

Phihong Technology Co., Ltd.

**Financial Statements for the
Nine Months Ended September 30, 2012 and 2011 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying balance sheets of Phihong Technology Co., Ltd. (the "Company") as of September 30, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the nine 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 issue a report based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36, "Review of Financial Statements," of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express an opinion on these financial statements.

As mentioned in Note 10 to the financial statements, certain of long-term equity investments accounted for under the equity method for the nine months ended September 30, 2012 and 2011 were based on unreviewed financial statements. As of September 30, 2012 and 2011, the aggregate balances of the Company's investments in its investees whose financial statements have not been reviewed by independent accountants amounted to \$374,834 thousand and \$362,669 thousand, respectively. For the nine months ended September 30, 2012 and 2011, the Company's investment (loss) gain from such investments amounted to \$(23,210) thousand and \$2,112 thousand, respectively.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had the long-term equity investments and investment loss or income of investees mentioned above been recognized based on reviewed financial statements, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be 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 reviewed the consolidated financial statements of the Company and its subsidiaries for the nine months ended September 30, 2012 and 2011 (not presented herewith) on which we have issued a qualified review report dated October 26, 2012.

October 26, 2012

Notice to Readers

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

For the convenience of readers, the accountants' review 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 accountants' review 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

SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,065,348	12	\$ 1,131,456	11	Accounts payable	\$ 33,225	-	\$ 34,874	-
Accounts receivable (Notes 2 and 5)	1,287,181	14	1,279,735	12	Accounts payable to related parties (Note 21)	325,252	3	148,335	2
Accounts receivable from related parties (Notes 2, 5 and 21)	145,689	2	1,089,409	11	Income tax payable (Notes 2 and 18)	77,863	1	43,188	-
Other financial assets, current (Notes 6 and 21)	360,106	4	459,925	4	Other payables (Notes 12 and 21)	2,448,234	27	3,006,184	29
Inventories (Notes 2 and 7)	379,737	4	488,315	5	Other current liabilities	16,142	-	11,441	-
Deferred income tax asset, current (Notes 2 and 18)	38,990	-	59,565	1					
Other current assets	21,290	-	34,174	-	Total current liabilities	2,900,716	31	3,244,022	31
Total current assets	3,298,341	36	4,542,579	44	LONG-TERM LIABILITIES				
FUNDS AND LONG-TERM INVESTMENTS					Long-term debts (Note 13)	200,000	2	200,000	2
Available-for-sale financial assets, noncurrent (Notes 2 and 8)	31,458	-	31,579	-	OTHER LIABILITIES				
Financial assets carried at cost, noncurrent (Notes 2 and 9)	46,503	1	48,812	1	Accrued pension cost (Note 2)	65,064	1	64,216	1
Long-term equity investments at equity method (Notes 2 and 10)	5,258,746	57	5,229,225	50	Deferred income tax liabilities, noncurrent (Notes 2 and 18)	69,592	1	69,732	1
Total funds and long-term investments	5,336,707	58	5,309,616	51	Deferred credits (Note 2)	59,733	1	266,147	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)					Others	49,051	-	49,052	-
Cost	817,469	9	777,275	8	Total other liabilities	243,440	3	449,147	5
Less accumulated depreciation	(317,238)	(3)	(294,271)	(3)	Total liabilities	3,344,156	36	3,893,169	38
Prepayments for purchase of equipment	2,535	-	100	-	STOCKHOLDERS' EQUITY				
Property, plant and equipment, net	502,766	6	483,104	5	Capital stock, \$10 par value (Note 14)				
INTANGIBLE ASSETS (Note 2)					Authorized - 600,000 thousand shares at September 30, 2012 and 2011; issued - 277,044 thousand shares and 274,933 thousand shares at September 30, 2012 and 2011	2,770,439	30	2,749,329	26
Computer software	19,651	-	17,386	-	Capital surplus				
OTHER ASSETS					Additional paid-in capital - common stock	225,572	3	203,406	2
Refundable deposits	13,759	-	14,847	-	Additional paid-in capital - bond conversion	661,582	7	661,582	6
Deferred charges (Note 2)	-	-	2,657	-	Treasury stock transactions	48,234	1	48,234	1
Total other assets	13,759	-	17,504	-	From long-term equity investments	11,305	-	11,132	-
TOTAL	\$ 9,171,224	100	\$ 10,370,189	100	Interest payable from bond conversion	13,243	-	13,243	-
					Retained earnings (Note 16)				
					Legal reserve	1,052,192	12	909,627	9
					Unappropriated earnings	927,278	10	1,641,119	16
					Other equity				
					Cumulative translation adjustments	124,027	1	250,163	2
					Unrealized gains on financial instruments	(17,772)	-	(21,783)	-
					Unrealized revaluation increment	10,968	-	10,968	-
					Total stockholders' equity	5,827,068	64	6,477,020	62
					TOTAL	\$ 9,171,224	100	\$ 10,370,189	100

