACTIONS

The Company's related parties were as follows:

Related Party	Relationship with the Company
Phihong USA Corp.	100% subsidiary
Phihong International Corp.	100% subsidiary
Phitek International Co., Ltd.	100% subsidiary
Ascent Alliance Ltd.	100% subsidiary
American Ballast Corp.	100% subsidiary
Phihong (Dongguan) Electronics Co., Ltd.	100% subsidiary
Dongguan Phitek Electronics Ltd.	100% subsidiary
Phihong Electronics (Suzhou) Co., Ltd.	100% subsidiary
Phihong Technology Japan Co., Ltd.	100% subsidiary
Guang-Lai Investment Co., Ltd.	100% subsidiary
Peter Lin	The Company's chairman
Xu Sheng Technology Co., Ltd. ("Xu Sheng")	The chairman of Xu Sheng is a director of the Company
Shine Tech Ltd.	The chairman of Shine Tech is the spouse of the Company's director

The Company's major transactions with the related parties were summarized as follows:

Sales

Sales to related parties for the six months ended June 30, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Phihong USA Corp.	$ 1,637,645	31	$ 4,223,426	59
Others	183,845	4	150,686	2
	$ 1,821,490	35	$ 4,374,112	61

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

Cost of Sales - Purchases

Purchases from related parties for the three months ended June 30, 2012 and 2011 were summarized below:

	2012		2011	
	Amount	Percentage to Total Purchases	Amount	Percentage to Total Purchases
Phihong (Dongguan) Electronics Co., Ltd.	$ 2,750,008	62	$ -	-
Dongguan Phitek Electronics Ltd.	918,823	21	-	-
Phihong Electronics (Suzhou) Co., Ltd.	750,244	16	-	-
Phihong International Corp.	-	-	3,331,303	62
Phitek International Co., Ltd.	-	-	1,981,142	37
Others	12,215	-	13,855	-
	$ 4,431,290	99	$ 5,326,300	99

The prices of merchandise purchased by the company were based on negotiations and consideration of the product type, cost, market price, etc.

Accounts Receivable

Accounts receivable from affiliates as of June 30, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Phihong USA Corp.	$ 287,428	16	$ 1,552,224	59
Others	76,031	4	76,404	3
	$ 363,459	20	$ 1,628,628	62

Accounts Payable

Accounts payable due to related parties as of June 30, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Dongguan Phitek Electronics Ltd.	$ 96,158	26	$ -	-
Phitek International Co., Ltd.	35,270	10	212,289	86
Phihong International Corp.	102,891	28	-	-
Phihong Electronics (Suzhou) Co., Ltd.	100,860	27	-	-
Others	2,597	1	449	-
	$ 337,776	92	$ 212,738	86

Other Receivables, Current

Other receivables, current as of June 30, 2012 and 2011 were as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Phihong (Dongguan) Electronics Co., Ltd.	$ 495,929	89	$ -	-
Phihong International Corp.	4,004	-	711,515	94
Others	15,656	3	24,448	3
	$ 515,589	92	$ 735,963	97

Other receivables were the Company's temporary payments made on behalf of related parties.

Other Payables

Other payables to affiliates as of June 30, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Ascent Alliance Ltd.	$ 184,932	5	$ 259,780	6
Others	25,800	1	21,115	1
	$ 210,732	6	$ 280,895	7

Other payables were temporary payments related parties made on behalf of the Company.

Other Income

	2012		2011	
	Amount	**Percentage to Total Tooling Development Revenue**	**Amount**	**Percentage to Total Tooling Development Revenue**
Phihong USA Corp.	$ 5,307	6	$ 8,932	29

Credit Guarantees

a. Please see Note 23 to the financial statements.

b. Related parties guaranteed the payments of loans of the Company as of June 30, 2012 and 2011 were as follows:

Related Party	**Nature**	**2012**	**2011**
Peter Lin	Long-term debts	$ 200,000	$ 200,000

22. MORTGAGED OR PLEDGED ASSETS

The Company's assets mortgaged or pledged as collateral for bank loans as of June 30, 2012 and 2011 were as follows:

	2012	2011
Land	$ 112,450	$ 112,450
Buildings and improvements	164,637	174,610
	$ 277,087	$ 287,060

23. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As of June 30, 2012, the Company had guaranteed the US$6,000 thousand loan of Phihong USA Corp. and American Ballast Corp.

24. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

As of June 30, 2012 and 2011, significant foreign currency financial assets and liabilities are as follows:

	2012			2011		
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)
Monetary items						
USD	$ 88,005	29.9250	$ 2,633,550	$ 179,574	28.8900	$ 5,187,891
JPY	149,658	0.3759	56,265	68,688	0.3568	24,508
HKD	2,959	3.8570	11,413	2,048	3.7110	7,602
RMB	234	4.7357	1,108	234	4.4640	1,038
Investments accounted for by the equity method						
USD	161,510	29.9250	4,833,174	152,400	28.8900	4,402,829
JPY	54,876	0.3759	20,628	15,902	0.3568	5,674
Financial liabilities						
Monetary items						
USD	72,984	29.9250	2,184,046	110,773	28.8900	3,200,245
JPY	7,639	0.3759	2,872	7,724	0.3568	2,756
HKD	3,972	3.8570	15,320	22,612	3.7110	83,914

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

25. OPERATING SEGMENTS INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements for three months ended as of June 30, 2012.