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

(With Deloitte & Touche review report dated October 26, 2012)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
GROSS SALES AND REVENUES	\$ 7,968,585	100	\$ 9,862,212	100
LESS SALES RETURNS AND ALLOWANCES	<u>-</u>	<u>-</u>	<u>(12,192)</u>	<u>-</u>
NET SALES AND REVENUES	7,968,585	100	9,850,020	100
COST OF GOODS SOLD	<u>7,106,796</u>	<u>89</u>	<u>7,856,561</u>	<u>80</u>
GROSS PROFIT	861,789	11	1,993,459	20
REALIZED GROSS PROFIT FROM INTERCOMPANY TRANSACTIONS	<u>99,203</u>	<u>1</u>	<u>179,120</u>	<u>2</u>
REALIZED GROSS PROFIT	<u>960,992</u>	<u>12</u>	<u>2,172,579</u>	<u>22</u>
OPERATING EXPENSES				
Sales and marketing	210,831	3	291,062	3
General and administration	125,291	2	191,998	2
Research and development	<u>334,093</u>	<u>4</u>	<u>404,038</u>	<u>4</u>
Total operating expenses	<u>670,215</u>	<u>9</u>	<u>887,098</u>	<u>9</u>
INCOME FROM OPERATIONS	<u>290,777</u>	<u>3</u>	<u>1,285,481</u>	<u>13</u>
NONOPERATING INCOME AND GAINS				
Interest income	9,453	-	7,796	-
Investment income recognized under equity method, net (Note 10)	-	-	59,527	1
Dividends income	3,613	-	4,550	-
Gain on disposal of property, plant and equipment	-	-	43	-
Gain on sale of investment, net	-	-	23,828	-
Foreign exchange gains, net	-	-	68,671	1
Gain on reversal of bad debts	20,519	-	-	-
Others	<u>102,588</u>	<u>2</u>	<u>94,715</u>	<u>1</u>
Total nonoperating income and gains	<u>136,173</u>	<u>2</u>	<u>259,130</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	2,202	-	2,057	-
Investment loss recognized under equity method, net (Note 10)	60,581	1	-	-
Loss on disposal of property, plant and equipment	433	-	-	-

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
Foreign exchange losses, net	\$ 31,147	-	\$ -	-
Impairment loss (Note 9)	-	-	11,969	-
Others	<u>237</u>	<u>-</u>	<u>15,352</u>	<u>-</u>
Total nonoperating expenses and losses	<u>94,600</u>	<u>1</u>	<u>29,378</u>	<u>-</u>
INCOME BEFORE INCOME TAX	332,350	4	1,515,233	16
INCOME TAX EXPENSE (Notes 2 and 18)	<u>(94,900)</u>	<u>(1)</u>	<u>(276,823)</u>	<u>(3)</u>
NET INCOME	<u>\$ 237,450</u>	<u>3</u>	<u>\$ 1,238,410</u>	<u>13</u>
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 19)	<u>\$ 1.20</u>	<u>\$ 0.86</u>	<u>\$ 5.52</u>	<u>\$ 4.51</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 19)	<u>\$ 1.18</u>	<u>\$ 0.85</u>	<u>\$ 5.33</u>	<u>\$ 4.35</u>

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

(With Deloitte & Touche review report dated October 26, 2012)

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Capital Stock		Capital Surplus				Retained Earnings		Other Equity			Total	
	Capital Stock	Advanced Collections for Common Stocks	Additional Paid-in Capital - Common Stock	Additional Paid-in Capital - Bond Conversion	Treasury Stock Transactions	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
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 (Note 16)													
Legal reserve	-	-	-	-	-	-	-	142,565	(142,565)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(995,969)	-	-	-	(995,969)
Advanced collections for common stock transferred to capital stock (Note 14)	7,880	(16,154)	8,274	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 15)	13,230	-	13,892	-	-	-	-	-	-	-	-	-	27,122
Recognized unrealized loss on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	(2,764)	-	(2,764)
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	7,296	-	7,296
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(126,269)	-	-	(126,269)
Net income for the nine months ended September 30, 2012	-	-	-	-	-	-	-	-	237,450	-	-	-	237,450
BALANCE, SEPTEMBER 30, 2012	<u>\$ 2,770,439</u>	<u>\$ -</u>	<u>\$ 225,572</u>	<u>\$ 661,582</u>	<u>\$ 48,234</u>	<u>\$ 11,305</u>	<u>\$ 13,243</u>	<u>\$ 1,052,192</u>	<u>\$ 927,278</u>	<u>\$ 124,027</u>	<u>\$ (17,772)</u>	<u>\$ 10,968</u>	<u>\$ 5,827,068</u>
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 (Note 16)													
Legal reserve	-	-	-	-	-	-	-	161,204	(161,204)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(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)	15,390	-	18,227	-	-	-	-	-	-	-	-	-	33,617
Recognized of unrealized loss on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	(180,010)	-	(180,010)
Unrealized loss on available-for-sale financial instrument	-	-	-	-	-	-	-	-	-	-	(27,325)	-	(27,325)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	277,193	-	-	277,193
Net income for the nine months ended September 30, 2011	-	-	-	-	-	-	-	-	1,238,410	-	-	-	1,238,410
BALANCE, SEPTEMBER 30, 2011	<u>\$ 2,749,329</u>	<u>\$ -</u>	<u>\$ 203,406</u>	<u>\$ 661,582</u>	<u>\$ 48,234</u>	<u>\$ 11,132</u>	<u>\$ 13,243</u>	<u>\$ 909,627</u>	<u>\$ 1,641,119</u>	<u>\$ 250,163</u>	<u>\$ (21,783)</u>	<u>\$ 10,968</u>	<u>\$ 6,477,020</u>

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

(With Deloitte & Touche review report dated October 26, 2012)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 237,450	\$ 1,238,410
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	42,324	54,081
(Recovery from) provision for loss on doubtful accounts	(20,519)	4,300
Investment loss (income) recognized under equity method	60,581	(59,527)
Realized gross profit from intercompany transactions	(99,203)	(179,120)
Cash dividends received from equity-method investees	2,833	9,832
Impairment loss	-	11,969
Gain on disposal of available-for-sale financial assets	-	(23,828)
Net loss (gain) on disposal of property, plant and equipment	433	(43)
Net changes in operating assets and liabilities		
Accounts receivable	57,566	(319,984)
Accounts receivable from related parties	408,720	459,371
Other financial assets, current	109,721	452,543
Inventories	151,518	70,507
Deferred income tax assets, current	16,870	56,570
Other current assets	14,201	(22,718)
Notes payable	-	(24)
Accounts payable	(7,987)	(1,859)
Accounts payable to related parties	166,371	(6,874)
Income tax payable	(79,087)	(242,123)
Other payables	(212,166)	(228,797)
Other current liabilities	(22,818)	(1,180)
Other liabilities	-	15,000
Reserve for retirement plan	416	1,331
Deferred income tax liabilities, noncurrent	(70)	(210)
Net cash provided by operating activities	<u>827,154</u>	<u>1,287,627</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in available-for-sale financial assets	-	(33,042)
Proceeds from disposal of available-for-sale financial assets	-	29,660
Acquisition of investments accounted for by equity method	(316,191)	(292,534)
Return to capital stock of invested company disinvestment	22,483	141,128
Acquisition of property, plant and equipment	(42,985)	(144,439)
Proceeds from disposal of property, plant and equipment	476	189
Decrease in refundable deposits	-	188
Increase in deferred charges	-	(16,007)
Increase in intangible assets - computer software	(9,661)	(6,992)
Net cash used in investing activities	<u>(345,878)</u>	<u>(321,849)</u>

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PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Employee stock options	\$ 27,122	\$ 33,617
Cash dividends	<u>(995,969)</u>	<u>(1,057,779)</u>
Net cash used in financing activities	<u>(968,847)</u>	<u>(1,024,162)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(487,571)	(58,384)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>1,552,919</u>	<u>1,189,840</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 1,065,348</u>	<u>\$ 1,131,456</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	<u>\$ 2,195</u>	<u>\$ 2,056</u>
Income tax	<u>\$ 157,188</u>	<u>\$ 462,585</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Translation adjustments on long-term equity investments	<u>\$ (126,269)</u>	<u>\$ 277,193</u>
Recognized unrealized loss on investees' financial instruments	<u>\$ 2,764</u>	<u>\$ 180,010</u>
Change in unrealized (gain) loss on available-for-sale financial assets	<u>\$ (7,296)</u>	<u>\$ 27,325</u>

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

(With Deloitte & Touche review report dated October 26, 2012)

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars (Except Per Share Data), Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

Pihong Technology Co., Ltd. (the “Company”), which was formerly known as Pihong Enterprise Co., Ltd., was incorporated on December 12, 1972 under the laws of the Republic of China (the “ROC”). Under a resolution approved in the stockholders’ meeting in June 2003, the Company changed its name to Pihong Technology Co., Ltd. The Company primarily manufactures and sells AC/DC power adapters, charger bases, power supply modules, UPS for computers, ballast, etc. The Company had 370 and 385 employees as of September 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. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

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 should be translated at the historical rate, except for the beginning balance of the retained earnings, which is carried at the translated amount of the last period. Dividends are translated at the spot rate of 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 trading 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 not being recorded as current assets are recorded as noncurrent assets. Liabilities incurred for trading purposes and expected to be liquidated within one year from balance sheet date are recorded as current liabilities. Liabilities not being recorded 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 resulting from net income before the investment date should be recorded as a decrease in 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

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

Impairment 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, work-in-process and merchandise and are stated at the lower of cost or net realizable value. Inventories 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.

The Company's investees in which ownership interest is over 50% or with control ability are included in the consolidated financial statements.

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 newly 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 mainly are 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 for 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 Cost

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 research and development 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

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. 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 receivables are due in a year, they are not recorded at discounted value as the fair value approximates the carrying amounts.

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 nine months ended September 30, 2011 have been reclassified to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2012.

3. CHANGES IN ACCOUNTING PRINCIPLES

Accounting Treatment for the 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 revision includes 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 nine months ended September 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" and it only changes the disclosure of segment reporting due to the adoption.

4. CASH AND CASH EQUIVALENTS

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

	2012	2011
Cash on hand	\$ 848	\$ 909
Checking accounts	638	3,559
Savings accounts	81,708	96,260
Foreign-currency accounts	982,154	681,171
Time deposits	-	60,000
Short-term notes	-	289,557
	<u> </u>	<u> </u>
	<u>\$ 1,065,348</u>	<u>\$ 1,131,456</u>

5. ACCOUNTS RECEIVABLE

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

	2012	2011
Accounts receivable	\$ 1,309,248	\$ 1,324,454
Less allowance for doubtful accounts	<u>(22,067)</u>	<u>(44,719)</u>
	<u>1,287,181</u>	<u>1,279,735</u>
Accounts receivable from related parties (Note 21)	145,689	1,089,409
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>145,689</u>	<u>1,089,409</u>
	<u>\$ 1,432,870</u>	<u>\$ 2,369,144</u>

6. OTHER FINANCIAL ASSETS, CURRENT

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

	2012	2011
Other receivables from related parties (Note 21)	\$ 320,908	\$ 435,841
Others	<u>39,198</u>	<u>24,084</u>
	<u>\$ 360,106</u>	<u>\$ 459,925</u>

7. INVENTORIES

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

	2012	2011
Raw materials	\$ 4,179	\$ 4,846
Work-in-process	544	1,072
Merchandise	<u>375,014</u>	<u>482,397</u>
	<u>\$ 379,737</u>	<u>\$ 488,315</u>

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

For the nine months ended September 30, 2012 and 2011, the Company's cost of goods sold was \$7,106,796 thousand and \$7,856,561 thousand, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

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

	2012	2011
Marketable equity securities		
Hua Jung Components Co., Ltd.	<u>\$ 31,458</u>	<u>\$ 31,579</u>

Hua Jung Components Co., Ltd. decreased its paid-in capital by cash at a rate of 18% in September 2012 and the Company received \$9,195 thousand. For the nine months ended September 30, 2012 and 2011, the Company's recognition of unrealized gain (loss) on available-for-sale financial assets was \$7,296 thousand and \$(1,463) thousand, respectively. The amount was recorded as "stockholder's equity-unrealized gain (losses) on financial instruments" as of September 30, 2012 and 2011.

9. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as of September 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	<u>(61,969)</u>	<u>(61,969)</u>
	<u>\$ 46,503</u>	<u>\$ 48,812</u>

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, the Company recognized \$4,745 thousand and \$7,224 thousand impairment loss for the nine months ended September 30, 2011, respectively. Bao-Dian Venture Capital Co., Ltd. decreased its paid-in capital to write-off its accumulated deficits for the nine months ended September 30, 2012, at a rate of 55%. As a result, its paid-in capital was \$128,700 thousand as of September 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 a rate of 33% in 2011 and the Company received \$16,500 thousand as capital return. As a result, its paid-in capital was \$619,750 thousand as of September 30, 2012.

10. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

Long-term equity investments at equity method as of September 30, 2012 and 2011 were as follows:

	2012			2011	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Phihong International Corp.	\$ 2,727,245	\$ 3,131,655	100.00	\$ 3,157,627	100.00
Phihong USA Corp.	207,203	778,602	100.00	637,617	100.00
Phitek International Co., Ltd.	63,286	508,694	100.00	538,012	100.00
Guang-Lai Investment Co., Ltd.	239,758	228,285	100.00	269,237	100.00
Ascent Alliance Ltd.	195,449	343,019	100.00	384,579	100.00
American Ballast Corp.	16,579	15,397	100.00	15,910	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.	59,851	60,941	24.67	69,554	24.67
H&P Venture Capital Investment Corp.	150,000	144,921	32.26	148,748	32.26
Phihong Technology Japan Co., Ltd.	<u>132,254</u>	<u>47,232</u>	100.00	<u>7,941</u>	100.00
	<u>\$ 3,867,501</u>	<u>\$ 5,258,746</u>		<u>\$ 5,229,225</u>	

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

	2012	2011
Phihong International Corp.	\$ (130,801)	\$ 25,599
Phihong USA Corp.	121,742	59,670
Phitek International Co., Ltd.	(8,981)	99,309
Guang-Lai Investment Co., Ltd.	(12,703)	(19,752)
Ascent Alliance Ltd.	(8,391)	(93,423)
American Ballast Corp.	25	29
Hao-Xuan Venture Capital Co., Ltd.	5,781	3,894
H&P Venture Capital Investment Corp.	(2,040)	(1,252)
Phihong Technology Japan Co., Ltd.	<u>(25,213)</u>	<u>(14,547)</u>
	<u>\$ (60,581)</u>	<u>\$ 59,527</u>

The above-mentioned investees, which the Company recognized its investment income (loss) was based on unreviewed financial statements for the nine months ended September 30, 2012 and 2011 are as follows:

	2012	2011
Name of investees	HaoXuan Venture Capital Co., Ltd. H&P Venture Capital Investment Corp. GuangLai Investment Co., Ltd. Phihong Technology Japan Co., Ltd.	Hao-Xuan Venture Capital Co., Ltd. H&P Venture Capital Investment Corp. Guang-Lai Investment Co., Ltd. Phihong Technology Japan Co., Ltd.

Phihong International Corp. (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 \$238,942 thousand in cash in PHI for the nine months ended September 30, 2012. Its paid-in capital was US\$87,871 thousand as of September 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 September 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 September 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 amounted to \$100,000 thousand. As a result, its paid-in capital was \$239,758 thousand as of September 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) and Jin-Sheng-Hong (Jiangxi) to manufacture and sell electronic materials. Its paid-in capital was US\$7,003 thousand as of September 30, 2012.

American Ballast Corp. was incorporated in the USA in December 2004 as the Company's sales agent. Its paid-in capital was US\$500 thousand as of September 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. The Company had paid-in capital of \$387,000 thousand as of January 1, 2011. It decreased its paid-in capital by cash amounted to \$44,509 thousand and \$99,846 thousand for the nine months ended September 30, 2012 and 2011, respectively. The Company had received the amount of \$10,979 thousand and \$24,628 thousand, respectively. As a result, its paid-in capital was \$242,645 thousand as of September 30, 2012.

Phihong Technology Japan Co., Ltd. ("PHJ") was incorporated in Japan in April 2010. It primarily engages in sales of power components. The Company had paid-in capital of JPY150,000 thousand as of December 31, 2011. For the nine months ended September 30, 2012, it increased its paid-in capital by cash in the amount of JPY200,000 thousand. As a result, its paid-in capital was JPY350,000 thousand as of September 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 September 30, 2012.

11. PROPERTY, PLANT AND EQUIPMENT

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

	2012			2011
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 207,436	\$ -	\$ 207,436	\$ 207,436
Buildings and improvements	295,212	118,446	176,766	187,265
Machinery and equipment	138,395	84,515	53,880	45,227
Furniture, fixtures and office equipment	114,917	97,537	17,380	26,570
Other equipment	61,509	16,740	44,769	16,506
Prepayments for purchase of equipment	2,535	-	2,535	100
	\$ 820,004	\$ 317,238	\$ 502,766	\$ 483,104

In March 2011, the Company had purchased a parcel of land amounted to \$85,136 thousand in Yongkang Dist, Tainan City for factory.

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

	September 30	
	2012	2011
Land	\$ 112,450	\$ 112,450
Buildings and improvements	162,154	171,985
	\$ 274,604	\$ 284,435

12. OTHER PAYABLES

	September 30	
	2012	2011
Accrued expenses	\$ 500,722	\$ 662,049
Bonus payable	160,488	405,955
Salaries payable	123,178	134,419
Materials payable on deputy procurement	1,435,649	1,582,662
Other payable to related parties (Note 21)	226,699	219,530
Others	1,498	1,569
	\$ 2,448,234	\$ 3,006,184

13. LONG-TERM DEBTS

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

	2012	2011
Hua Nan Bank		
Medium-term secured loan. The loan term was from September 27, 2012 to September 27, 2014. Interest rate was 1.37% on September 30, 2012. Interest is paid monthly. The principal of \$200,000 thousand will be paid on September 27, 2014.	\$ 200,000	\$ -
Medium-term secured loan. The loan term was from September 30, 2010 to September 30, 2017; interest rate was 1.37% on September 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
	<u>\$ 200,000</u>	<u>\$ 200,000</u>

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

14. CAPITAL STOCK

a. Common stock

	<u>September 30</u>	
	2012	2011
Authorized capital		
Shares (in thousands)	<u>600,000</u>	<u>600,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>
Issued capital		
Shares (in thousands)	<u>277,044</u>	<u>274,933</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,770,439</u>	<u>\$ 2,749,329</u>

- b. The Company's outstanding capital amounted to \$2,725,939 thousand on January 1, 2011. The employee stock warrant holders exercised 1,477 thousand common shares and 62 thousand common shares at an exercise price of \$21.90 and \$20.50, respectively, and exercised 800 thousand common shares for advanced collections for capital stock transferred to capital stock between January 1, 2011 to September 30, 2011. As of September 30, 2011, the Company's outstanding capital amounted to \$2,749,329 thousand, divided into 274,933 thousand common shares with a par value of NT\$10.
- c. 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 \$20.50, and exercised 788 thousand common shares for advanced collections for capital stock transferred to capital stock between January 1, 2012 to September 30, 2012. As of September 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.

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 of \$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 was NT\$18.20 per share as of September 30, 2012.

Information about employee stock option plans for the nine months ended September 30, 2012 and 2011 was as follows:

	2012		2011	
	Number of Options (In Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousand Shares)	Weighted-average Exercise Price (NT\$)
Balance, beginning of period	6,867	\$20.50	9,194	\$21.90
Options exercised	<u>(1,323)</u>	20.50	<u>(1,539)</u>	21.84
Balance, end of period	<u>5,544</u>	18.20	<u>7,655</u>	20.50
Options exercisable, end of period	<u>5,544</u>		<u>3,905</u>	

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

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (In Thousand Shares)	Weighted-average Remaining Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousand Shares)	Weighted-average Exercise Price (NT\$)
<u>September 30, 2012</u>					
\$18.20	<u>5,544</u>	<u>1.25</u>	<u>\$ 18.20</u>	<u>5,544</u>	<u>\$ 18.20</u>
<u>September 30, 2011</u>					
\$20.50	<u>7,655</u>	<u>2.25</u>	<u>\$ 20.50</u>	<u>3,905</u>	<u>\$ 20.50</u>

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 nine months ended September 30, 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	-
Net income	
As reported	\$ 1,238,410
Pro forma	\$ 1,231,629
Basic earnings per share after income tax (NT\$)	
As reported	\$4.51
Pro forma	\$4.48

No more employee stock option information needs to be disclosed for the nine months ended September 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. Legal reserve shall be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. Under the aforesaid revised Company Law, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

For the nine months ended September 30, 2012 and 2011, the bonus to employees was \$38,467 thousand and \$200,622 thousand, respectively, and the remuneration to directors and supervisors was \$4,274 thousand and \$22,292 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	<u>995,969</u>	<u>1,057,779</u>	3.59	3.85
	<u>\$ 1,138,534</u>	<u>\$ 1,218,983</u>		

The stockholders' meeting approved the following appropriation of the 2011 and 2010 earnings: \$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, depletion and amortization for the nine months ended September 30, 2012 and 2011 are summarized as follows:

Function Expense Item	2012			2011		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses						
Salaries	\$ 28,587	\$ 317,653	\$ 346,240	\$ 42,003	\$ 470,581	\$ 512,584
Labor insurance and health insurance	1,577	19,657	21,234	1,376	16,462	17,838
Pension cost	1,813	12,395	14,208	1,785	11,761	13,546
Others	1,331	14,793	16,124	1,595	15,549	17,144
Depreciation expenses	1,261	34,082	35,343	1,034	22,972	24,006
Amortization expenses	-	6,981	6,981	1,679	28,396	30,075

18. INCOME TAX

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

	2012	2011
Provision for income tax expense - current period	\$ 66,188	\$ 238,053
Additional tax at 10% unappropriated earnings	28,712	-
Adjustments of prior year's income tax expense	<u>-</u>	<u>38,770</u>
Income tax expense, net	<u>\$ 94,900</u>	<u>\$ 276,823</u>

The components of deferred tax assets (liabilities) as of September 30, 2012 and 2011 were as follows:

	2012	2011
Deferred tax asset (liability)		
Unrealized exchange losses (gains)	\$ 980	\$ (11,790)
Unrealized inventory devaluation losses	9,070	9,070
Unrealized bad debt losses	10,450	8,700
Unrealized profit from inter-affiliate transactions	10,150	45,245
Unrealized export trading losses	8,340	8,340
Unrealized pension expense	10,240	10,100
Income on long-term equity investments	<u>(79,832)</u>	<u>(79,832)</u>
Deferred tax liability, net	(30,602)	(10,167)
Deferred tax asset, current	<u>(38,990)</u>	<u>(59,565)</u>
Deferred tax liability, noncurrent	<u>\$ (69,592)</u>	<u>\$ (69,732)</u>

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

	2012	2011
Income tax expense at statutory rate of 17%	\$ 56,500	\$ 258,000
Investment loss (income) on long-term equity investments	10,300	(10,120)
Impairment loss of financial assets carried at cost	-	2,030
Exempt dividends	(610)	(770)
Gain on sale of investment, net	-	(4,050)
Others	<u>(2)</u>	<u>(7,037)</u>
Current income tax expense	66,188	238,053
Provision for (reversal of) deferred income tax asset (liability)		
Unrealized exchange gains	(390)	(26,040)
Unrealized losses on bad debt	390	(2,630)
Unrealized gross profit	(16,870)	(30,450)
Unrealized pension expense	70	230
Unrealized profit from trading export	-	2,550
Others	<u>-</u>	<u>(20)</u>
	49,388	181,693
Less current year's withholding income tax	(33,193)	(165,817)
Add prior years' income tax payable	32,956	27,312
Additional 10% income tax on unappropriated earnings	<u>28,712</u>	<u>-</u>
Income tax payable as of September 30, 2012 and 2011	<u>\$ 77,863</u>	<u>\$ 43,188</u>

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 September 30, 2012 is as follows:

Balance of imputation credit account	<u>\$ 193,131</u>
Undistributed earnings generated until 1997	<u>\$ -</u>
Undistributed earnings generated since 1998	<u>\$ 927,278</u>
Actual IC ratio for earnings distribution in 2012	<u>23.28%</u>
Actual IC ratio for earnings distribution in 2011	<u>20.48%</u>

19. EARNINGS PER SHARE

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

	2012				
	Before Income Tax	After Income Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share (NT\$)	
				Before Income Tax	After Income Tax
Basic earnings per share					
Net income	<u>\$ 332,350</u>	<u>\$ 237,450</u>	276,877	<u>\$ 1.20</u>	<u>\$ 0.86</u>
Effect of dilutive potential common shares					
Employee stock option			2,548		
Employee bonuses			<u>1,482</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 332,350</u>	<u>\$ 237,450</u>	<u>280,907</u>	<u>\$ 1.18</u>	<u>\$ 0.85</u>
	2011				
	Before Income Tax	After Income Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share (NT\$)	
				Before Income Tax	After Income Tax
Basic earnings per share					
Net income	<u>\$ 1,515,233</u>	<u>\$ 1,238,410</u>	274,719	<u>\$ 5.52</u>	<u>\$ 4.51</u>
Effect of dilutive potential common shares					
Employee stock option			4,583		
Employee bonuses			<u>5,156</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 1,515,233</u>	<u>\$ 1,238,410</u>	<u>284,458</u>	<u>\$ 5.33</u>	<u>\$ 4.35</u>

The Company should presume that the entire amount of the employees bonus will be settled in shares and the resulting potential shares should 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 value of nonderivative financial instruments as of September 30, 2012 and 2011 is summarized as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Assets</u>				
Cash and cash equivalents	\$ 1,065,348	\$ 1,065,348	\$ 1,131,456	\$ 1,131,456
Accounts receivable	1,287,181	1,287,181	1,279,735	1,279,735
Accounts receivable from related parties	145,689	145,689	1,089,409	1,089,409
Other financial assets, current	360,106	360,106	459,925	459,925
Available-for-sale financial assets, noncurrent	31,458	31,458	31,579	31,579
Financial assets carried at cost, noncurrent	46,503	-	48,812	-
Long-term equity investments at equity method	5,258,746	5,278,766	5,229,225	5,252,379
Refundable deposits	13,759	13,759	14,847	14,847
<u>Liabilities</u>				
Accounts payable	33,225	33,225	34,874	34,874
Accounts payable to related parties	325,252	325,252	148,335	148,335
Other payables	2,448,234	2,448,234	3,006,184	3,006,184
Long-term debts	200,000	200,000	200,000	200,000

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

- 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.
- 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.
- Fair values of long-term equity investments at equity method are estimated based on the net value of investees as of September 30, 2012 and 2011.
- 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.
- 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 September 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	\$ 31,458	\$ 31,579	\$ -	\$ -

For the nine months ended September 30, 2011, the net foreign exchange gains on forwards was \$2,435 thousand, which was recorded as nonoperating income and gains.

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 \$315 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 interest 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

(Continued)

Related Party	Relationship with the Company
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

(Concluded)

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

Sales

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

	2012		2011	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Phihong USA Corp.	\$ 2,311,349	29	\$ 5,086,243	52
Phihong Technology Japan Co., Ltd.	259,581	3	248,979	2
Others	<u>14,729</u>	<u>-</u>	<u>14,188</u>	<u>-</u>
	<u>\$ 2,585,659</u>	<u>32</u>	<u>\$ 5,349,410</u>	<u>54</u>

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 nine months ended September 30, 2012 and 2011 were summarized below:

	2012		2011	
	Amount	Percentage to Total Purchases	Amount	Percentage to Total Purchases
Phihong (Dongguan) Electronics Co., Ltd.	\$ 4,572,279	66	\$ -	-
Dongguan Phitek Electronics Ltd.	1,235,221	18	-	-
Phihong Electronics (Suzhou) Co., Ltd.	1,116,106	16	-	-
Phihong International Corp.	-	-	5,007,163	65
Phitek International Co., Ltd.	-	-	2,638,869	34
Others	<u>19,033</u>	<u>-</u>	<u>19,523</u>	<u>-</u>
	<u>\$ 6,942,639</u>	<u>100</u>	<u>\$ 7,665,555</u>	<u>99</u>

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 September 30, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Phihong USA Corp.	\$ 96,749	7	\$ 989,045	42
Phiong Technology Japan Co., Ltd.	48,940	3	100,356	4
Others	<u>-</u>	<u>-</u>	<u>8</u>	<u>-</u>
	<u>\$ 145,689</u>	<u>10</u>	<u>\$ 1,089,409</u>	<u>46</u>

Accounts Payable

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

	2012		2011	
	Amount	%	Amount	%
Phihong International Corp.	\$ 131,160	37	\$ -	-
Dongguan Phitek Electronics Ltd.	121,846	34	-	-
Phitek International Co., Ltd.	33,900	9	147,432	80
Phihong Electronics (Suzhou) Co., Ltd.	31,829	9	-	-
Others	<u>6,517</u>	<u>2</u>	<u>903</u>	<u>1</u>
	<u>\$ 325,252</u>	<u>91</u>	<u>\$ 148,335</u>	<u>81</u>

Other Receivables (Recorded as "Other Financial Assets, Current")

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

	2012		2011	
	Amount	%	Amount	%
Phihong (Dongguan) Electronics Co., Ltd.	\$ 312,513	87	\$ -	-
Phihong International Corp.	-	-	435,157	95
Others	<u>8,395</u>	<u>2</u>	<u>684</u>	<u>-</u>
	<u>\$ 320,908</u>	<u>89</u>	<u>\$ 435,841</u>	<u>95</u>

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

Other Payables

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

	2012		2011	
	Amount	%	Amount	%
Ascent Alliance Ltd.	\$ 145,520	6	\$ 148,309	5
Others	<u>81,179</u>	<u>3</u>	<u>71,221</u>	<u>2</u>
	<u>\$ 226,699</u>	<u>9</u>	<u>\$ 219,530</u>	<u>7</u>

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.	<u>\$ 25,084</u>	<u>24</u>	<u>\$ 13,042</u>	<u>14</u>

Credit Guarantees

- a. Please see Note 23 to the financial statements.
- b. Related parties guaranteed the payments of loans of the Company as of September 30, 2012 and 2011 were as follows:

Related Party	Nature	2012	2011
Peter Lin	Long-term debts	<u>\$ 200,000</u>	<u>\$ 200,000</u>

22. MORTGAGED OR PLEDGED ASSETS

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

	2012	2011
Land	\$ 112,450	\$ 112,450
Buildings and improvements	<u>162,154</u>	<u>171,985</u>
	<u>\$ 274,604</u>	<u>\$ 284,435</u>

23. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As of September 30, 2012, the Company had guaranteed the US\$6,000 thousand loan of Phihong USA Corp.

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

As of September 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)
<u>Financial assets</u>						
Monetary items						
USD	\$ 78,766	29.3600	\$2,312,570	\$ 103,797	30.4150	\$3,156,986
JPY	146,368	0.3777	55,283	168,852	0.3978	67,169
HKD	876	3.7865	3,317	17,732	3.9013	69,178
RMB	234	4.6266	1,083	234	4.7774	1,118
Investments accounted for by the equity method						
USD	162,717	29.3600	4,777,368	155,639	30.4150	4,733,745
JPY	125,052	0.3777	47,232	19,961	0.3978	7,940
<u>Financial liabilities</u>						
Monetary items						
USD	69,990	29.3600	2,054,906	117,915	30.4150	3,586,385
JPY	7,321	0.3777	2,765	11,004	0.3978	4,377
HKD	3,573	3.7865	13,529	16,998	3.9013	66,314

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 nine months ended as of September 30, 2012.